Conifer Holdings, Inc.
Form 10-Q
November 10, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2015

OR

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

For the transition period from to

Commission file number 001-37536

Conifer Holdings, Inc.

(Exact name of registrant as specified in its charter)

Michigan	**27-1298795**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
550 West Merrill Street, Suite 200	
Birmingham, Michigan	**48009**
(Address of principal executive offices)	(Zip code)

(248) 559-0840

(Registrant’s telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark 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 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 the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

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 Exchange Act). Yes No

The number of outstanding shares of the registrant's common stock, no par value, as of November 6, 2015, was 7,644,492.

CONIFER HOLDINGS, INC. AND SUBSIDIARIES

Form 10-Q

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PART 1 - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

CONIFER HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands, except share data)

	September 30, 2015 (Unaudited)	December 31, 2014
Assets		
Investment securities:		
Fixed maturity securities, at fair value (amortized cost of $96,983 and $83,768, respectively)	$ 97,566	$ 84,405
Equity securities, at fair value (cost of $3,324 and $2,965, respectively)	4,030	4,084
Short-term investments, at cost or amortized cost (approximates fair value)	6,537	16,749
Total investments	108,133	105,238
Cash	13,581	18,488
Premiums and agents' balances receivable, net	17,323	14,478
Receivable from affiliate	1,599	-
Reinsurance recoverables on unpaid losses	5,069	3,224
Reinsurance recoverables on paid losses	2,202	1,915
Ceded unearned premiums	8,293	9,510
Deferred policy acquisition costs	11,582	5,679
Intangible assets, net	947	1,171
Goodwill	485	1,104
Other assets	3,411	2,931
Total assets	$ 172,625	$ 163,738
Liabilities and Shareholders' Equity		
Liabilities:		
Unpaid losses and loss adjustment expenses	$ 32,595	$ 31,531
Unearned premiums	45,683	43,381
Reinsurance premiums payable	998	7,069
Senior debt	9,750	27,562
Accounts payable and accrued expenses	2,762	2,521
Other liabilities	673	1,396
Total liabilities	92,461	113,460
Redeemable preferred stock (0 and 1,000,000 shares authorized; 0 and 60,600 shares issued and outstanding, respectively)	-	6,119

Shareholders' equity:		
Common stock, no par value (100,000,000 and 12,240,000 shares authorized; 7,644,492 and 3,995,013 issued and outstanding, respectively)	80,199	46,119
Accumulated deficit	(727)	(3,095)
Accumulated other comprehensive income	692	1,158
Total shareholders' equity attributable to Conifer	80,164	44,182
Noncontrolling interest	-	(23)
Total shareholders' equity	80,164	44,159
Total liabilities and shareholders' equity	$ 172,625	$ 163,738

The accompanying notes are an integral part of the Consolidated Financial Statements.

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CONIFER HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Operations (Unaudited)

(In thousands, except share and per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	**2014**	**2015**	**2014**
Revenue				
Premiums				
Gross earned premiums	$23,042	$17,248	$66,203	$47,868
Ceded earned premiums	(5,159)	(2,677)	(18,712)	(6,665)
Net earned premiums	17,883	14,571	47,491	41,203
Net investment income	505	321	1,460	823
Net realized investment gains	6	94	238	266
Other gains	104	-	104	-
Other income	523	387	1,492	1,424
Total revenue	19,021	15,373	50,785	43,716
Expenses				
Losses and loss adjustment expenses, net	9,813	10,215	27,359	30,477
Policy acquisition costs	4,605	3,738	9,839	10,488
Operating expenses	3,325	3,433	10,636	9,540
Interest expense	181	108	664	360
Total expenses	17,924	17,494	48,498	50,865
Income (loss) before income taxes	1,097	(2,121)	2,287	(7,149)
Income tax (benefit) expense	(48)	131	-	(178)
Net income (loss)	1,145	(2,252)	2,287	(6,971)
Less net (loss) income attributable to noncontrolling interest	(181)	(18)	(81)	28
Net income (loss) attributable to Conifer	$1,326	$(2,234)	$2,368	$(6,999)
Net income (loss) allocable to common shareholders	$1,212	$(2,250)	$1,828	$(7,042)
Earnings (loss) per common share, basic and diluted	$0.21	$(0.89)	$0.40	$(3.02)
Weighted average common shares outstanding, basic and diluted	5,701,794	2,514,229	4,603,451	2,335,315

The accompanying notes are an integral part of the Consolidated Financial Statements.

