COVANTA HOLDING CORP
Form 8-K
October 04, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 OR 15(d)

of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): October 3, 2018

COVANTA HOLDING CORPORATION

(Exact name of Registrant as Specified in Its Charter)

Delaware	1-06732	95-6021257
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

445 South Street

Morristown, New Jersey 07960

(Address of principal executive offices) (Zip Code)

Registrant s telephone number, including area code: (862) 345-5000

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

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

Item 8.01 Other Events

On October 3, 2018, Covanta Holding Corporation (the Company) entered into an Underwriting Agreement (the Underwriting Agreement) with J.P. Morgan Securities LLC as representative and on behalf of the several underwriters named therein (collectively, the Underwriters) providing for the offer and sale by the Company of $400 million principal amount of 6.000% Senior Notes due 2027 (the Notes).

The offering of the Notes was registered under the Securities Act of 1933, as amended, and is being made pursuant to the Company s Registration Statement on Form S-3, Reg. No. 333-220460 and the prospectus dated September 14, 2017 included therein, filed by the Company with the Securities and Exchange Commission on September 14, 2017, as supplemented by the preliminary prospectus supplement relating thereto dated October 3, 2018, and the final prospectus supplement relating thereto dated October 3, 2018.

The Underwriting Agreement includes customary representations, warranties and covenants by the Company. It also provides for customary indemnification by each of the Company and the Underwriters against certain liabilities arising out of or in connection with the sale of the Notes and customary contribution provisions in respect of those liabilities. The closing of the offering, which is subject to customary closing conditions, is expected to occur on October 18, 2018.

The foregoing description of the material terms of the Underwriting Agreement is qualified in its entirety by reference to the Underwriting Agreement, which is attached hereto as Exhibit 1.1 and is incorporated herein by reference.

The representations, warranties and covenants contained in the Underwriting Agreement were made only for purposes of the Underwriting Agreement and as of the specific date (or dates) set forth therein, and were solely for the benefit of the parties to the Underwriting Agreement and are subject to certain limitations as agreed upon by the contracting parties. In addition, the representations, warranties and covenants contained in the Underwriting Agreement may be subject to standards of materiality applicable to the contracting parties that differ from those applicable to investors. Investors are not third-party beneficiaries of the Underwriting Agreement and should not rely on the representations, warranties and covenants contained therein, or any descriptions thereof, as characterizations of the actual state of facts or conditions of the Company. Moreover, information concerning the subject matter of the representations and warranties may change after the date of the Underwriting Agreement, which subsequent developments may not be fully reflected in the Company s public disclosure.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

Exhibit No.	Description
1.1	Underwriting Agreement dated October 3, 2018 between the Registrant and J.P. Morgan Securities LLC, as representative of the several underwriters.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: October 3, 2018

COVANTA HOLDING CORPORATION

(Registrant)

By: /s/ Timothy J. Simpson
Name: Timothy J. Simpson
Title: Executive Vice President, General Counsel and Secretary

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5,041

Net investment income for the years ended December 31, 2016, 2015 and 2014, respectively, is comprised as follows:

(in thousands)	Years ended December 31,		
	2016	2015	2014
Investment income			
Interest from fixed maturities	$794	$907	$1,084
Dividends	682	702	203
Income from limited liability investments	1,157	1,596	184
Gain on change in fair value of limited liability investment, at fair value	4,720	—	—
Gain (loss) on change in fair value of warrants - not publicly traded	380	(216)	—
Other	609	186	372
Gross investment income	8,342	3,175	1,843
Investment expenses	(142)	(257)	(227)
Net investment income	$8,200	$2,918	$1,616

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NOTE 8 INVESTMENTS IN INVESTEES

At December 31, 2016, investment in investee includes the Company's investment in the common stock of ICL. 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 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 December 31, 2016. The Company's investment in ICL is recorded on a three-month lag basis.

At December 31, 2015, investment in investee includes 1347 Investors' investment in the common stock and private units of 1347 Capital Corp. As discussed in Note 6, "Disposition, Deconsolidations and Discontinued Operations," during the third quarter of 2016, the Company's ownership percentage in 1347 Investors was reduced to 26.7% and the Company deconsolidated 1347 Investors. As a result of removing the net assets of 1347 Investors from the Company's consolidated balance sheets, the Company no longer has a direct investment in the common stock and private units of 1347 Capital Corp. at December 31, 2016.

Investments in investees are accounted for under the equity method. The carrying value, estimated fair value and approximate equity percentage for each of the Company's investments in investees at December 31, 2016 and December 31, 2015 were as follows:

(in thousands, except for percentages)

	December 31, 2016			December 31, 2015		
	Equity Percentage	Estimated Fair Value	Carrying Value	Equity Percentage	Estimated Fair Value	Carrying value
1347 Capital Corp.	— %	$ —	$ —	21.0%	$ 12,369	$ 1,772
ICL	31.2%	$ 4,251	$ 3,116	— %	$ —	$ —
Total		$ 4,251	$ 3,116		$ 12,369	$ 1,772

The estimated fair value of the Company's investment in ICL at December 31, 2016 in the table above is calculated based on the published closing price of ICL at September 30, 2016 to be consistent with the three-month lag in reporting its carrying value under the equity method. The estimated fair value of the Company's investment in ICL based on the published closing price of ICL at December 31, 2016 is $3.6 million.

Equity in net loss of investees was $1.0 million, $0.3 million and $0.2 million for the years ended December 31, 2016, 2015 and 2014, respectively.

NOTE 9 REINSURANCE

As is customary in the insurance industry, the Company reinsures portions of certain insurance policies it writes, thereby providing a greater diversification of risk and minimizing exposure on larger risks. The Company remains contingently at risk with respect to any reinsurance ceded and would incur an additional loss if an assuming company were unable to meet its obligation under the reinsurance treaty.

The Company monitors the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. Letters of credit are maintained for any unauthorized reinsurer to cover ceded unearned premium and ceded unpaid loss and loss adjustment expenses balances.

For most of the non-standard automobile business, the liability is limited to the minimum statutory liability limits, which are typically not greater than $50,000 per occurrence, depending on the state. The Company's reinsurance includes excess of loss reinsurance to reduce its exposure to individual losses as well as losses related to catastrophic events which may simultaneously affect many of our policyholders. During 2016 and 2015, the Company entered into an excess of loss reinsurance arrangement to reduce its exposure to losses related to certain catastrophic events which may occur in any of the states in which the Company writes non-standard automobile business.

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Ceded premiums, loss and loss adjustments expenses, and commissions as of and for the years ended December 31, 2016, 2015 and 2014 are summarized as follows:

(in thousands)	Years ended December 31,		
	2016	2015	2014
Ceded premiums written	$141	$165	$(3,695)
Ceded premiums earned	141	166	1,104
Ceded loss and loss adjustment expenses	111	(571)	655
Ceded unpaid loss and loss adjustment expenses	681	1,207	3,203
Ceded unearned premiums	7	7	533
Ceding commissions	—	(138)	5

The maximum amount of return commission and return of unearned premium which would have been due if all of the Company's reinsurance had been canceled is as follows at December 31, 2016:

(in thousands)	December 31, 2016	
	Unearned Premium Reserve	Commission Equity
Assumed	$ 5,747	$ 912
Ceded	7	—
Net	$ 5,740	$ 912

The amounts of assumed premiums written were $23.5 million, $19.0 million and $20.1 million for the years ended December 31, 2016, 2015 and 2014, respectively. The amounts of assumed premiums earned were $22.8 million, $19.8 million and $19.9 million for the years ended December 31, 2016, 2015 and 2014, respectively.

NOTE 10 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 as of and for the years ended December 31, 2016, 2015 and 2014, respectively, are comprised as follows:

(in thousands)	Years ended December 31,		
	2016	2015	2014
Balance at January 1, net	$12,143	$12,197	$12,392

Additions	29,288	26,307	26,627
Amortization	(27,822)	(26,361)	(25,779)
Acquisition costs disposed of during the year related to PIH	—	—	(1,043)
Balance at December 31, net	$13,609	$12,143	$12,197

NOTE 11 GOODWILL

Goodwill was $71.1 million and $10.1 million at December 31, 2016 and 2015, respectively. As further discussed in Note 5, "Acquisitions," the Company recorded goodwill of $61.0 million related to the acquisition of CMC on July 14, 2016. The Company's goodwill at December 31, 2016 is attributable to the Insurance Services and Leased Real Estate reportable segments. The Company's goodwill at December 31, 2015 is attributable to the Insurance Services reportable segment.

Goodwill is assessed for impairment annually as of December 31, or more frequently if events or circumstances indicate that the carrying value may not be recoverable. The Company tested goodwill for recoverability at December 31, 2016, 2015 and 2014. Based on the assessment performed, no goodwill impairments were recognized in 2016, 2015 or 2014.

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NOTE 12 INTANGIBLE ASSETS

Intangible assets are comprised as follows:

(in thousands)	December 31, 2016		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Intangible assets subject to amortization			
Database	$ 4,918	$ 2,029	$ 2,889
Vehicle service agreements in-force	3,680	3,554	126
Customer relationships	3,611	1,521	2,090
In-place lease	1,125	29	1,096
Contract-based revenues	731	48	683
Intangible assets not subject to amortization			
Tenant relationship	73,667	—	73,667
Insurance licenses	7,803	—	7,803
Trade name	663	—	663
Total	$ 96,198	$ 7,181	$ 89,017

(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 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, "Acquisitions," during 2016, the Company recorded $74.8 million of separately identifiable intangible assets related to in-place lease and tenant relationship, as part of the acquisition of CMC. The in-place lease intangible asset of $1.1 million is being amortized on a straight-line basis over its estimated useful life of approximately 18 years, which is based on the term of the existing operating lease. The tenant relationship intangible asset of $73.7 million relates to a single long-term tenant relationship. The Company has determined that

there are no legal, regulatory, contractual, competitive, economic or other factors limiting the useful life of the tenant relationship; therefore the tenant relationship intangible asset is deemed to have an indefinite useful life and is not amortized.

As further discussed in Note 5, "Acquisitions," 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 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 seven to fifteen years. Amortization of intangible assets was $1.2 million, $1.2 million and $1.6 million for the years ended December 31, 2016, 2015 and 2014, respectively. The estimated aggregate future amortization expense of all intangible assets is $1.2 million for 2017, $1.1 million for 2018, $0.9 million for 2019, $0.8 million for 2020 and $0.8 million for 2021.

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The tenant relationship, insurance licenses and trade name intangible assets have indefinite useful lives and are not amortized. All intangible assets with indefinite useful lives are reviewed annually by the Company for impairment. No impairment charges were taken on intangible assets in 2016, 2015 or 2014.

NOTE 13 PROPERTY AND EQUIPMENT

Property and equipment are comprised as follows:

(in thousands)	December 31, 2016		
	Cost	Accumulated Depreciation	Carrying Value
Land	$23,355	$ —	$23,355
Site improvements	91,308	1,894	89,414
Buildings	5,533	1,828	3,705
Leasehold improvements	540	392	148
Furniture and equipment	2,149	1,952	197
Computer hardware	4,679	4,537	142
Total	$127,564	$ 10,603	$116,961

(in thousands)	December 31, 2015		
	Cost	Accumulated Depreciation	Carrying Value
Land	$1,984	$ —	$ 1,984
Building	4,565	1,669	2,896
Leasehold improvements	463	330	133
Furniture and equipment	2,588	2,318	270
Computer hardware	8,514	8,220	294
Total	$18,114	$ 12,537	$ 5,577

For the year ended December 31, 2016, depreciation expense on property and equipment of $2.3 million and $0.2 million is included in general and administrative expenses and loss and loss adjustment expenses, respectively, in the consolidated statements of operations. For the year ended December 31, 2015, depreciation expense on property and equipment of $0.4 million and $0.2 million is included in general and administrative expenses and loss and loss adjustment expenses, respectively, in the consolidated statements of operations. For the year ended December 31, 2014, depreciation expense on property and equipment of $0.8 million and $0.0 million is included in general and administrative expenses and loss and loss adjustment expenses, respectively, in the consolidated statements of operations.

