

KINGSWAY FINANCIAL SERVICES INC
Form 10-Q
March 28, 2012

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

FORM 10-Q
(Mark One)

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

September 30, 2011

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

For the quarterly period ended September 30, 2011

Commission File Number: 001-15204

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

Ontario, Canada
(State or other jurisdiction of
incorporation or organization)

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

45 St. Clair Avenue West, Suite 400 Toronto, Ontario M4V 1K9
(Address of principal executive offices and zip code)
1-416-848-1171
(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

The number of shares outstanding of the registrant's common stock as of March 27, 2012 was 52,595,828.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Condensed Consolidated Balance Sheets

(in thousands, except per share data)

	September 30, 2011 (unaudited)	December 31, 2010
ASSETS		
Investments:		
Fixed maturities at fair value (amortized cost of \$111,230 and \$126,210, respectively)	\$ 114,823	\$ 127,863
Equity securities at fair value (cost of \$2,781 and \$92, respectively)	2,951	82
Investee at cost which approximates fair value	48,753	49,079
Other investments	487	490
Short-term investments at fair value (cost of \$21,335 and \$18,248, respectively)	21,335	18,249
Total investments	188,349	195,763
Cash and cash equivalents	82,462	140,567
Accrued investment income	1,660	1,957
Financed premiums, net of allowance for credit losses of \$24 and \$27, respectively	5,714	13,572
Accounts receivable, net of allowance for doubtful accounts of \$3,623 and \$4,760, respectively	44,047	46,395
Funds held in escrow	—	22,259
Due from reinsurers and other insurers	555	7,651
Deferred policy acquisition costs	9,339	13,952
Income taxes recoverable	12,389	17,991
Deferred income taxes	—	503
Property and equipment, net of accumulated depreciation of \$27,189 and \$28,743	13,369	13,961
Goodwill and intangible assets	42,149	42,467
Other assets	1,152	2,541
TOTAL ASSETS	\$ 401,185	\$ 519,579
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Unpaid loss and loss adjustment expenses	\$ 132,200	\$ 174,708
Unearned premiums	42,780	66,879
LROC preferred units	8,829	13,076
Senior unsecured debentures	27,622	37,177
Subordinated indebtedness	17,218	40,480
Deferred income tax liability	2,653	—
Notes payable	2,418	—
Accounts payable and accrued liabilities	40,756	42,386
TOTAL LIABILITIES	\$ 274,476	\$ 374,706
STOCKHOLDERS' EQUITY		
Common stock, no par value; unlimited number authorized; 52,345,828 and 52,095,828 issued and outstanding at September 30, 2011 and December 31, 2010, respectively	\$ 296,489	\$ 296,139

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Additional paid-in capital	15,275	15,440	
Accumulated deficit	(194,181)(181,070)
Accumulated other comprehensive income	12,615	14,407	
Stockholders' equity attributable to stockholders of Kingsway	130,198	144,916	
Noncontrolling interests in consolidated subsidiaries	(3,489)(43)
TOTAL STOCKHOLDERS' EQUITY	126,709	144,873	
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$401,185	\$519,579	

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Revenue:				
Net premiums earned	\$36,614	\$52,269	\$124,825	\$170,370
Commission income	5,807	4,246	18,124	8,544
Net investment income	999	2,222	3,228	8,064
Net realized gains	104	6,028	102	6,513
Unrealized gain (loss) on fair value of debt	17,189	(7,351))25,821	(102,827)
Miscellaneous income	3,472	528	1,426	7,163
Total revenues:	64,185	57,942	173,526	97,827
Expenses:				
Losses and loss adjustment expenses	\$33,329	\$47,432	\$109,349	\$144,382
Commissions and premiums taxes	5,405	7,289	19,684	28,180
General and administrative expenses	14,982	24,271	52,212	67,101
Restructuring costs	—	—	—	4,898
Interest expense	1,874	2,920	5,610	12,612
Amortization of other intangible assets	18	1,190	54	3,274
Total expenses	55,608	83,102	186,909	260,447
Income (loss) before unusual item, equity in net income (loss) of investee and income taxes	8,577	(25,160)) (13,383)) (162,620)
Gain on buy-back of debt	3	92	556	3,112
Gain on consolidation of debt	—	17,820	—	17,820
Equity in net income (loss) of investee	145	—	(384))—
Income (loss) from continuing operations before income taxes				