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CONIFER HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

(In thousands)

	Three Months Ended September 30 2015	**2014**	**Nine Months Ended September 30 2015**	**2014**
Net income (loss)	$ 1,145	$ (2,252)	$ 2,287	$ (6,971)
Other comprehensive income (loss), net of tax:				
Unrealized investment gains (losses):				
Unrealized investment gains (losses) during the period	379	(288)	104	1,126
Income tax expense (benefit)	-	(98)	-	383
Unrealized investment gains (losses), net of tax	379	(190)	104	743
Less: reclassification adjustments to:				
Net realized investment gains included in net income (loss)	146	98	570	604
Income tax expense	-	33	-	205
Total reclassifications included in net income (loss), net of tax	146	65	570	399
Other comprehensive income (loss)	233	(255)	(466)	344
Total comprehensive income (loss)	1,378	(2,507)	1,821	(6,627)
Less comprehensive (loss) income attributable to noncontrolling interest	(181)	(18)	(81)	28
Comprehensive income (loss) attributable to Conifer	$ 1,559	$ (2,489)	$ 1,902	$ (6,655)

The accompanying notes are an integral part of the Consolidated Financial Statements.

CONIFER HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statement of Changes in Redeemable Preferred Stock and Shareholders' Equity (Unaudited)

(In thousands, except share data)

	Redeemable Preferred Stock		**Preferred Stock**		**No Par, Common Stock**		**Retained Earnings (Accumulated deficit)**	**Accumulated Other Comprehensive Income (Loss)**	**Total Conifer Holdings Shareholders' Equity**	**Noncontrolling Interest**	**Total Equity**
	Shares	**Amount**	**Shares**	**Amount**	**Shares**	**Amount**					
Balances at December 31, 2013	**-**	**$-**	**-**	**$-**	**1,749,626**	**$16,883**	**$3,851**	**$536**	**$21,270**	**$(19)**	**$21,251**
Net loss	-	-	-	-	-	-	(6,999)	-	(6,999)	28	(6,971
Issuance of common stock	-	-	-	-	1,256,873	16,045	-	-	16,045	-	16,045
Conversion of note payable into shares of common stock	-	-	-	-	82,252	1,000	-	-	1,000	-	1,000
Issuance of Preferred Stock, $10	-	-	66,000	660	-	-	-	-	660	-	660
Issuance of Redeemable Preferred Stock, $100	46,500	4,650							-	-	-
Cash dividends paid on Preferred Stock	-	-	-	-	-	(32)	(11)	-	(43)	-	(43
Other comprehensive income	-	-	-	-	-	-	-	344	344	-	344
Balances at September 30, 2014	**46,500**	**$4,650**	**66,000**	**$660**	**3,088,751**	**$33,896**	**$(3,159)**	**$880**	**$32,277**	**$9**	**$32,286**
Net loss	-	-	-	-	-	-	64	-	64	(32)	32
Issuance of common stock	-	-	-	-	906,262	12,430	-	-	12,430	-	12,430
	7,500	750	-	-	-	-	-	-	-	-	-