Prior to the fourth quarter of 2014, property consisting of building and land located in Miami, Florida with a carrying value of $5.2 million was classified as held for sale. As a result of declines in the fair value of the property, the Company recorded an impairment write-down of $1.2 million related to the asset held for sale during the year ended

December 31, 2014. On October 2, 2014, the Company completed a sale and leaseback transaction involving the building and land located in Miami, Florida. Net proceeds were $4.3 million after deducting direct costs of the transaction. The Company recognized a loss of $0.1 million equal to the difference between the fair market value and the carrying value of the property at the date of the transaction. This transaction is accounted for as a financing because it does not qualify for sales recognition under the sale-leaseback accounting guidance due to the Company's continuing involvement with the property. As a result, at the date of the transaction, land and building with a carrying value of $5.2 million was reclassified from asset held for sale to property and equipment in the consolidated balance sheets, and the building is being depreciated over its estimated useful life. At December 31, 2016 and 2015, the carrying value of the land and building was $4.8 million and $4.9 million, respectively. See Note 16, "Finance Lease Obligation Liability," for further discussion.

NOTE 14 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

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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 December 31, 2016 , December 31, 2015 and December 31, 2014 were as follows:

(in thousands)	December 31,		
	2016	2015	2014
Balance at beginning of period, gross	$55,471	$63,895	$84,534
Less reinsurance recoverable related to property and casualty unpaid loss and loss adjustment expenses	1,207	3,203	7,942
Balance at beginning of period, net	54,264	60,692	76,592
Incurred related to:			
Current year	96,289	86,439	84,577
Prior years	8,095	616	(5,123)
Paid related to:			
Current year	(62,978)	(54,415)	(52,521)
Prior years	(42,556)	(39,068)	(42,428)
Disposal of unpaid loss and loss adjustment expenses related to PIH	—	—	(405)
Balance at end of period, net	53,114	54,264	60,692
Plus reinsurance recoverable related to property and casualty unpaid loss and loss adjustment expenses	681	1,207	3,203
Balance at end of period, gross	$53,795	$55,471	$63,895

The Company reported unfavorable development on property and casualty unpaid loss and loss adjustment expenses of $8.1 million and $0.6 million in 2016 and 2015, respectively, and favorable development of $5.1 million in 2014. The unfavorable development in 2016 was primarily related to the increase in property and casualty unpaid loss and

loss adjustment expenses at Mendota and MCC, offset by a decrease in property and casualty unpaid loss and loss adjustment expenses due to the continuing voluntary run-off of Amigo. The unfavorable development in 2015 was primarily related to the increase in property and casualty unpaid loss and loss adjustment expenses at Mendota, offset by a decrease in property and casualty unpaid loss and loss adjustment expenses due to the continuing voluntary run-offs of Amigo and MCC. The favorable development in 2014 was primarily related to the decrease in property and casualty unpaid loss and loss adjustment expenses at Amigo and MCC. Original estimates are increased or decreased as additional information becomes known regarding individual claims.

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The following tables contain information about property and casualty incurred and paid loss and loss adjustment expenses development as of and for the year December 31, 2016, net of reinsurance, as well as cumulative claim frequency and the total of IBNR liabilities, including expected development on reported property and casualty unpaid loss and loss adjustment expenses included within the net incurred losses and allocated loss adjustment expenses amounts. The information about property and casualty incurred and paid loss and loss adjustment expenses development for the years ended December 31, 2007 through 2015, and the average annual percentage payout of incurred claims by age as of December 31, 2016, is presented as supplementary information.

Non-standard automobile insurance
(in thousands)

	Incurred Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance For the Years Ended December 31,										
Accident Year	2007 Unaudited	2008 Unaudited	2009 Unaudited	2010 Unaudited	2011 Unaudited	2012 Unaudited	2013 Unaudited	2014 Unaudited	2015 Unaudited	2016	As o Tota IBN Expe Deve on R Loss
2007	186,902	199,988	203,203	208,109	207,872	207,398	223,317	222,939	223,213	224,127	938
2008		169,011	178,901	186,086	188,375	190,835	201,902	201,448	201,472	201,476	154
2009			182,829	184,499	184,989	186,769	196,085	195,366	195,123	194,876	60
2010				167,682	173,657	176,234	185,768	184,930	184,613	184,214	58
2011					106,834	106,744	114,291	112,087	111,672	111,380	10
2012						63,333	72,792	73,400	74,327	74,607	523
2013							69,974	71,274	70,133	70,681	280
2014								74,320	76,676	78,463	549
2015									74,431	79,818	1,01
2016										83,835	3,24
Total										1,303,477	

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Non-standard automobile insurance
(in thousands)

	Cumulative Paid Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance For the Years Ended December 31,									
Accident Year	2007 Unaudited	2008 Unaudited	2009 Unaudited	2010 Unaudited	2011 Unaudited	2012 Unaudited	2013 Unaudited	2014 Unaudited	2015 Unaudited	2016
2007	123,645	173,197	189,648	200,655	204,502	205,302	222,354	222,676	223,021	223,177
2008		105,842	156,504	175,729	183,505	185,724	200,301	200,832	201,094	201,249
2009			103,882	157,090	172,990	176,305	192,464	194,206	194,575	194,675
2010				95,490	148,631	161,756	179,144	182,306	183,464	183,727
2011					63,908	90,303	106,760	109,238	110,481	110,985
2012						34,045	63,701	70,298	72,652	73,722
2013							40,456	61,555	66,388	69,543
2014								44,897	67,964	74,954
2015									44,828	71,048
2016										52,687
									Total	1,255,767
		Liabilities for non-standard automobile unpaid loss and loss adjustment expenses prior to 2007, net of reinsurance								115
		Total liabilities for non-standard automobile unpaid loss and loss adjustment expenses, net of reinsurance								47,825

The following table reconciles the non-standard automobile unpaid loss and loss adjustment expenses, net of reinsurance presented in the tables above to the property and casualty unpaid loss and loss adjustment expenses reported in the consolidated balance sheet at December 31, 2016:

(in thousands)	December 31, 2016
Liabilities for property and casualty loss and loss adjustment expenses, net of reinsurance	
Non-standard automobile	47,825
Commercial automobile and other	1,333
Total	49,158

Reinsurance recoverable on unpaid loss and loss adjustment expenses	
Non-standard automobile	619
Commercial automobile and other	62
Total	681
Unallocated loss adjustment expenses	3,956
Total gross liability for property and casualty unpaid loss and loss adjustment expenses	53,795

The following is supplementary information about average historical incurred loss duration as of December 31, 2016.

	Average Annual Percentage Payout of Incurred Losses by Age, Net of Reinsurance (Unaudited)									
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Non-standard automobile	67.8 %	19.4 %	8.0 %	2.9 %	1.1 %	0.5 %	0.2 %	0.1 %	— %	— %

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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 December 31, 2016, December 31, 2015 and December 31, 2014 were as follows:

(in thousands)	December 31,		
	2016	2015	2014
Balance at beginning of period	$2,975	$2,975	$3,128
Incurred related to:			
Current year	5,225	5,757	6,773
Prior years	—	—	—
Paid related to:			
Current year	(5,321)	(5,757)	(6,866)
Prior years	36	—	(60)
Balance at end of period	$2,915	$2,975	$2,975

NOTE 15 DEBT

Debt consists of the following instruments:

(in thousands)	December 31,			
	2016		2015	
	Principal	Fair Value	Principal	Fair Value
Note payable	$178,781	$190,074	$—	$—
Subordinated debt	90,500	43,619	90,500	39,898
Total	$269,281	$233,693	$90,500	$39,898

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

Issuer	Principal (in thousands)	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
	$ 10,000	9/30/2003		9/30/2033

Kingsway DE Statutory Trust IV			annual interest rate equal to LIBOR, plus 3.85% payable quarterly	
Kingsway DE Statutory Trust VI	$ 13,000	1/8/2004	annual interest rate equal to LIBOR, plus 4.00% payable quarterly	1/8/2034

(a) Note payable:

As further discussed in Note 5, "Acquisitions," as part of the acquisition of CMC, the Company assumed a note payable with a principal amount of $180.0 million on the date of acquisition that matures on May 15, 2034 and has a fixed interest rate of 4.07%. The note payable was recorded at the date of acquisition at its estimated fair market value, which includes a premium of 11.7 million. This premium is being amortized through the maturity date of the note payable using the effective interest rate method.

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(b) Subordinated debt:

Between December 4, 2002 and December 16, 2003, six subsidiary trusts of the Company issued $90.5 million of 30-year capital securities to third-parties in separate private transactions. In each instance, a corresponding floating rate junior subordinated deferrable interest debenture was then issued by KAI to the trust in exchange for the proceeds from the private sale. The floating rate debentures bear interest at the rate of the London interbank offered interest rate for three-month U.S. dollar deposits ("LIBOR"), plus spreads ranging from 3.85% to 4.20%. At December 31, 2016, the interest rates ranged from 4.84% to 5.13%. The Company has the right to call each of these securities at par value any time after five years from their issuance until their maturity.

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. 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 had been deferring since the first quarter of 2011.

NOTE 16 FINANCE LEASE OBLIGATION LIABILITY

As described in Note 13, "Property and Equipment," on October 2, 2014, the Company completed a sale and leaseback transaction involving building and land located in Miami, Florida. The transaction does not qualify for sales recognition and is 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 of approximately $1.1 million 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 December 31, 2016 and 2015, finance lease obligation liability of $5.1 million and $4.9 million, respectively, is included in accrued expenses and other liabilities in the consolidated balance sheets.

NOTE 17 LEASES

As further discussed in Note 5, "Acquisitions," the Company owns Real Property which is subject to a long-term triple net lease agreement with a third party. The lease provides for future rent escalations and renewal options. The initial lease term ends in May 2034. The lessee bears the cost of maintenance and property taxes. In addition, the Company leases a property to a third party under an operating lease, where we are the lessor. Rental income from operating leases is recognized on a straight-line basis, based on contractual lease terms with fixed and determinable increases over the non-cancellable term of the related lease when collectability is reasonably assured. Rental income includes amortization of below market lease liabilities of $0.0 million, zero and zero for the years ended December 31, 2016, 2015 and 2014. The estimated aggregate future amortization of below market lease liabilities is $0.1 million for 2017,

$0.1 million for 2018, $0.1 million for 2019, $0.1 million for 2020 and $0.1 million for 2021.

Assets leased to third parties under operating leases, where the Company is the lessor, that are included in property and equipment, net on the consolidated balance sheet, are as follows:

(in thousands)	As of December 31, 2016
Land	$21,183
Site improvements	91,308
Buildings	811
Gross property and equipment leased	113,302
Accumulation depreciation	(1,915)
Net property and equipment leased	$111,387

The Company also leases certain office space under non-cancelable leases, with initial terms typically ranging from two to ten years, along with options that permit renewals for additional periods. The Company also leases certain equipment under non-

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cancelable operating leases, with initial terms typically ranging from four to five years. Minimum rent is expensed on a straight-line basis over the term of the lease.

