

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

March 31, 2011

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

For the quarterly period ended March 31, 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)

	March 31, 2011 (unaudited)	December 31, 2010
ASSETS		
Investments:		
Fixed maturities at fair value (amortized cost of \$135,089 and \$126,210, respectively)	\$ 136,797	\$ 127,863
Equity securities at fair value (cost of \$92 and \$92, respectively)	87	82
Investee at cost which approximates fair value	49,711	49,079
Other investments	487	490
Short-term investments at fair value (cost of \$38,323 and \$18,248, respectively)	38,324	18,249
Total investments	225,406	195,763
Cash and cash equivalents	99,246	140,567
Accrued investment income	1,950	1,957
Financed premiums, net of allowance for credit losses of \$24 and \$27, respectively	10,321	13,572
Accounts receivable, net of allowance for doubtful accounts of \$4,707 and \$4,760, respectively	48,058	46,395
Funds held in escrow	2,150	22,259
Due from reinsurers and other insurers	913	7,651
Deferred policy acquisition costs	13,068	13,952
Income taxes recoverable	16,841	17,991
Deferred income taxes	496	503
Property and equipment, net of accumulated depreciation of \$29,467 and \$28,743	13,522	13,961
Goodwill and intangible assets	42,449	42,467
Other assets	1,838	2,541
TOTAL ASSETS	\$476,258	\$519,579
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Unpaid loss and loss adjustment expenses	\$ 153,463	\$ 174,708
Unearned premiums	61,436	66,879
LROC preferred units	13,299	13,076
Senior unsecured debentures	39,695	37,177
Subordinated indebtedness	40,343	40,480
Notes payable	2,250	—
Accounts payable and accrued liabilities	36,718	42,386
TOTAL LIABILITIES	\$347,204	\$374,706
STOCKHOLDERS' EQUITY		
Common stock, no par value; unlimited number authorized; 52,345,828 and 52,095,828 issued and outstanding at March 31, 2011 and December 31, 2010,	\$296,489	\$296,139

respectively

Additional paid-in capital	15,197	15,440	
Accumulated deficit	(198,874)(181,070)
Accumulated other comprehensive income	16,765	14,407	
Stockholders' equity attributable to stockholders of Kingsway	129,577	144,916	
Noncontrolling interests in consolidated subsidiaries	(523)(43)
TOTAL STOCKHOLDERS' EQUITY	129,054	144,873	
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$476,258	\$519,579	

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three months ended March 31,	
	2011	2010
Revenue:		
Net premiums earned	\$45,636	\$61,081
Commission income	6,413	2,444
Net investment income	1,077	2,977
Net realized gains	1	301
Unrealized loss on fair value of debt	(2,605)	(77,110)
Miscellaneous loss	(973)	(2,468)
Total revenues:	49,549	(12,775)
Expenses:		
Losses and loss adjustment expenses	40,027	53,207
Commissions and premiums taxes	7,371	12,880
General and administrative expenses	17,685	21,093
Restructuring costs	—	3,690
Interest expense	1,903	5,508
Amortization of other intangible assets	18	1,042
Total expenses	67,004	97,420
Loss before unusual item and income taxes	(17,455)	(110,195)
Gain on buy-back of debt	—	3,324
Loss from continuing operations before income taxes	(17,455)	(106,871)
Income tax benefit	(408)	(2,657)
Loss from continuing operations	\$(17,047)	\$(104,214)
Income from discontinued operations, net of taxes	—	6,887
Gain (loss) on disposal of discontinued operations, net of taxes (Note 5)	(1,293)	32,533
Net loss	\$(18,340)	\$(64,794)
Attributable to:		
Common stockholders	(17,806)	(64,794)
Noncontrolling interests in consolidated subsidiaries	(534)	—
Total	\$(18,340)	\$(64,794)
Loss per share - continuing operations:		
Basic and diluted:	\$(0.33)	\$(2.00)
Loss per share – net loss:		
Basic and diluted:	\$(0.35)	\$(1.24)
Weighted average shares outstanding (in ‘000s):		
Basic and diluted:	52,156	52,062
See accompanying notes to unaudited condensed consolidated financial statements.		