Issuance of Redeemable Preferred Stock, $100											
Exchange of Preferred Stock for Redeemable Preferred Stock , $100	6,600	660	(66,000)	(660)	-	-	-	-	(660)	-	(660
Paid-in-kind dividends on redeemable Preferred Stock	-	59	-	-	-	(59)	-	-	(59)	-	(59
Cash dividends paid on Preferred Stock						(148)	-		(148)		(148
Other comprehensive income	-	-	-	-	-	-	-	278	278	-	278
Balances at December 31, 2014	**60,600**	**$6,119**	**-**	**$-**	**3,995,013**	**$46,119**	**$(3,095)**	**$1,158**	**$44,182**	**$(23)**	**$44,159**
Net income	-	-	-	-	-	-	2,368		2,368	(81)	2,287
Issuance of common stock (Pre IPO)*					55,029	750			750		750
Paid-in-kind dividends	-	61	-	95	-	(156)	-	-	(61)	-	(61
Cash dividends paid on preferred stock	-	-	-	-	-	(384)	-	-	(384)	-	(384
Reclassification of redeemable preferred stock to permanent equity	(60,600)	(6,180)	60,600	6,180	-	-	-	-	6,180	-	6,180
Issuance of common stock (IPO)*	-	-	-	-	3,300,000	32,224	-	-	32,224	-	32,224
IPO Expenses*	-	-	-	-	-	(1,546)	-	-	(1,546)	-	(1,546
Repurchase of preferred stock	-	-	(60,600)	(6,275)	-	-	-	-	(6,275)	-	(6,275
Issuance of common stock to former preferred stockholders	-	-	-	-	294,450	3,092	-	-	3,092	-	3,092
Vesting of RSU**	-	-	-	-	-	100	-	-	100		100
Deconsolidation of affiliate	-	-	-	-	-	-	-	-	-	104	104

Other comprehensive loss	-	-	-	-	-	-	-	(466)	(466)	-	(466
Balances at September 30, 2015	**-**	**$-**	**-**	**$-**	**7,644,492**	**$80,199**	**$(727)**	**$692**	**$80,164**	**$-**	**$80,164**

* "IPO" - initial public offering

** "RSU" - restricted stock units

The accompanying notes are an integral part of the Consolidated Financial Statements.

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CONIFER HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited)

(In thousands)

	Nine Months Ended September 30	
	2015	**2014**
Cash Flows from Operating Activities		
Net income (loss)	$2,287	$(6,971)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization of property and equipment, and intangibles	307	283
Amortization of bond premium and discount, net	446	372
Gains on investments	(238)	(273)
Other gains	(104)	-
Incentive awards expenses - vesting of RSU	100	-
Deferred income taxes	-	(178)
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Premiums and agents' balances receivable	(2,885)	(955)
Reinsurance recoverables	(2,132)	(1,712)
Ceded unearned premiums	1,217	702
Deferred policy acquisition costs	(5,903)	(1,795)
Other assets	(679)	(302)
Increase (decrease) in:		
Unpaid losses and loss adjustment expenses	1,064	2,749
Unearned premiums	2,302	7,750
Reinsurance premiums payable	(6,071)	16
Accounts payable and accrued expenses	1,019	601
Other liabilities	(556)	(1,571)
Net cash used in operating activities	(9,826)	(1,284)
Cash Flows From Investing Activities		
Purchase of investments:		
Fixed maturity securities	(20,762)	(21,138)
Equity securities	(1,193)	(970)
Short-term investments	(55,569)	(49,476)
Proceeds from maturities and redemptions of investments:		
Fixed maturity securities	1,400	252
Proceeds from sales of investments:		
Fixed maturity securities	5,771	3,441
Equity securities	1,004	903
Short-term investments	65,781	37,353
Purchases of property and equipment	(126)	(358)
Deconsolidation of affilate	(1,323)	-

Net cash used in investing activities	(5,017)	(29,993)
Cash Flows From Financing Activities		
Proceeds received from issuance of shares of common stock	36,066	16,045
Proceeds from issuance of shares of preferred stock	-	5,310
Repurchase of preferred stock	(6,275)	-
Borrowings under debt arrangements	1,650	15,700
Repayment of borrowings under debt arrangements	(19,462)	(750)
Dividends paid to preferred shareholders	(384)	(27)
Payout of contingent consideration	(113)	(113)
Payment of offering costs	(1,546)	-
Net cash provided by financing activities	9,936	36,165
Net (decrease) increase in cash	(4,907)	4,888
Cash at beginning of period	18,488	11,296
Cash at end of period	$13,581	$16,184
Supplemental Disclosure of Cash Flow Information:		
Interest paid	$651	$383
Net income taxes paid	$-	$-

The accompanying notes are an integral part of the Consolidated Financial Statements.

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CONIFER HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Management Representation

The consolidated financial statements include accounts, after elimination of intercompany accounts and transactions, of Conifer Holdings, Inc. (the "Company" or "Conifer"), its wholly owned subsidiaries Conifer Insurance Company, White Pine Insurance Company, Red Cedar Insurance Company , American Colonial Insurance Company , American Colonial Insurance Services and Sycamore Insurance Agency, Inc.