Future minimum annual lease payments and lease receipts under operating leases for the next five years and thereafter are:

(in thousands)	Lease Commitments	Lease Receipts
2017	$ 1,605	$ 19,480
2018	906	10,102
2019	713	10,329
2020	72	10,562
2021	3	10,779
Thereafter	—	156,133

NOTE 18 INCOME TAXES

Income tax (benefit) expense consists of the following:

(in thousands)	Years ended December 31,		
	2016	2015	2014
Current income tax expense (benefit)	$ 87	$ 6	$ (1,484)
Deferred income tax (benefit) expense	(9,807)	87	263
Income tax (benefit) expense	$ (9,720)	$ 93	$ (1,221)

Income tax (benefit) expense 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 (benefit) expense. The following table summarizes the differences:

(in thousands)	Years ended December 31,		
	2016	2015	2014
Income tax benefit at United States statutory income tax rate	$ (3,554)	$ (3,849)	$ (5,402)
Valuation allowance	(6,743)	1,033	5,686
Non-deductible compensation	345	273	421
Foreign operations subject to different tax rates	145	223	514
Indefinite life intangibles	108	88	88
Change in unrecognized tax benefits	51	—	(1,256)
Deconsolidation of subsidiary	—	2,384	423
Non-taxable dividend income	—	(415)	(1,669)

Prior year tax	—	—	(341)
Other	(72)	356	315
Income tax (benefit) expense for continuing operations	$(9,720)	$93	$(1,221)

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The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets and liabilities are presented as follows:

(in thousands)	December 31, 2016	December 31, 2015
Deferred income tax assets:		
Losses carried forward	$301,339	$295,320
Unpaid loss and loss adjustment expenses and unearned premiums	5,609	5,314
Investments	1,828	449
Debt issuance costs	1,621	983
Deferred rent	1,395	172
Intangible assets	1,135	1,941
Deferred revenue	385	297
Depreciation and amortization	—	117
Other	1,134	738
Valuation allowance	(276,590)	(283,636)
Deferred income tax assets	$37,856	$21,695
Deferred income tax liabilities:		
Depreciation and amortization	$(28,620)	$—
Indefinite life intangibles	(28,079)	(2,925)
Fair value of debt	(12,100)	(17,205)
Land	(7,181)	—
Investments	(5,969)	(360)
Deferred acquisition costs	(4,627)	(4,129)
Deferred income tax liabilities	(86,576)	(24,619)
Net deferred income tax liabilities	$(48,720)	$(2,924)

The Company maintains a valuation allowance for its gross deferred income tax assets of $276.6 million (U.S. operations - $269.7 million; Other - $6.9 million) and $283.6 million (U.S. operations - $277.1 million; Other - $6.5 million) at December 31, 2016 and December 31, 2015, respectively. The Company's businesses 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 December 31, 2016 and December 31, 2015 net deferred income tax assets, excluding the deferred income tax liability amounts set forth in the paragraph below. In 2016, the Company released into income $9.9 million of its valuation allowance, as a result of its acquisition of CMC, due to net deferred income tax liabilities that are expected to reverse during the period in which the Company will have deferred income tax assets available.

The Company carries a deferred income tax liability of $48.7 million at December 31, 2016, $13.4 million of which relates to deferred income tax liabilities that are scheduled to reverse in periods after the expiration of the Company's consolidated U.S. net operating loss carryforwards and $35.3 million of which relates to land and indefinite life intangible assets. The Company carries a deferred income tax liability of $2.9 million at December 31, 2015, all of which relates to indefinite life intangible assets. The Company considered a tax planning strategy in arriving at its December 31, 2016 deferred income tax liability.

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Amounts, originating dates and expiration dates of the KAI Tax Group's consolidated U.S. net operating loss carryforwards, totaling $859.5 million, are as follows:

Year of net operating loss	Expiration date	Net operating loss (in thousands)
2006	2026	8,321
2007	2027	62,308
2008	2028	53,895
2009	2029	512,499
2010	2030	92,058
2011	2031	45,238
2012	2032	33,756
2013	2033	30,780
2014	2034	7,245
2016	2036	13,391

In addition, not reflected in the table above, are net operating loss carryforwards of (i) $6.5 million relating to separate U.S. tax returns, which losses will expire over various years through 2036; (ii) $85.4 million, relating to operations in Barbados, of which $59.8 million will expire in 2017, $24.2 million will expire in 2018 and $1.4 million will expire over various years through 2025; and (iii) $20.4 million relating to operations in Canada, which losses will expire over various years through 2036.

A reconciliation of the beginning and ending unrecognized tax benefits, exclusive of interest and penalties, is as follows:

(in thousands)	December 31,		
	2016	2015	2014
Unrecognized tax benefits - beginning of year	$—	$ —	$1,772
Gross additions - current year tax positions	—	—	—
Gross additions - prior year tax positions	1,274	—	—
Gross reductions - prior year tax positions	—	—	—
Gross reductions - settlements with taxing authorities	—	—	(1,772)
Impact due to expiration of statute of limitations	—	—	—
Unrecognized tax benefits - end of year	$1,274	$ —	$—

The amount of unrecognized tax benefits that, if recognized as of December 31, 2016 and December 31, 2015 would affect the Company's effective tax rate, was an expense of $0.1 million and zero, respectively. The amount of unrecognized tax benefits that, if recognized as of December 31, 2014 would affect the Company's effective tax rate, was a benefit of $1.3 million.

As of December 31, 2016 and December 31, 2015, the Company carried a liability for unrecognized tax benefits of $1.3 million and zero, respectfully, that is included in income taxes payable in the consolidated balance sheets. The Company classifies interest and penalty accruals, if any, related to unrecognized tax benefits as income tax expense.

During the years ended December 31, 2016 and December 31, 2015, the Company recognized an expense for interest and penalties of $0.1 million and zero, respectively. During the year ended December 31, 2014, the Company recognized a benefit for interest and penalties of $1.3 million. At December 31, 2016 and December 31, 2015, the Company carried an accrual for the payment of interest and penalties of $0.4 million and zero, respectively.

The federal income tax returns of the Company's U.S. operations for the years through 2012 are closed for Internal Revenue Service ("IRS") examination. The Company's federal income tax returns are not currently under examination by the IRS for any open tax years. The federal income tax returns of the Company's Canadian operations for the years through 2011 are closed for Canada Revenue Agency ("CRA") examination. The Company's Canadian operations federal income tax returns are not currently under examination by the CRA for any open tax years.

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NOTE 19 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 years ended December 31, 2016, 2015 and 2014:

(in thousands, except per share data)	Years ended December 31,		
	2016	2015	2014
Numerator:			
Loss from continuing operations	$(733)	$(11,415)	$(14,666)
Plus (less): net loss (income) attributable to noncontrolling interests	281	(162)	(1,596)
Less: dividends on preferred stock	(398)	(329)	(300)
Loss from continuing operations attributable to common shareholders	$(850)	$(11,906)	$(16,562)
Denominator:			
Weighted average basic shares			
Weighted average common shares outstanding	20,003	19,710	17,398
Weighted average diluted shares			
Weighted average common shares outstanding	20,003	19,710	17,398
Effect of potentially dilutive securities	—	—	—
Total weighted average diluted shares	20,003	19,710	17,398
Basic loss from continuing operations per common share	$(0.04)	$(0.60)	$(0.95)
Diluted loss from continuing operations per common share	$(0.04)	$(0.60)	$(0.95)

Loss from continuing operations per share 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, unvested restricted stock units, warrants and convertible preferred stock. Since the Company is reporting a loss from continuing operations for the years ended December 31, 2016, 2015 and 2014, all potentially dilutive securities outstanding were excluded from the calculation of both basic and diluted loss from continuing operations per share since their inclusion would have been anti-dilutive.

NOTE 20 STOCK-BASED COMPENSATION

(a) Stock Options

On May 13, 2013, the Company's shareholders approved the 2013 Equity Incentive Plan ("2013 Plan"). The 2013 Plan replaced the Company's previous Amended and Restated Stock Option Plan ("Prior Plan"), with respect to the granting of future equity awards. Under the 2013 Plan, the Company reserved for issuance to key employees selected by the Company new stock options ("New Stock Options") to purchase up to an additional 300,000 common shares. During the year ended December 31, 2016, the Company granted 40,000 New Stock Options to an employee of the Company. There are no New Stock Options remaining for future grants.

On May 13, 2013, the Company's shareholders also approved the Option Exchange Program whereby the outstanding stock options under the Prior Plan held by current employees will be canceled and replaced with stock options granted under the 2013 Plan ("Replacement Options"). The maximum number of common shares available to be granted as

Replacement Options is 355,625. No Replacement Options were granted during the year ended December 31, 2016. There are no Replacement Options remaining for future grants.

The Replacement Options and New Stock Options (collectively, the "Stock Options") are fully vested and exercisable at the date of grant and are exercisable for a period of four years.

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The following table summarizes the stock option activity during the year ended December 31, 2016:

	Number of Options Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2015	611,875	$ 4.50	2.2	$ 43
Granted	40,000	4.67		
Exercised	—	—		
Expired or Forfeited	—	—		
Outstanding at December 31, 2016	651,875	$ 4.51	1.4	$ 1,134
Exercisable at December 31, 2016	651,875	$ 4.51	1.4	$ 1,134

The aggregate intrinsic value of stock options outstanding and exercisable is the difference between the December 31, 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.

At December 31, 2016, 2015 and 2014, the number of options exercisable was 651,875, 611,875 and 611,875, respectively, with weighted average prices of $4.51, $4.50 and $4.50, respectively. No options were exercised during the years ended December 31, 2016, 2015 and 2014.

The Company uses the Black-Scholes option pricing model to estimate the fair value of each option on the date of grant. No options were granted during the year ended December 31, 2015. The assumptions used in the Black-Scholes pricing model for options granted or exchanged during the years ended December 31, 2016 and December 31, 2014 were as follows:

	Year ended December 31, 2016	Year ended December 31, 2014
Risk-free interest rate	1.1 %	0.06% - 1.4%
Dividend yield	—	—
Expected volatility	0.5 %	0.4 %
Expected term (in years)	4.0	0.78 - 4

(b) Restricted Stock Awards

Under the 2013 Plan, the Company made grants of restricted common stock awards ("Restricted Stock Awards") to certain officers of the Company. The Restricted Stock Awards vest after a ten-year period and are subject to the officers' continued employment through the vesting date. The Restricted Stock Awards are amortized on a straight-line basis over the ten-year requisite service period. Total unamortized compensation expense related to unvested Restricted Stock Awards at December 31, 2016 was $5.9 million. The grant-date fair value of Restricted Stock Awards 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 Awards during the year ended December 31, 2016:

	Number of 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 December 31, 2016	1,952,665	$ 4.14

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(c) Restricted Stock Units

The Company granted restricted common stock units ("Restricted Stock Units") to an officer of the Company pursuant to a Restricted Stock Unit Agreement dated August 24, 2016. Each Restricted Stock Unit represents a right to receive one common share on the vesting date. The Restricted Stock Units shall become fully vested and the restriction period shall lapse as of March 28, 2024 subject to the officer's continued employment through the vesting date. The Restricted Stock Units are amortized on a straight-line basis over the requisite service period. Total unamortized compensation expense related to unvested Restricted Stock Units at December 31, 2016 was $2.7 million. The grant-date fair value of the Restricted Stock Units 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 Units for the year ended December 31, 2016:

	Number of Restricted Stock Units	Weighted-Average Grant Date Fair Value (per Share)
Unvested at December 31, 2015	—	$ —
Granted	500,000	5.73
Vested	—	—
Forfeited	—	—
Unvested at December 31, 2016	500,000	$ 5.73

Total stock-based compensation expense, net of forfeitures, was $1.0 million, $0.8 million and $1.2 million for the years ended December 31, 2016, 2015 and 2014, respectively.