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") and are unaudited. The Company has applied the applicable rules and regulations of the U. S. Securities and Exchange Commission ("SEC") regarding interim financial reporting and therefore the consolidated financial statements do not include all of the information and notes required by U.S. GAAP for annual financial statements. In the opinion of management, all adjustments, consisting of items of a normal recurring nature, necessary for a fair presentation of the consolidated financial statements, have been included. The results of operations for the three and nine months ended September 30, 2015, are not necessarily indicative of the results expected for the year ended December 31, 2015.

These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes for the year ended December 31, 2014, included in the Company's final prospectus filed pursuant to Rule 424(b) under the Securities Act of 1933, as amended, with the SEC on August 13, 2015. The consolidated balance sheet at December 31, 2014, was derived from the audited financial statements.

Business

The Company is engaged in the sale of property and casualty insurance products and has organized its principal operations into two types of insurance businesses: commercial lines and personal lines. The Company underwrites a variety of specialty insurance products, including property, general liability, commercial multi-peril, liquor liability, automobile, and homeowners and dwelling policies. The Company markets and sells its insurance products through a network of independent agents, including managing general agents, whereby policies are written in all 50 states in the United States ("U.S."). The Company's corporate headquarters are located in Birmingham, Michigan with additional office facilities in Florida, Texas and Pennsylvania.

In January 2015, the Company discontinued offering and writing new nonstandard personal automobile policies and stopped writing renewal policies by June, 2015. The Company will continue to service existing policies, pay claims and perform other administrative services until existing policies expire and all claims are paid (a process referred to as "run-off"). The run-off is expected to be substantially complete by the end of 2016.

Initial Public Offering

In August 2015, the Company completed its initial public offering ("IPO") whereby it issued and sold 3,300,000 shares of common stock, which included 100,000 shares issued and sold to the Company's Chief Executive Officer, at a public offering price of $10.50 per share. Refer to Note 9 ~ *Shareholders' Equity* for further details.

Stock Split

On July 22, 2015, the board of directors approved a stock split in the form of a stock dividend of 10.2 shares for each share of common stock which was effectuated immediately prior to the effectiveness of the IPO. Accordingly, all common share and per share amounts for all periods presented in these unaudited consolidated financial statements and notes thereto, were adjusted retroactively to reflect the stock split.

Principles of Consolidation

Prior to September 30, 2015, the consolidated financial statements included the accounts of Conifer Holdings, Inc. and its wholly owned subsidiaries, and a 50%-owned affiliate ("Affiliate") which the Company controlled due to its majority representation on the entity's board of directors. Noncontrolling interest in a consolidated subsidiary in the consolidated balance sheets represents the noncontrolling shareholder's proportionate share of the entity's equity. Consolidated net income or loss is allocated to the Company and noncontrolling interest in proportion to their percentage ownership interests.

As of September 30, 2015, the Company longer controls the Affiliate but retains significant influence. As a result the entity was deconsolidated from the consolidated financial statements and recognized as an investment in an affiliate utilizing the equity method of accounting.

All intercompany transactions and accounts were eliminated.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported therein. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may be based upon amounts that differ from these estimates.

Offering Costs

Offering costs of $1.5 million were netted against the proceeds received from the offering and were recorded in common stock during the third quarter of 2015. The offering costs consisted of legal, accounting, printing and other incremental expenses, incurred in connection with the Company's IPO.

Income Taxes

As of September 30, 2015 and December 31, 2014, the Company did not have any unrecognized tax benefits. As of September 30, 2015 and December 31, 2014, the Company had no accrued interest or penalties related to uncertain tax positions.

Recently Issued Accounting Guidance

In May 2015, the Financial Accounting Standards Board issued Accounting Standards Update No. 2015-09, *Disclosures about Short-Duration Contracts (Topic 944)*, which improves disclosure requirements for insurance entities with short-duration insurance contracts. The standard does not change the existing recognition and measurement guidance for short-duration insurance contracts. This standard will provide additional disclosures about our liability for unpaid losses and loss adjustment expenses, increase transparency of significant estimates made in measuring those liabilities, and provide financial statement users with additional information to facilitate analysis of the amount, timing and uncertainty of cash flows and development of loss reserves. This standard is effective for annual periods beginning after December 15, 2015, and interim reporting periods thereafter and must be applied retrospectively by providing comparative disclosures for each period presented, except for those requirements that apply only to the current period. Early adoption is permitted. The enhanced disclosures under the new guidance will be provided by the Company for the year ended December 31, 2016, as required.