(d) Employee Share Purchase Plan

The Company has an employee share purchase plan ("ESPP Plan") whereby qualifying employees could choose each year to have up to 5% of their annual base earnings withheld to purchase the Company's common shares. In 2014, the ESPP Plan was amended and restated to allow qualifying employees to be eligible for matching Company contributions. After one year of employment, the Company matches 100% of the employee contribution amount, and the contributions vest immediately. All contributions are used by the plan administrator to purchase common shares in the open market. The Company's contribution is expensed as paid and for the years ended December 31, 2016, 2015 and 2014 totaled $0.2 million, $0.2 million and $0.1 million, respectively.

NOTE 21 EMPLOYEE BENEFIT PLAN

The Company maintains a defined contribution plan in the United States for all of its qualified employees. Qualifying employees can choose to voluntarily contribute up to 60% of their annual earnings subject to an overall limitation of $18,000 in each of 2016 and 2015. The Company matches an amount equal to 50% of each participant's contribution, limited to contributions up to 5% of a participant's earnings.

The contributions for the plan vest based on years of service with 100% vesting after five years of service. The Company's contribution is expensed as paid and for the years ended December 31, 2016, 2015 and 2014 totaled $0.3

million, $0.3 million and $0.3 million respectively. All Company obligations to the plans were fully funded as of December 31, 2016.

NOTE 22 CLASS A PREFERRED STOCK

On May 13, 2013, the Company's shareholders approved an amendment to the Company's Articles of Incorporation to create an unlimited number of zero par value class A preferred shares. The Company's Board of Directors will have the ability to fix the designation, rights, privileges, restrictions and conditions attaching to the shares of each series of preferred shares. The preferred shares will have priority over the common shares. There were 262,876 shares of Class A preferred stock outstanding at December 31, 2016 and 2015, respectively.

On February 3, 2014, the Company closed on its previously announced private placement totaling $6.6 million. At closing, the Company received gross proceeds of $6.6 million, resulting from the sale and issuance of 262,876 units for a purchase price of $25.00 per unit. Net proceeds to the Company were $6.3 million after deducting expenses. Each unit consists of one class A convertible preferred share, series 1 (the "Preferred Shares"), and 6.25 common share class C purchase warrants. Each Preferred Share is convertible into 6.25 common shares at a conversion price of $4.00 per common share

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any time at the option of the holder prior to April 1, 2021. The maximum number of common shares issuable upon conversion of the Preferred Shares is 1,642,975 common shares. Each warrant will entitle the subscriber to purchase one common share of Kingsway at a price of $5.00 per common share at any time after September 16, 2016 and prior to expiry on September 15, 2023.

The Preferred Shares are not entitled to vote. The holders of the Preferred Shares are entitled to receive fixed, cumulative, preferential cash dividends at a rate of $1.25 per Preferred Share per year. The cash dividend rate shall be revised to $1.875 per Preferred Share per year if the dividend accumulates for a period greater than 30 consecutive months from the date of the most recent dividend payment. On and after February 3, 2016, the Company may redeem all or any part of the then outstanding Preferred Shares for the price of $28.75 per Preferred Share, plus accrued but unpaid dividends thereon, whether or not declared, up to and including the date specified for redemption. The Company will redeem any Preferred Shares not previously converted into common shares, and which remain outstanding on April 1, 2021, for the price of $25.00 per Preferred Share, plus accrued but unpaid dividends, whether or not declared, up to and including the date specified for redemption. At December 31, 2016 and 2015, accrued dividends of $1.0 million and $0.6 million were included in accrued expenses and other liabilities in the consolidated balance sheets.

In accordance with FASB ASC Topic 480-10-S99-3A, SEC Staff Announcement: Classification and Measurement of Redeemable Securities, redemption features which are not solely within the control of the issuer are required to be presented outside of permanent equity on the consolidated balance sheets. As described above, the holder has the option to convert the Preferred Shares at any time; however, if not converted, they are required to be redeemed on April 1, 2021. As such, the Preferred Shares are presented in temporary or mezzanine equity on the consolidated balance sheets and will be accreted up to the stated redemption value of $6.6 million through the April 1, 2021 redemption date.

On July 8, 2014, the holders of the Company's series B warrants approved certain amendments to the terms of the Series B Warrant Agreement dated September 16, 2013. The Series B Warrant Agreement Amendments permitted the Company to issue up to 1,642,975 additional Series B Warrants and complete the Series C Warrant Exchange. Under the Series C Warrant Exchange, each class C purchase warrant was automatically exchanged for one Series B Warrant.

NOTE 23 SHAREHOLDERS' EQUITY

The Company is authorized to issue an unlimited number of zero par value common stock. There were 21,458,190 and 19,709,706 shares of common stock outstanding at December 31, 2016 and 2015, respectively.

There were no dividends declared during the years ended December 31, 2016, 2015 and 2014.

On August 18, 2014, the Company announced its intention to redeem its outstanding series A warrants, which were issued pursuant to the Company's September 2013 rights offering. Holders of series A warrants could exercise their outstanding series A warrants at $4.50 per common share. Any series A warrants that remained unexercised after September 19, 2014 were automatically redeemed by the Company at the redemption price of $0.25 per series A warrant. During the year ended December 31, 2014, series A warrants to purchase 3,279,945 shares of common stock were exercised, resulting in cash proceeds of $14.8 million. The 845 series A warrants that remained unexercised were

redeemed by the Company at the redemption price of $0.25.

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 year ended December 31, 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, "Acquisitions," for further details regarding the Argo acquisition.
On November 16, 2016, the Company closed with non-affiliate investors a private placement of 1,615,384 shares of common stock at a purchase price of $6.50 per share with net proceeds to the Company of $10.5 million.

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The following table summarizes information about warrants outstanding at December 31, 2016:

December 31, 2016				
Exercise Price	Date of Issue	Expiry Date	Remaining Contractual Life (in years)	Number Outstanding
$5.00	16-Sep-13	15-Sep-23	6.7	3,280,790
$5.00	3-Feb-14	15-Sep-23	6.7	1,642,975
		Total:	6.7	4,923,765

NOTE 24 ACCUMULATED OTHER COMPREHENSIVE LOSS

The table below details the change in the balance of each component of accumulated other comprehensive income (loss), net of tax, for the years ended December 31, 2016, 2015 and 2014 as relates to shareholders' equity attributable to common shareholders on the consolidated balance sheets. On the other hand, the consolidated statements of comprehensive income (loss) present the components of other comprehensive income (loss), net of tax, only for the years ended December 31, 2016, 2015 and 2014 and inclusive of the components attributable to noncontrolling interests in consolidated subsidiaries.

(in thousands)

	Unrealized Gains (Losses) on Fixed Maturities and Equity Investments	Foreign Currency Translation Adjustments	Total Accumulated Other Comprehensive Income (Loss)
Balance, January 1, 2014, as reported	$ 15,583	$ (5,982)	$ 9,601
Correction of prior period errors	(11,042)	—	(11,042)
Balance, January 1, 2014, as restated	4,541	(5,982)	(1,441)
Other comprehensive (loss) income before reclassifications	(2,513)	30	(2,483)
Amounts reclassified from accumulated other comprehensive income (loss)	1,552	—	1,552
Net current-period other comprehensive (loss) income	(961)	30	(931)
Balance, December 31, 2014, as restated	$ 3,580	$ (5,952)	$ (2,372)
Correction of prior period error	(744)	—	(744)
Other comprehensive (loss) income before reclassifications	(2,884)	929	(1,955)
Amounts reclassified from accumulated other comprehensive loss	1,342	1,243	2,585
Net current-period other comprehensive (loss) income	(2,286)	2,172	(114)

Balance, December 31, 2015, as restated	$ 1,294	$(3,780)	$ (2,486)
Other comprehensive income before reclassifications	2,772	—	2,772
Amounts reclassified from accumulated other comprehensive loss	(494)	—	(494)
Net current-period other comprehensive income	2,278	—	2,278
Balance, December 31, 2016	$ 3,572	$(3,780)	$ (208)

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Components of accumulated other comprehensive loss were reclassified to the following lines of the consolidated statements of operations for the years ended December 31, 2016, 2015 and 2014:

(in thousands)	Years ended December 31,		
	2016	2015	2014
Reclassification of accumulated other comprehensive income from unrealized gains (losses) on fixed maturities and equity investments to:			
Net realized gains	$527	$(1,332)	$(1,552)
Other-than-temporary impairment loss	(33)	(10)	—
Loss from continuing operations before income tax (benefit) expense	494	(1,342)	(1,552)
Income tax (benefit) expense	—	—	—
Net income (loss)	494	(1,342)	(1,552)
Reclassification of accumulated other comprehensive loss from foreign currency translation adjustments to:			
Loss on deconsolidation of subsidiary	—	(1,243)	—
Loss from continuing operations before income tax (benefit) expense	—	(1,243)	—
Income tax (benefit) expense	—	—	—
Net income (loss)	—	(1,243)	—
Total reclassification from accumulated other comprehensive loss to net income (loss)	$494	$(2,585)	$(1,552)

NOTE 25 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 three reportable segments: Insurance Underwriting, Insurance Services and Leased Real Estate.

Insurance Underwriting Segment

Insurance Underwriting includes the following subsidiaries of the Company: Mendota, Mendakota, MCC, 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 8 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 and MCC in a manner consistent with the run-off plans. 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.

Effective March 31, 2014, the Company's wholly owned subsidiary, PIH, completed an initial public offering of its common stock. Upon completion of the transaction, the Company maintained a minority ownership interest in the common shares of PIH. The earnings of PIH are included in the consolidated statements of operations through the

March 31, 2014 transaction date. Prior to the transaction, PIH was included in the Insurance Underwriting segment. As a result of the disposal of the Company's majority interest in PIH on March 31, 2014, all segmented information has been adjusted to exclude PIH from the Insurance Underwriting segment.

Insurance Services Segment

Insurance Services includes the following subsidiaries of the Company: IWS and 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 23 states to their members.

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Trinity is a provider of warranty products and maintenance support to consumers and businesses in the HVAC, standby generator, commercial LED lighting and refrigeration industries. Trinity distributes its warranty 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.

Leased Real Estate Segment

Leased Real Estate includes the Company's subsidiary, CMC, which was acquired on July 14, 2016. CMC owns the Real Property which is leased to a third party pursuant to a long-term triple net lease. The Real Property is also subject to a mortgage, which is recorded as note payable in the Company's consolidated balance sheet. When assessing and measuring the operational and financial performance of the segment, interest expense related to the Company's note payable is included in the Leased Real Estate's segment operating income.

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 consolidated 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 years ended December 31, 2016, 2015 and 2014 were:

(in thousands)	Years ended December 31,		
	2016	2015	2014
Revenues:			
Insurance Underwriting:			
Net premiums earned	$127,608	$117,433	$113,479
Other income	10,272	8,937	8,478
Total Insurance Underwriting	137,880	126,370	121,957
Insurance Services:			
Service fee and commission income	24,232	22,966	24,659
Other income	283	368	407
Total Insurance Services	24,515	23,334	25,066
Leased Real Estate:			
Rental income	5,419	—	—
Other income	50	—	—

Total Leased Real Estate	5,469	—	—
Total segment revenues	167,864	149,704	147,023
Net premiums earned not allocated to segments	—	—	4,114
Net investment income	8,200	2,918	1,616
Net realized gains	360	1,197	5,041
Other-than-temporary impairment loss	(157)	(10)	—
Other income not allocated to segments	363	6,157	430
Total revenues	$176,630	$159,966	$158,224

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The segment operating (loss) income of each segment in the following table is before income taxes and includes revenues and direct segment costs. Total segment operating (loss) income reconciled to the consolidated loss from continuing operations for the years ended December 31, 2016, 2015 and 2014 were:

(in thousands)	Years ended December 31,		
	2016	2015	2014
Segment operating (loss) income			
Insurance Underwriting	$(8,202)	$(1,147)	$1,290
Insurance Services	506	(628)	206
Leased Real Estate	627	—	—
Total segment operating (loss) income	(7,069)	(1,775)	1,496
Net investment income	8,200	2,918	1,616
Net realized gains	360	1,197	5,041
Other-than-temporary impairment loss	(157)	(10)	—
Amortization of intangible assets	(1,242)	(1,244)	(1,620)
Contingent consideration benefit	657	1,139	2,223
Impairment of asset held for sale	—	—	(1,180)
Interest expense not allocated to segments	(4,496)	(5,278)	(5,645)
Other income and expenses not allocated to segments, net	(7,596)	(3,753)	(4,887)
Foreign exchange losses, net	(15)	(1,215)	(419)
(Loss) gain on change in fair value of debt	(3,721)	1,458	(10,953)
Loss on disposal of subsidiary	—	—	(1,244)
Loss on disposal of asset held for sale	—	—	(125)
Gain (loss) on deconsolidation of subsidiaries	5,643	(4,420)	—
Equity in net loss of investees	(1,017)	(339)	(190)
Loss from continuing operations before income tax (benefit) expense	(10,453)	(11,322)	(15,887)
Income tax (benefit) expense	(9,720)	93	(1,221)
Loss from continuing operations	$(733)	$(11,415)	$(14,666)

Net premiums earned by line of business for the years ended December 31, 2016, 2015 and 2014 were:

(in thousands)	Years ended December 31,		
	2016	2015	2014
Insurance Underwriting:			
Private passenger auto liability	$69,086	$79,258	$76,031
Auto physical damage	58,522	38,175	37,448
Total Insurance Underwriting	127,608	117,433	113,479
Net premiums earned not allocated to segments:			
Allied lines	—	—	1,944
Homeowners	—	—	2,159

Other	—	—	11
Total net premiums earned not allocated to segments	—	—	4,114
Total net premiums earned	$127,608	$117,433	$117,593

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NOTE 26 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 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 limited liability investment, at fair value, 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.

Limited liability investment, at fair value - The fair value of the limited liability investment, at fair value is calculated based on an internally developed model that distributes that net equity of 1347 Investors to all classes of membership interests. The model uses quoted market prices and significant market observable inputs.

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 27, "Related Party Transactions," for further details regarding the performance shares.

Subordinated 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 consolidated statements of operations as contingent consideration benefit. The maximum the Company can pay in future contingent payments is $2.4 million, on an undiscounted basis.

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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 December 31, 2016 and December 31, 2015 was as follows:

(in thousands)	December 31, 2016			
		Fair Value Measurements at the End of the Reporting Period Using		
	Total	Quoted Prices in Active Markets for Identical Assets(Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring fair value measurements				
Assets:				
Fixed maturities:				
U.S. government, government agencies and authorities	$28,148	$—	$28,148	$ —
States, municipalities and political subdivisions	3,088	—	3,088	—
Mortgage-backed	8,506	—	8,506	—
Asset-backed securities and collateralized mortgage obligations	3,467	—	3,467	—
Corporate	18,555	—	18,555	—
Total fixed maturities	61,764	—	61,764	—
Equity investments:				
Common stock	21,426	21,426	—	—
Warrants	1,804	664	1,140	—
Total equity investments	23,230	22,090	1,140	—
Limited liability investment, at fair value	10,700		10,700	
Other investments	7,975	—	7,975	—
Short-term investments	401	—	401	—
Total assets	$104,070	$22,090	$81,980	$ —

Liabilities:				
Subordinated debt	$43,619	$—	$43,619	$ —
Contingent consideration	325	—	—	325
Total liabilities	$43,944	$—	$43,619	$ 325

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(in thousands)	December 31, 2015			
		Fair Value Measurements at the End of the Reporting Period Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring fair value measurements				
Assets:				
Fixed maturities:				
U.S. government, government agencies and authorities	$20,453	$—	$20,453	$ —
States, municipalities and political subdivisions	2,256	—	2,256	—
Mortgage-backed	7,963	—	7,963	—
Asset-backed securities and collateralized mortgage obligations	6,023	—	6,023	—
Corporate	18,864	—	18,864	—
Total fixed maturities	55,559	—	55,559	—
Equity investments:				
Common stock	26,586	26,586	—	—
Warrants	973	229	744	—
Total equity investments	27,559	26,815	744	—
Other investments	4,077	—	4,077	—
Short-term investments	400	—	400	—
Total assets	$87,595	$26,815	$60,780	$ —
Liabilities:				
Subordinated debt	39,898	—	39,898	—
Contingent consideration	1,982	—	—	1,982
Total liabilities	$41,880	$—	$39,898	$ 1,982

The following table provides a reconciliation of the fair value of recurring Level 3 fair value measurements for the years ended December 31, 2016, 2015 and 2014:

(in thousands)	Years ended December 31,		
	2016	2015	2014
Liabilities:			
Contingent consideration:			
Beginning balance	$1,982	$3,121	$5,344
Settlements of contingent consideration liabilities	(1,000)	—	—
Change in fair value of contingent consideration included in net income (loss)	(657)	(1,139)	(2,223)
Ending balance	$325	$1,982	$3,121

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NOTE 27 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 consolidated financial statements, the following is a summary of related party transactions.

On February 11, 2014, the Company's subsidiary, 1347 Advisors entered into a management services agreement with 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 management services agreement. Pursuant to the transaction, 1347 Advisors received the following consideration: $2.0 million in cash; $3.0 million of 8% preferred stock of PIH, mandatorily 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 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 2015 related to the termination of the management services agreement, which is included in other income in the 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 December 31, 2016. Refer to Note 26, "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 December 31, 2016. Refer to Note 26, "Fair Value of Financial Instruments," for further details regarding the performance shares.
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.

Effective June 10, 2016, the Company entered into a management services agreement with ICL, formerly Kobex Capital Corp. At December 31, 2016, the Company owns 31.2% of ICL, as further discussed in Note 8, "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.

On December 14, 2016, the Company sold 100,000 shares of PIH common stock to Ballantyne Strong, Inc. ("Ballantyne") at a price of $7.57 per share. Kyle Cerminara is the Chief Executive Officer of Ballantyne and Fundamental Global Investors (FGI). FGI is a greater than 5% shareholder of the Company.

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NOTE 28 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Legal proceedings:

In connection with its operations in the ordinary course of business, the Company and its subsidiaries are named as defendants in various actions for damages and costs allegedly sustained by the plaintiffs. While it is not possible to estimate the loss, or range of loss, if any, that may be incurred in connection with any of the various proceedings at this time, it is possible that individual actions may result in losses having material adverse effects on the Company's financial condition or results of operations.

(b) Guarantee:

The Company provided an indemnity and hold harmless agreement to a third-party for customs bonds reinsured by Lincoln General Insurance Company ("Lincoln General") during the time Lincoln General was a subsidiary of the Company. This agreement may require the Company to compensate the third-party if Lincoln General is unable to fulfill its obligations relating to the customs bonds. The Company's potential exposure under this agreement is not determinable, and no liability has been recorded in the consolidated financial statements at December 31, 2016. No assurances can be given that the Company will not be required to perform under this agreement in a manner that has a material adverse effect on the Company's business, results of operations and financial condition.

(c) Commitment:

The Company has entered into subscription agreements to commit up to $2.5 million of capital to allow for participation in limited liability investments which invest principally in income-producing real estate. At December 31, 2016, the unfunded commitment was $1.6 million.

(d) Collateral pledged:

Fixed maturities and short-term investments with an estimated fair value of $13.1 million and $12.9 million were on deposit with state and provincial regulatory authorities at December 31, 2016 and December 31, 2015, respectively. Also, from time to time, the Company pledges investments to third-parties as deposits or to collateralize liabilities incurred under its policies of insurance. The amount of such pledged investments was $16.4 million and $15.8 million at December 31, 2016 and December 31, 2015, respectively. Collateral pledging transactions are conducted under terms that are common and customary to standard collateral pledging and are subject to the Company's standard risk management controls.

NOTE 29 REGULATORY CAPITAL REQUIREMENTS AND RATIOS

In the United States, a risk-based capital ("RBC") formula is used by the National Association of Insurance Commissioners ("NAIC") to identify property and casualty insurance companies that may not be adequately capitalized. In general, insurers reporting surplus as regards policyholders below 200% of the authorized control level, as defined by the NAIC, at December 31 are subject to varying levels of regulatory action, including discontinuation of operations. As of December 31, 2016, surplus as regards policyholders reported by each of our insurance subsidiaries exceeded the 200% threshold.

During the fourth quarter of 2012, the Company began taking steps to place all of Amigo into voluntary run-off. As of December 31, 2012, Amigo’s RBC was 157%. In April 2013, Kingsway filed a comprehensive run-off plan with the OIR, which outlines plans for Amigo's run-off. Amigo remains in compliance with that plan. As of December 31,

2016, Amigo's RBC was 1,541%.

The Company previously placed MCC into voluntary run-off in early 2011. At the time it was placed into voluntary run-off, MCC's RBC was 160%. MCC entered into a comprehensive run-off plan approved by the Illinois Department of Insurance in June 2011. MCC remains in compliance with that plan. As of December 31, 2016, MCC's RBC was 833%.

The Company's reinsurance subsidiary, which is domiciled in Barbados, is required by the regulator in Barbados to maintain minimum capital levels. As of December 31, 2016, the capital maintained by Kingsway Reinsurance Corporation was in excess of the regulatory capital requirements in Barbados.

NOTE 30 STATUTORY INFORMATION AND POLICIES

The Company's insurance subsidiaries prepare statutory basis financial statements in accordance with accounting practices prescribed or permitted by the Departments of Insurance in states in which they are domiciled. "Prescribed" statutory accounting practices include state laws, regulations and general administrative rules, as well as a variety of publications of the NAIC.

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"Permitted" statutory accounting practices encompass all accounting practices that are not prescribed. Such practices may differ from state to state; may differ from company to company within a state; and may change in the future. The Company's insurance subsidiaries are required to report results of operations and financial position to insurance regulatory authorities based upon statutory accounting practices. In converting from statutory to U.S. GAAP, typical adjustments include deferral of acquisition costs, the inclusion of statutory non-admitted assets in the balance sheets, the inclusion of net unrealized holding gains or losses related to fixed maturities in shareholders' equity, and the inclusion of changes in deferred tax assets and liabilities in net income (loss).