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2. Investments

The cost or amortized cost, gross unrealized gain or loss, and estimated fair value of the investments in securities classified as available-for-sale at September 30, 2015 and December 31, 2014 were as follows (in thousands):

	September 30, 2015			
	Cost or Amortized Cost	Gross Unrealized Gains	Losses	Estimated Fair Value
Fixed Securities:				
U.S. Government obligations	$5,485	$72	$(1)	$5,556
State and local government	14,492	270	(41)	14,721
Corporate debt	34,006	206	(193)	34,019
Commercial mortgage and asset-backed	43,000	371	(101)	43,270
Total fixed securities available for sale	96,983	919	(336)	97,566
Equity Securities:				
Common stock	3,324	849	(143)	4,030
Total equity securities available for sale	3,324	849	(143)	4,030
Total securities available for sale	$100,307	$1,768	$(479)	$101,596

	December 31, 2014			
	Cost or Amortized Cost	Gross Unrealized Gains	Losses	Estimated Fair Value
Fixed Securities:				
U.S. Government obligations	$ 5,872	$ 85	$ (16)	$ 5,941
State and local government	10,755	210	(4)	10,961
Corporate debt	30,818	237	(106)	30,949
Commercial mortgage and asset-backed	36,323	348	(117)	36,554
Total fixed securities available for sale	83,768	880	(243)	84,405
Equity Securities:				
Common stock	2,965	1,158	(39)	4,084
Total equity securities available for sale	2,965	1,158	(39)	4,084
Total securities available for sale	$ 86,733	$ 2,038	$ (282)	$ 88,489

The following table summarizes the aggregate fair value and gross unrealized losses, by security type, of the available-for-sale securities in unrealized loss positions. The table segregates the holdings based on the length of time that individual securities have been in a continuous unrealized loss position, as follows (in thousands, except number of issues):

	September 30, 2015								
	Less than 12 months			**Greater than 12 months**			**Total**		
	Number of Issues	**Fair Value of Investments with Unrealized Losses**	**Gross Unrealized Losses**	**Number of Issues**	**Fair Value of Investments with Unrealized Losses**	**Gross Unrealized Losses**	**Number of Issues**	**Fair Value of Investments with Unrealized Losses**	**Gross Unrealized Losses**
Fixed Securities:									
U.S. Government obligations	-	$ -	$ -	2	$ 684	$ (1)	2	$ 684	$ (1)
State and local government	11	3,173	(41)	-	-	-	11	3,173	(41)
Corporate debt	38	11,005	(178)	9	1,536	(15)	47	12,541	(193)
Commercial mortgage and asset-backed	33	12,826	(70)	4	1,860	(31)	37	14,686	(101)
Total fixed securities available for sale	**82**	**27,004**	**(289)**	**15**	**4,080**	**(47)**	**97**	**31,084**	**(336)**
Equity Securities:									
Common stock	95	949	(121)	3	43	(22)	98	992	(143)
Total equity securities available for sale	**95**	**949**	**(121)**	**3**	**43**	**(22)**	**98**	**992**	**(143)**
Total securities	**177**	**$ 27,953**	**$ (410)**	**18**	**$ 4,123**	**$ (69)**	**195**	**$ 32,076**	**$ (479)**