Statutory capital and surplus and statutory net (loss) income for the Company's insurance subsidiaries are:

(in thousands)	December 31,		
	2016	2015	2014
Combined net (loss) income, statutory basis	$(7,528)	$6,298	$2,725
Combined capital and surplus, statutory basis	$41,330	$42,387	$39,042

The Company's insurance subsidiaries are required to hold minimum levels of statutory capital and surplus to satisfy regulatory requirements. The minimum statutory capital and surplus, or company action level RBC, necessary to satisfy regulatory requirements for the Company's insurance subsidiaries collectively was $27.8 million at December 31, 2016. Company action level RBC is the level at which an insurance company is required to file a corrective action plan with its regulators and is equal to 200% of the authorized control level RBC.

Dividends paid by insurance subsidiaries are restricted by regulatory requirements of the insurance departments in the subsidiaries' state of domicile. The maximum amount of dividends that can be paid to shareholders by insurance companies without prior approval of the domiciliary state insurance commissioner is generally limited to the greater of (i) 10% of a company's statutory capital and surplus at the end of the previous year or (ii) 100% of the company's net income for the previous year and is generally required to be paid out of an insurance company's unassigned funds. At December 31, 2016, the U.S. insurance subsidiaries of the Company were restricted from making any dividend payments to the holding company without regulatory approval pursuant to the domiciliary state insurance regulations.

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NOTE 31 SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Select unaudited quarterly information is as follows:

(in thousands, except per share data)	2016			
	Q4	Q3	Q2	Q1
Net premiums earned	$33,419	$32,949	$31,813	$29,427
Service fee and commission income	7,186	6,330	5,394	5,322
Rental income	2,993	2,426	—	—
Total revenues	52,788	45,825	41,137	36,880
Total operating expenses	55,415	46,161	42,187	39,714
Operating loss	(2,627)	(336)	(1,050)	(2,834)
Income (loss) from continuing operations	1,174	1,587	(1,999)	(1,495)
Net income (loss)	1,305	1,587	(875)	(1,495)
Net income (loss) attributable to common shareholders	1,110	1,429	(596)	(1,538)
Earnings (loss) per share - continuing operations:				
Basic:	0.05	0.07	(0.09)	(0.08)
Diluted:	0.04	0.06	(0.09)	(0.08)
Earnings (loss) per share – net income (loss) attributable to common shareholders:				
Basic:	0.05	0.07	(0.03)	(0.08)
Diluted:	0.05	0.06	(0.03)	(0.08)

(in thousands, except per share data)	2015			
	Q4	Q3	Q2	Q1
Net premiums earned	$29,006	$29,197	$30,200	$29,030
Service fee and commission income	5,536	6,184	5,848	5,398
Rental income	—	—	—	—
Total revenues	38,177	38,558	39,143	44,088
Total operating expenses	39,063	40,389	41,642	40,400
Operating (loss) income	(886)	(1,831)	(2,499)	3,688
(Loss) income from continuing operations	(2,103)	(894)	(10,426)	2,008
Net (loss) income	(2,104)	(894)	833	3,434
Net (loss) income attributable to common shareholders	(2,275)	(891)	1,815	2,129
(Loss) earnings per share - continuing operations:				
Basic:	(0.12)	(0.05)	(0.48)	0.04
Diluted:	(0.12)	(0.05)	(0.48)	0.03

(Loss) earnings per share – net (loss) income attributable to common shareholders:				
Basic:	(0.12)	(0.05)	0.09	0.11
Diluted:	(0.12)	(0.05)	0.09	0.10

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure
None
Item 9A. Controls and Procedures
Evaluation of Disclosure Controls and Procedures
The Company’s management, with the participation of our Chief Executive Officer and Chief Financial Officer, has conducted an evaluation of the effectiveness of the Company’s disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) as of December 31, 2016. The Company’s disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports the Company files under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms and that such information is accumulated and communicated to the Company’s management, including the Company’s Chief Executive Officer and Chief Financial Officer, to allow for timely decisions regarding required disclosures. In designing and evaluating our disclosure controls and procedures, the Company’s management recognizes that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Our disclosure controls and procedures have been designed to meet reasonable assurance standards. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints that require the Company’s management to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2016, the Company's disclosure controls and procedures were not effective as a result of a material weakness in the Company’s internal control over financial reporting related to income tax accounting for non-routine transactions, as further described below.
Management's Report on Internal Control over Financial Reporting
The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. The Company's management evaluated the effectiveness of its internal control over financial reporting based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on that evaluation, the Company’s management has concluded that, as of December 31, 2016, our internal controls over financial reporting were not effective because of the existence of the material weakness in internal control over financial reporting related to income tax accounting for non-routine transactions described below.

Material Weakness in Internal Control Over Financial Reporting

The material weakness in internal control over financial reporting resulted from the inadequate design and operation of internal controls related to income tax accounting for non-routine transactions. Specifically, the execution of the controls over the application of the accounting literature to changes in the Company’s valuation allowance against its deferred income tax assets at the time of a business combination did not operate effectively with respect to (1) the recognition as income tax benefit of the partial release of its valuation allowance due to net deferred income tax liabilities, created as a result of the Company’s acquisition of CMC, that are expected to reverse during the period in which the Company will have deferred income tax assets available; and (2) the netting of deferred income tax liabilities created as a result of the Company’s acquisition of CMC against goodwill created in that same acquisition. The matters were discovered during the course of the 2016 external audit of the accounts and related controls and were reviewed with the Company's Audit Committee. The misstatements in the consolidated financial statements were corrected prior to the issuance of the Company’s consolidated financial statements as of and for the

year ended December 31, 2016. Notwithstanding the material weakness described above, the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, believes that the audited consolidated financial statements contained in this 2016 Annual Report on Form 10-K fairly present, in all material respects, our financial condition, results of operations and cash flows for the fiscal years presented in conformity with U.S. GAAP. In addition, the material weakness described above did not result in any restatements of the Company's audited and unaudited consolidated financial statements or disclosures for any previously reported periods.

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Remediation Process

The Company’s management plans to enhance its internal control over financial reporting related to non-routine transactions by supplementing with outside resources as necessary and enhancing the design and documentation of management review controls.

Attestation Report of Independent Registered Public Accounting Firm

The effectiveness of the Company's internal control over financial reporting as of December 31, 2016 has been audited by BDO USA, LLP, an independent registered public accounting firm. Their attestation report is included below under the heading "Report of Independent Registered Public Accounting Firm," and is incorporated into this Item 9A by reference.

Changes in Internal Control over Financial Reporting

Effective July 14, 2016, the Company acquired 81% of CMC. Since the date of acquisition, the Company has been analyzing and evaluating procedures and controls to determine their effectiveness and to make them consistent with our disclosure controls and procedures. As permitted by the SEC, CMC has been excluded from the scope of our quarterly discussion of material changes in internal control over financial reporting below.

There have been no changes in the Company's internal control over financial reporting during the period beginning October 1, 2016, and ending December 31, 2016, that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting, except with respect to CMC and the material weakness described above.

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Report of Independent Registered Public Accounting Firm
Board of Directors and Shareholders
Kingsway Financial Services Inc.
Itasca, Illinois

We have audited Kingsway Financial Services Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Kingsway Financial Services Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Item 9A, Management's Report on Internal Control Over Financial Reporting". Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. A material weakness regarding management's failure to design and operate internal controls related to income tax accounting for non-routine transactions has been described in management's assessment. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2016 financial statements, and this report does not affect our report dated March 13, 2017 on those financial statements.

In our opinion, Kingsway Financial Services Inc. did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We do not express an opinion or any other form of assurance on management's statements referring to any corrective actions taken by the company after the date of management's assessment.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Kingsway Financial Services Inc. as of December 31, 2016 and 2015, and

the related consolidated statements of operations, comprehensive income (loss), shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2016 and our report dated March 13, 2017 expressed an unqualified opinion therein.

/s/ BDO USA LLP
Grand Rapids, Michigan
March 13, 2017

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.
BDO is the brand name for the BDO network and for each of the BDO Member Firms.

Item 9B. Other Information
None

PART III.
Item 10. Directors, Executive Officers, and Corporate Governance
The information required by this Item is incorporated herein by reference to the Proxy Statement for our 2016 Annual Meeting of Shareholders, which will be filed with the SEC no later than 120 days after the end of our fiscal year ended December 31, 2016.
We have adopted a code of ethics applicable to our directors, chief executive officer, chief financial officer, and other senior financial personnel ("Code of Ethics for Senior Financial Personnel") which is posted in the "Corporate Governance" section of our website at www.kingsway-financial.com. Any future amendments to the Code of Ethics for Senior Financial Personnel and any grant of waiver from a provision of the code requiring disclosure under applicable SEC rules will be disclosed in the "Corporate Governance" section of our website.
Item 11. Executive Compensation
The information required by this Item is incorporated herein by reference to the Proxy Statement for our 2016 Annual Meeting of Shareholders, which will be filed with the SEC no later than 120 days after the end of our fiscal year ended December 31, 2016.
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters
Information regarding our equity compensation plans is incorporated herein by reference to Item 5 of Part II of this Form 10-K. All other information required by this Item is incorporated herein by reference to the Proxy Statement for our 2016 Annual Meeting of Shareholders, which will be filed with the SEC no later than 120 days after the end of our fiscal year ended December 31, 2016.
Item 13. Certain Relationships and Related Transactions, and Director Independence
The information required by this Item is incorporated herein by reference to the Proxy Statement for our 2016 Annual Meeting of Shareholders, which will be filed with the SEC no later than 120 days after the end of our fiscal year ended December 31, 2016.
Item 14. Principal Accounting Fees and Services
The information required by this Item is incorporated herein by reference to the Proxy Statement for our 2016 Annual Meeting of Shareholders, which will be filed with the SEC no later than 120 days after the end of our fiscal year ended December 31, 2016.

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Part IV
Item 15. Exhibits, Financial Statement Schedules
(a) Documents filed as part of this Report
(1) Financial Statements. We have filed the following documents, which are included in Part II, Item 8 of this 2016 Annual Report on Form 10-K.
Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheets
Consolidated Statements of Operations
Consolidated Statements of Comprehensive Income (Loss)
Consolidated Statements of Shareholders' Equity
Consolidated Statements of Cash Flow
Notes to Consolidated Financial Statements
(2) Financial Statement Schedules. The following financial statement schedules are filed as a part hereof along with the related reports of the Independent Registered Public Accounting Firm included in Part II, Item 8. Schedules not listed here have been omitted because they are not applicable or the required information is included in the Consolidated Financial Statements.
Schedule I   Investments Other Than Investments in Related Parties
Schedule II   Financial Information of Registrant (Parent Company)
Schedule III   Supplementary Insurance Information
Schedule IV   Reinsurance Schedule
Schedule V   Valuation and Qualifying Accounts
Schedule VI   Supplemental Information Concerning Property-Casualty Insurance Operations
(3) Exhibits. The exhibits listed in the accompanying "Index to Exhibits" that follow the signature pages of this report are filed or incorporated by reference as part of this Form 10-K.
(b) Exhibits. Included in Item 15(a)(3) above
(c) Financial Statement Schedules. Included in Item 15(a)(2) above

KINGSWAY FINANCIAL SERVICES INC.

SCHEDULE I. Investments Other Than Investments in Related Parties

(in thousands)	December 31, 2016		
	Cost or Amortized Cost	Fair Value	Amount Shown on Consolidated Balance Sheet
Fixed maturities:			
U.S. government, government agencies and authorities	$28,312	$28,148	$ 28,148
States, municipalities and political subdivisions	3,131	3,088	3,088
Mortgage-backed	8,610	8,506	8,506
Asset-backed securities and collateralized mortgage obligations	3,468	3,467	3,467
Corporate	18,615	18,555	18,555
Total fixed maturities	62,136	61,764	61,764
Equity investments:			
Common stock	17,701	21,426	21,426
Warrants	1,398	1,804	1,804
Total equity investments	19,099	23,230	23,230
Limited liability investments	22,974	—	22,974
Limited liability investments, at fair value	10,700	10,700	10,700
Other investments	7,975	—	7,975
Short-term investments	401	—	401
Total investments	$123,285	$84,994	$ 127,044

NOTE 1: Cost approximates fair value for limited liability investments, other investments and short-term investments.

See accompanying report of independent registered accounting firm.

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SCHEDULE II. Financial Information of Registrant (Parent Company)

Parent Company Balance Sheets

(in thousands)	December 31, 2016	December 31, 2015
Assets		
Investments in subsidiaries	$ 47,729	$ 43,878
Equity investments	—	2,555
Cash and cash equivalents	11,469	2,332
Investment in investee	3,116	—
Other assets	2,254	2,503
Total Assets	$ 64,568	$ 51,268
Liabilities and Shareholders' Equity		
Liabilities:		
Accrued expenses and other liabilities	$ 1,306	$ 1,171
Total Liabilities	1,306	1,171
Class A preferred stock	6,427	6,394
Shareholders' Equity:		
Common stock	—	—
Additional paid-in capital	353,882	341,646
Accumulated deficit	(297,668)	(297,209)
Accumulated other comprehensive loss	(208)	(2,486)
Shareholders' equity attributable to common shareholders	56,006	41,951
Noncontrolling interests in consolidated subsidiaries	829	1,752
Total Shareholders' Equity	56,835	43,703
Total Liabilities and Shareholders' Equity	$ 64,568	$ 51,268

See accompanying report of independent registered accounting firm.

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SCHEDULE II. Financial Information of Registrant (Parent Company)

Parent Company Statements of Operations

(in thousands)	Years ended December 31,		
	2016	2015	2014
Revenues:			
Net investment income	$6	$5	$7
Net realized gains	47	—	—
Total revenues	53	5	7
Expenses:			
General and administrative expenses	2,147	2,715	2,796
Foreign exchange (gains) losses, net	(58)	553	298
Equity in net loss of investee	74	—	—
Total expenses	2,163	3,268	3,094
Loss from continuing operations before income tax benefit and equity in income (loss) of subsidiaries	(2,110)	(3,263)	(3,087)
Income tax benefit	—	—	(341)
Equity in income (loss) of subsidiaries	2,632	4,532	(8,478)
Net income (loss)	$522	$1,269	$(11,224)

See accompanying report of independent registered accounting firm.

KINGSWAY FINANCIAL SERVICES INC.

SCHEDULE II. Financial Information of Registrant (Parent Company)

Parent Company Statements of Comprehensive Income (Loss)

(in thousands)	Years ended December 31,		
	2016	2015	2014
Net income (loss)	$522	$1,269	$(11,224)
Other comprehensive income (loss), net of taxes[1]:			
Unrealized gains (losses) on fixed maturities and equity investments:			
Unrealized gains (losses) arising during the period	588	(588)	—
Reclassification adjustment for amounts included in net (loss) income	—	—	
Foreign currency translation adjustments	—	—	(31)
Other comprehensive income (loss) - parent only	588	(588)	(31)
Equity in other comprehensive income (loss) of subsidiaries	1,682	748	(1,045)
Other comprehensive income (loss)	2,270	160	(1,076)
Comprehensive income (loss)	$2,792	$1,429	$(12,300)

(1) Net of income tax (benefit) expense of $0, $0 and $0 in 2016, 2015 and 2014

See accompanying report of independent registered accounting firm.

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SCHEDULE II. Financial Information of Registrant (Parent Company)

Parent Company Statements of Cash Flows

(in thousands)	Years ended December 31,		
	2016	2015	2014
Cash provided by (used in):			
Operating activities:			
Net income (loss)	$522	$1,269	$(11,224)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Equity in net (income) loss of subsidiaries	(2,632)	(4,532)	8,478
Equity in net loss of investee	74	—	—
Stock-based compensation expense, net of forfeitures	1,015	802	1,239
Net realized gains	(47)	—	—
Other, net	(147)	1,242	(146)
Net cash used in operating activities	(1,215)	(1,219)	(1,653)
Investing activities:			
Purchases of equity investments	—	(3,143)	—
Net cash used in investing activities	—	(3,143)	—
Financing activities:			
Proceeds from issuance of preferred stock, net	—	—	6,330
Proceeds from issuance of common stock, net	10,477	—	—
Repurchase of common stock for cancellation	(125)	—	—
Proceeds from exercise of warrants	—	—	14,803
Capital contributions to subsidiaries	—	(500)	(19,500)
Cash dividends received from subsidiaries	—	500	2,152
Net cash provided by financing activities	10,352	—	3,785
Net increase (decrease) in cash and cash equivalents	9,137	(4,362)	2,132
Cash and cash equivalents at beginning of period	2,332	6,694	4,562
Cash and cash equivalents at end of period	$11,469	$2,332	$6,694

See accompanying report of independent registered accounting firm.

KINGSWAY FINANCIAL SERVICES INC.

SCHEDULE III. Supplementary Insurance Information

(in thousands)	December 31,			Years ended December 31,				
	Deferred Acquisition Costs	Unpaid Loss and Loss Adjustment Expenses	Unearned Premiums	Net Premiums Earned	Loss and Loss Adjustment Expenses	Amortization of Deferred Acquisition Costs	Other Operating Expenses	Net Premiums Written
2016								
Insurance Underwriting	$7,782	$ 53,795	$ 40,176	$ 127,608	$ 104,384	$ 24,154	$ 17,543	$ 132,550
Amounts not allocated to segments	—	—	—	—	—	—	—	—
Total	$7,782	$ 53,795	$ 40,176	$ 127,608	$ 104,384	$ 24,154	$ 17,543	$ 132,550
2015								
Insurance Underwriting	$6,696	$ 55,471	$ 35,234	$ 117,433	$ 87,055	$ 23,333	$ 17,130	$ 116,239
Amounts not allocated to segments	—	—	—	—	—	—	—	—
Total	$6,696	$ 55,471	$ 35,234	$ 117,433	$ 87,055	$ 23,333	$ 17,130	$ 116,239
2014								
Insurance Underwriting	$6,786	$ 63,895	$ 36,432	$ 113,479	$ 79,070	$ 21,713	$ 19,888	$ 118,021
Amounts not allocated to segments	—	—	—	4,114	384	881	563	5,357
Total	$6,786	$ 63,895	$ 36,432	$ 117,593	$ 79,454	$ 22,594	$ 20,451	$ 123,378

NOTE 1: Net investment income is not allocated to segments, therefore net investment income is not provided in this schedule.

NOTE 2: Amounts not allocated to segments represent balances related to the Company's disposed subsidiary, PIH.
See accompanying report of independent registered accounting firm.

KINGSWAY FINANCIAL SERVICES INC.

SCHEDULE IV. Reinsurance

(in thousands, except for percentages)	Years ended December 31,				
	Direct Premiums Written	Premiums Ceded to Other Companies	Premiums Assumed from Other Companies	Net Premiums Written	Percentage of Premiums Assumed to Net
2016	$ 109,165	$ 141	$ 23,526	$ 132,550	17.7 %
2015	$ 97,414	$ 165	$ 18,990	$ 116,239	16.3 %
2014	$ 99,540	$ (3,695)	$ 20,143	$ 123,378	16.3 %

See accompanying report of independent registered accounting firm.

KINGSWAY FINANCIAL SERVICES INC.

SCHEDULE V. Valuation and Qualifying Accounts
(in thousands)

	Balance at Beginning of Year	Charged to Income Tax (Benefit) Expense	Disposals and Other	Balance at End of Year
Valuation Allowance for Deferred Tax Assets:				
Year Ended December 31, 2016	$ 283,636	$ (6,743)	$ (303)	$ 276,590
Year Ended December 31, 2015	$ 287,151	$ 1,033	$ (4,548)	$ 283,636
Year Ended December 31, 2014	$ 281,613	$ 5,686	$ (148)	$ 287,151

See accompanying report of independent registered accounting firm.

KINGSWAY FINANCIAL SERVICES INC.

SCHEDULE VI. Supplemental Information Concerning Property-Casualty Insurance Operations
(in thousands)

Affiliation with Registrant (1)	Deferred Acquisition Costs	Unpaid Loss and Loss Adjustment Expenses	Unearned Premiums	Net Earned Premiums	Net Investment Income	Loss and Loss Adjustment Expenses Related to Current Year	Loss and Loss Adjustment Expenses Related to Prior Years	Amortization of Deferred Acquisition Costs	Paid Loss and Loss Adjustment Expenses	Net Premiums Written
Year ended December 31, 2016	$ 7,782	$ 53,795	$ 40,176	$ 127,608	$ 5,530	$ 96,289	$ 8,095	$ 24,154	$ 105,534	$ 132,550
Year ended December 31, 2015	$ 6,696	$ 55,471	$ 35,234	$ 117,433	$ 2,811	$ 86,439	$ 616	$ 23,333	$ 93,483	$ 116,239
Year ended December 31, 2014	$ 6,786	$ 63,895	$ 36,432	$ 117,593	$ 1,281	$ 84,577	$ (5,123)	$ 22,594	$ 94,949	$ 123,378

(1) Consolidated property-casualty insurance operations

See accompanying report of independent registered accounting firm.

Item 16. Form 10-K Summary

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

KINGSWAY FINANCIAL SERVICES INC.

Date:	March 13, 2017	By:	/s/ Larry G. Swets, Jr.
		Name:	Larry G. Swets, Jr.
		Title:	Chief Executive Officer and Director (Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Larry G. Swets, Jr. Larry G. Swets, Jr.	Chief Executive Officer and Director (principal executive officer)	March 13, 2017
/s/ John T. Fitzgerald John T. Fitzgerald	President, Chief Operating Officer and Director	March 13, 2017
/s/ William A. Hickey, Jr. William A. Hickey, Jr.	Executive Vice President and Chief Financial Officer (principal financial and accounting officer)	March 13, 2017
/s/ Terence Kavanagh Terence Kavanagh	Chairman of the Board and Director	March 13, 2017
/s/ Gregory Hannon Gregory Hannon	Director	March 13, 2017
/s/ Gary Schaevitz Gary Schaevitz	Director	March 13, 2017
/s/ Joseph Stilwell Joseph Stilwell	Director	March 13, 2017

KINGSWAY FINANCIAL SERVICES INC.