	December 31, 2014								
	Less than 12 months			Greater than 12 months			Total		
	Number of Issues	Fair Value of Investments with Unrealized Losses	Gross Unrealized Losses	Number of Issues	Fair Value of Investments with Unrealized Losses	Gross Unrealized Losses	Number of Issues	Fair Value of Investments with Unrealized Losses	Gross Unrealized Losses
Fixed Securities:									
U.S. Government obligations	-	$ -	$ -	3	$ 1,319	$ (16)	3	$ 1,319	$ (16)
State and local government	4	552	(1)	3	825	(3)	7	1,377	(4)
Corporate debt	61	18,835	(98)	3	489	(8)	64	19,324	(106)
Commercial mortgage and asset-backed	23	12,060	(34)	10	4,999	(83)	33	17,059	(117)
Total fixed securities available for sale	**88**	**31,447**	**(133)**	**19**	**7,632**	**(110)**	**107**	**39,079**	**(243)**
Equity Securities:									
Common stock	20	347	(39)	-	-	-	20	347	(39)
Total equity securities available for sale	**20**	**347**	**(39)**	**0**	**-**	**-**	**20**	**347**	**(39)**
Total securities	**108**	**$ 31,794**	**$ (172)**	**19**	**$ 7,632**	**$ (110)**	**127**	**$ 39,426**	**$ (282)**

Substantially all of the Company’s fixed maturity securities are of investment grade with an average credit quality of AA. The fixed maturity securities are short in duration; approximately 3.4 and 3.1 years as of September 30, 2015 and December 31, 2014, respectively.

The Company reviews its impaired securities for possible other-than-temporary impairment (“OTTI”) at each quarter end. A security has an impairment loss when its fair value is less than its cost or amortized cost at the balance sheet date. The Company analyzed its investment portfolio in accordance with its OTTI review procedures and determined the Company did not need to record a credit related OTTI loss, nor recognize a non-credit related OTTI loss in other comprehensive income for the three and nine months ended September 30, 2015 and 2014. The Company’s conclusion is based on the following: (i) as of the specified date, all contractual interest and principal payments on the fixed maturity securities have been received, (ii) there is no intent to sell the securities, (iii) it is more likely than not that the Company will not be required to sell the securities before recovery of their amortized cost or cost bases and (iv) the unrealized loss relates to non-credit factors, such as interest rate changes and fluctuations due to market conditions.

The Company’s sources of net investment income are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Fixed maturity securities	$551	$348	$1,614	$898
Equity securities	24	21	69	56
Cash and short-term investments	-	3	4	7
Total investment income	575	372	1,687	961
Investment expenses	(70)	(51)	(227)	(138)
Net investment income	$505	$321	$1,460	$823

The following table summarizes the gross realized gains and losses from sales or maturities of available-for-sale fixed maturity and equity securities, as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Fixed maturity securities:				
Gross realized gains	$6	$(4)	$74	$18
Gross realized losses	(1)	14	(5)	(14)
Total fixed securities	5	10	69	4
Equity securities:				
Gross realized gains	30	106	233	299
Gross realized losses	(29)	(22)	(64)	(37)
Total equity securities	1	84	169	262
Total realized gains (losses)	$6	$94	$238	$266

Proceeds from the sales of debt and equity securities available for sale were $6.8 million and $4.3 million for the nine months ended September 30, 2015 and 2014, respectively.

The table below summarizes the amortized cost and fair value of available-for-sale fixed maturity securities by contractual maturity at September 30, 2015. Actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties (in thousands):

	Amortized Cost	**Estimated Fair Value**
Due in one year or less	$ 4,595	$ 4,614
Due after one year through five years	32,405	32,593
Due after five years through ten years	7,714	7,794
Due after ten years	9,269	9,295
Securities with contractual maturities	53,983	54,296
Commercial mortgage and asset backed	43,000	43,270
Total Fixed maturity securities	$ 96,983	$ 97,566

At September 30, 2015 and December 31, 2014, the insurance companies had an aggregate of $7.5 million and $7.0 million, respectively, on deposit in trust accounts to meet the deposit requirements of various state insurance departments. There are withdrawal and other restrictions on these deposits, including the type of investments that may be held, however the Company may generally invest in high-grade bonds and short-term investments and earn interest on the funds.

3. Fair Value Measurements

The Company's financial instruments include assets and liabilities carried at fair value, as well as assets and liabilities carried at cost or amortized cost but disclosed at fair value in these consolidated financial statements. Fair value is defined as the price that would be received for an asset or paid to transfer a liability in the principal most advantageous market for the asset or liability in an orderly transaction between market participants. In determining fair value, the Company applies the market approach, which uses prices and other relevant data based on market transactions involving identical or comparable assets and liabilities. The inputs to valuation techniques used to measure fair value are prioritized into a three-level hierarchy. The hierarchy gives the highest priority to quoted prices from sources independent of the reporting entity ("observable inputs") and the lowest priority to prices determined by the reporting entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances ("unobservable inputs"). The fair value hierarchy is as follows:

Level 1—Valuations that are based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2—Valuations that are based on observable inputs (other than Level 1 prices) such as quoted prices for similar assets or liabilities at the measurement date; quoted prices in markets that are not active; or other inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3—Unobservable inputs that are supported by little or no market activity. The unobservable inputs represent the Company's best assumption of how market participants would price the assets or liabilities.

The following tables present the Company's assets and liabilities measured at fair value on a recurring basis, classified by the valuation hierarchy as of September 30, 2015 and December 31, 2014 (in thousands):

	September 30, 2015 Fair Value Measurements Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Fixed Maturity Securities:				
U.S. Government obligations	$5,556	$ -	$ 5,556	$ -
State and local government	14,721	-	14,721	-
Corporate debt	34,019	-	34,019	-
Commercial mortgage and asset-backed	43,270	-	43,270	-
Total fixed maturity securities	97,566	-	97,566	-
Equity Securities, common stock	4,030	4,030	-	-
Short-term investments*	6,537	6,537	-	-
Total assets measured at fair value	$108,133	$ 10,567	$ 97,566	$ -
Liabilities:				
Senior debt*	$9,750	$ -	$ 9,750	$ -
Total Liabilities measured at fair value	$9,750	$ -	$ 9,750	$ -

*** Carried at cost or amortized cost on the consolidated balance sheet**

	December 31, 2014 Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs

	Total	(Level 1)	(Level 2)	(Level 3)
Assets:				
Fixed Maturity Securities:				
U.S. Government obligations	$5,941	$ -	$ 5,941	$ -
State and local government	10,961	-	10,961	-
Corporate debt	30,949	-	30,949	-
Commercial mortgage and asset-backed	36,554	-	36,554	-
Total fixed maturity securities	84,405	-	84,405	-
Equity Securities, common stock	4,084	4,084	-	-
Short-term investments*	16,749	16,749	-	-
Total assets measured at fair value	$105,238	$ 20,833	$ 84,405	$ -
Liabilities:				
Senior debt*	$27,562	$ -	$ 27,562	$ -
Contingent consideration	168	-	-	168
Total Liabilities measured at fair value	$27,730	$ -	$ 27,562	$ 168

*** Carried at cost or amortized cost on the consolidated balance sheet**

Level 1 investments consist of equity securities traded in an active exchange market. The Company uses unadjusted quoted prices for identical instruments to measure fair value. Level 1 also includes money market funds and other interest-bearing deposits at banks, which are reported as short-term investments. The fair value measurements that were based on Level 1 inputs comprise 9.8% of the fair value of the total investment portfolio as of September 30, 2015.

Level 2 investments include fixed maturity securities, which consist of U.S. government agency securities, state and local municipal bonds (including those held as restricted securities), corporate debt securities, mortgage-backed and asset-backed securities. The fair value of securities included in the Level 2 category were based on the market values obtained from a third party pricing service that were evaluated using pricing models that vary by asset class and incorporate available trade, bid and other observable market information. The third party pricing service monitors market indicators, as well as industry and economic events. The fair value measurements that were based on Level 2 inputs comprise 90.2% of the fair value of the total investment portfolio as of September 30, 2015.

The Company obtains pricing for each security from independent pricing services, investment managers or consultants to assist in determining fair value for its Level 2 investments. To validate that these quoted prices are reasonable estimates of fair value, the Company performs various quantitative and qualitative procedures, such as (i) evaluation of the underlying methodologies, (ii) analysis of recent sales activity, (iii) analytical review of our fair values against current market prices or (iv) comparison of the pricing services' fair value to other pricing services' fair value for the same investment. No markets for the investments were determined to be inactive at period-ends. Based on these procedures, the Company did not adjust the prices or quotes provided from independent pricing services, investment managers or consultants.

The Level 2 financial instruments also include our senior debt. The fair value of borrowings under the senior debt, consisting of the revolving credit facility and term loans, approximates its carrying amount because interest is based on a short-term, variable, market-based rate.