EXHIBIT INDEX

Exhibit	Description
2.1	Stock Purchase Agreement, dated April 1, 2015, by and between National General Holdings Corp., as Buyer, and Kingsway America Inc. and Mendota Insurance Company, as Sellers (included as Exhibit 2.1 to the Form 8-K, filed April 7, 2015, and incorporated herein by reference).
2.2	Stock Purchase Agreement, dated as of May 17, 2016 by and among CMC Acquisition, LLC, CRIC TRT Acquisition LLC and BNSF-Delpres Investments Ltd. (included as Exhibit 2.1 to the Form 8-K, filed July 20, 2016, and incorporated herein by reference).
2.3	Amendment to Stock Purchase Agreement, dated as of June 17, 2016, by and among CMC Acquisition, LLC, CRIC TRT Acquisition LLC, and BNSF-Delpres Investments Ltd. (included as Exhibit 2.1 to the Form 8-K, filed June 17, 2016, and incorporated herein by reference).
3.1	Certificate of Amendment to the Articles of Incorporation of Kingsway Financial Services Inc. (included as Exhibit 3.1 to the Form 10-Q, filed November 7, 2013, and incorporated herein by reference).
3.2	By-law No. 5 of Kingsway Financial Services Inc. (included as Exhibit 3.2 to the Form 10-K, filed March 30, 2012, and incorporated herein by reference).
4.1	Indenture dated January 28, 2004 among Kingsway America Inc., Kingsway Financial Services Inc. and BNY Midwest Trust Company (included as Exhibit 4.1 to the Form F-4, filed May 27, 2004, and incorporated herein by reference).
4.2	Trust Indenture dated July 10, 2007 among Kingsway 2007 General Partnership, Kingsway Financial Services Inc., Kingsway America Inc., and Computershare Trust Company of Canada (included as Exhibit 4.2 to the Form 10-K, filed March 30, 2012, and incorporated herein by reference).
4.3	Indenture dated December 4, 2002 between Kingsway America Inc. and State Street Bank and Trust Company of Connecticut, National Association (included as Exhibit 4.3 to the Form 10-K, filed March 30, 2012, and incorporated herein by reference).
4.4	Indenture dated May 15, 2003 between Kingsway America Inc. and U.S. Bank National Association (included as Exhibit 4.4 to the Form 10-K, filed March 30, 2012, and incorporated herein by reference).
4.5	Indenture dated October 29, 2003 between Kingsway America Inc. and U.S. Bank National Association (included as Exhibit 4.5 to the Form 10-K, filed March 30, 2012, and incorporated herein by reference).
4.6	Indenture dated May 22, 2003 between Kingsway America Inc., Kingsway Financial Services Inc., and Wilmington Trust Company (included as Exhibit 4.6 to the Form 10-K, filed March 30, 2012, and incorporated herein by reference).
4.7	Junior Subordinated Indenture dated September 30, 2003 between Kingsway America Inc. and J.P Morgan Chase Bank (included as Exhibit 4.7 to the Form 10-K, filed March 30, 2012, and incorporated herein by

	reference).
4.8	Indenture dated December 16, 2003 between Kingsway America Inc., Kingsway Financial Services Inc., and Wilmington Trust Company (included as Exhibit 4.8 to the Form 10-K, filed March 30, 2012, and incorporated herein by reference).
4.9	Excerpt of the Articles of Amendment to the Articles of Incorporation of the Company (included as Exhibit 4.1 to the Form 8-K, filed December 27, 2013, and incorporated herein by reference).
4.10	Form of Common Stock Series C Warrant Agreement (included as Exhibit 4.2 to the Form 8-K, filed December 27, 2013, and incorporated herein by reference).
4.11	Amended and Restated Common Stock Series B Warrant Agreement, dated July 8, 2014 (included as Exhibit 4.1 to the Form 8-K, filed July 10, 2014, and incorporated herein by reference).
10.1	Amended and Restated Stock Option Plan of Kingsway Financial Services Inc., dated as of May 2001 and amended most recently as of May 2007 (included as Exhibit 10.1 to the Form 10-K, filed March 30, 2012, and incorporated herein by reference). *

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KINGSWAY FINANCIAL SERVICES INC.

10.2	Purchase Agreement, dated January 25, 2010, between The Westaim Corporation and Kingsway Financial Services Inc. (included as Exhibit 10.2 to the Form 10-K, filed March 30, 2012, and incorporated herein by reference).
10.3	Second Amendment to and Assignment and Assumption of Purchase Agreement, dated June 21, 2010, by and among FH Enterprises Inc., JBA Associates Inc., the four individual holders of all of JBA's voting securities, and Kingsway America Inc. (included as Exhibit 10.3 to the Form 10-K, filed March 30, 2012, and incorporated herein by reference).
10.4	Tax Benefit Preservation Plan Agreement, dated as of September 28, 2010, between Kingsway Financial Services Inc. and Computershare Investor Services Inc. (included as Exhibit 10.4 to the Form 10-K, filed March 30, 2012, and incorporated herein by reference).
10.5	Agreement and Plan of Merger, dated December 14, 2010, among JJR VI Acquisition Corp., Atlas Acquisition Corp., Kingsway Financial Services Inc., and American Insurance Acquisition Inc. (included as Exhibit 10.5 to the Form 10-K, filed March 30, 2012, and incorporated herein by reference).
10.6	Operating Agreement of Acadia GP, LLC dated March 16, 2011 (included as Exhibit 10.8 to the March 31, 2011 Form 10-Q, filed March 27, 2012, and incorporated herein by reference).
10.7	Stock Purchase Agreement dated March 30, 2011 between HRM Acquisition Corp. and Kingsway America Inc. (included as Exhibit 10.1 to the March 31, 2011 Form 10-Q, filed March 27, 2012, and incorporated herein by reference).
10.8	Senior Promissory Note dated March 30, 2011 issued by HRM Acquisition Corp. to Kingsway America Inc. (included as Exhibit 10.2 to the March 31, 2011 Form 10-Q, filed March 27, 2012, and incorporated herein by reference).
10.9	Junior Promissory Note dated March 30, 2011 issued by HRM Acquisition Corp to Kingsway America Inc. (included as Exhibit 10.3 to the March 31, 2011 Form 10-Q, filed March 27, 2012, and incorporated herein by reference).
10.10	Note Purchase Agreement dated March 30, 2011 between HRM Acquisition Corp. and United Property and Casualty Insurance Company (included as Exhibit 10.4 to the March 31, 2011 Form 10-Q, filed March 27, 2012, and incorporated herein by reference).
10.11	Promissory Note dated March 30, 2011 issued by HRM Acquisition Corp. to United Property and Casualty Insurance Company (included as Exhibit 10.5 to the March 31, 2011 Form 10-Q, filed March 27, 2012, and incorporated herein by reference).
10.12	Agreement of Limited Partnership dated March 30, 2011 between Acadia GP, LLC (in its capacity as a general partner of Acadia Acquisition Partners, L.P.) and limited partners (including United Property and Casualty Insurance Company) (included as Exhibit 10.6 to the March 31, 2011 Form 10-Q, filed March 27, 2012, and incorporated herein by reference).

10.13	Intercreditor Agreement dated March 30, 2011 between HRM Acquisition Corp. and Kingsway America Inc. (included as Exhibit 10.7 to the March 31, 2011 Form 10-Q, filed March 27, 2012, and incorporated herein by reference).
10.14	Subscription and Investment Representation Agreement dated March 30, 2011 (included as Exhibit 10.9 to the March 31, 2011 Form 10-Q, filed March 27, 2012, and incorporated herein by reference).
10.15	Management Services Agreement between United Insurance Management, L.C. and 1347 Advisors LLC, effective August 29, 2011 (included as Exhibit 10.1 to the September 30, 2011 Form 10-Q, filed March 27, 2012, and incorporated herein by reference).
10.16	Kingsway Financial Services Inc. 2013 Equity Incentive Plan (included as Schedule B to the Definitive Proxy Statement on Schedule 14A filed with the SEC on April 11, 2013, and incorporated herein by reference). *
10.17	Form of Subscription Agreement (included as Exhibit 10.1 to the Form 8-K, filed December 27, 2013, and incorporated herein by reference).
10.18	Registration Rights Agreement, dated February 3, 2014, by and among the Company and the other parties signatory thereto (included as Exhibit 10.2 to the Form 8-K, filed February 4, 2014, and incorporated herein by reference).

KINGSWAY FINANCIAL SERVICES INC.

10.19	Kingsway America Inc. Employee Share Purchase Plan (included as Schedule B to the Definitive Proxy Statement on Schedule 14A filed with the SEC on April 30, 2014 and incorporated herein by reference). *
10.20	Agreement to Buyout and Release dated February 24, 2015 between 1347 Advisors LLC and 1347 Property Insurance Holdings, Inc. (included as Exhibit 10.1 to the Form 8-K, filed February 27, 2015, and incorporated herein by reference).
10.21	Stockholders' Agreement, dated as of July 14, 2016, by and between CMC Industries, Inc., CMC Acquisition LLC and CRIC TRT Acquisition LLC (included as Exhibit 10.1 to Form 8-K, filed July 20, 2016, and incorporated herein by reference).
10.22	Management Services Agreement, dated as of July 14, 2016, by and between TRT LeaseCo, LLC and DGI-BNSF Corp. (included as Exhibit 10.2 to Form 8-K, filed July 20, 2016, and incorporated herein by reference).
10.23	TRT LeaseCo, LLC 4.07% Senior Secured Note, Due May 15, 2034 (included as Exhibit 10.3 to Form 10-Q, filed August 4, 2016, and incorporated herein by reference).
10.24	Deed of Trust, Security Agreement, Assignment of Leases and Rents and Fixture Filing Statement, dated as of March 12, 2015, from TRT LeaseCo, LLC to Malcolm Morris, as Deed of Trust Trustee for the benefit of Wells Fargo Bank Northwest, N.A., as trustee (included as Exhibit 10.4 to Form 10-Q, filed August 4, 2016, and incorporated herein by reference).
10.25	Lease between TRT LeaseCo, LLC, as Landlord, and BNSF Railway Company (f/k/a The Burlington Northern and Santa Fe Railway Company), as Tenant, dated as of June 1, 2014 (included as Exhibit 10.5 to Form 10-Q, filed August 4, 2016, and incorporated herein by reference).
10.26	Stock Purchase Agreement, dated as of November 9, 2016 by and between the Company and GrizzlyRock Institutional Value Partners, LP. (included as Exhibit 10.1 to Form 8-K, filed November 16, 2016, and incorporated herein by reference).
10.27	Stock Purchase Agreement, dated as of November 9, 2016 by and between the Company and W.H.I. Growth Fund Q.P., L.P. (included as Exhibit 10.2 to Form 8-K, filed November 16, 2016, and incorporated herein by reference).
10.28	Stock Purchase Agreement, dated as of November 9, 2016 by and between the Company and Yorkmont Capital Partners, LP. (included as Exhibit 10.3 to Form 8-K, filed November 16, 2016, and incorporated herein by reference).
10.29	Registration Rights Agreement, dated as of November 16, 2016 by and among the Company, GrizzlyRock Institutional Value Partners, LP and W.H.I. Growth Fund Q.P., L.P. (included as Exhibit 10.4 to Form 8-K, filed November 16, 2016, and incorporated herein by reference).
10.30	Registration Rights Agreement, dated as of November 16, 2016 by and between the Company and Yorkmont Capital Partners, LP. (included as Exhibit 10.5 to Form 8-K, filed November 16, 2016, and incorporated herein by reference).

10.31	Right of First Offer Agreement, dated as of November 16, 2016 by and between the Company and GrizzlyRock Institutional Value Partners, LP. (included as Exhibit 10.6 to Form 8-K, filed November 16, 2016, and incorporated herein by reference).
10.32	Right of First Offer Agreement, dated as of November 16, 2016 by and between the Company and W.H.I. Growth Fund Q.P., L.P. (included as Exhibit 10.7 to Form 8-K, filed November 16, 2016, and incorporated herein by reference).
14	Kingsway Financial Services Inc. Code of Business Conduct & Ethics (included as Exhibit 14 to the Form 10-K, filed March 30, 2012, and incorporated herein by reference).
21	Subsidiaries of Kingsway Financial Services Inc.
23	Consent of BDO USA, LLP
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

KINGSWAY
FINANCIAL
SERVICES
INC.

32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

* Management contract or compensatory plan or arrangement.