The Level 3 financial instruments include the fair value of the contingent consideration arrangements that the Company's Affiliate entered into at the date of the respective acquisitions. The fair value of these liabilities was determined based on internally developed models that use assumptions or other data that are not readily observable from objective sources.

The following table sets forth a roll-forward of the Level 3 measurements (in thousands):

	Fair Value Measurement Using Significant Unobservable Inputs - Level 3

	Contingent Consideration Liabilities	
Balance as of December 31, 2013	$ 339	
Change in fair value	11	
Payout of contingent consideration	(182	)
Balance as of December 31, 2014	$ 168	
Change in fair value	4	
Payout of contingent consideration	(113	)
Deconsolidation of affiliate	(59	)
Balance as of September 30, 2015	-	

The Company’s policy on recognizing transfers between hierarchy levels is applied at the end of each reporting period. There were no transfers between Levels 1, 2 and 3 for the three and nine months ended September 30, 2015 and 2014, respectively.

4. Deferred Policy Acquisition Costs

The Company defers costs incurred which are incremental and directly related to the successful acquisition of new or renewal insurance business, net of corresponding amounts of ceded reinsurance commissions. Net deferred policy acquisition costs are amortized and charged to expense in proportion to premium earned over the estimated policy term. The Company anticipates that its deferred policy acquisition costs will be fully recoverable and there were no premium deficiencies for the three and nine months ended September 30, 2015 and 2014. The activity in deferred policy acquisition costs, net of reinsurance transactions, is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	**2014**	**2015**	**2014**
Balance at beginning of period	$7,659	$7,004	$5,679	$5,747
Deferred policy acquisition costs	8,528	4,276	15,742	12,283
Amortization of policy acquisition costs	(4,605)	(3,738)	(9,839)	(10,488)
Net change	3,923	538	5,903	1,795
Balance at end of period	$11,582	$7,542	$11,582	$7,542

5. Goodwill and Intangible Assets

The following table shows the goodwill and intangible asset balances at each reporting period (in thousands):

	Goodwill	**Net Intangible Assets**
Balance as of December 31, 2014	$ 1,104	$ 1,171
Deconsolidation of affiliate	(619)	(209)
Amortization of intangibles	-	(15)
Balance as of September 30, 2015	$ 485	$ 947

The following table reflects intangible assets and related accumulated amortization (in thousands):

	As of September 30, 2015			
	Weighted Average Amortization Period (in years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Nonamortizing indefinite-lived, intangible assets - state insurance licenses		$ 900	$ -	$ 900
Amortizing definite-lived, intangible assets- Customer lists	5	100	53	47
Total		$ 1,000	$ 53	$ 947

	As of December 31, 2014			
	Weighted Average Amortization Period (in years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Nonamortizing indefinite-lived, intangible assets - state insurance licenses		$ 900	$ -	$ 900
Amortizing definite-lived, intangible assets- Customer lists	5	368	97	271
Total		$ 1,268	$ 97	$ 1,171

Amortization of intangible assets was $18,400 and $55,200 for the three and nine months ended September 30, 2015 and 2014, respectively. Future amortization of definite-lived intangibles is as follows: remainder of 2015: $5,000, 2016: $20,000, 2017: $20,000 and 2018: $2,000.

6. Unpaid Losses and Loss Adjustment Expenses

The Company establishes reserves for unpaid losses and loss adjustment expenses which represent the estimated ultimate cost of all losses incurred that were both reported and unreported (i.e., incurred but not yet reported losses; “IBNR”) and loss adjustment expenses incurred that remain unpaid at the balance sheet date. The Company’s reserving process takes into account known facts and interpretations of circumstances and factors including the Company’s experience with similar cases, actual claims paid, historical trends involving claim payment patterns and pending levels of unpaid claims, loss management programs, product mix and contractual terms, changes in law and regulation, judicial decisions, and economic conditions. In the normal course of business, the Company may also supplement its claims processes by utilizing third party adjusters, appraisers, engineers, inspectors, and other professionals and information sources to assess and settle catastrophe and non-catastrophe related claims. The effects of inflation are implicitly considered in the reserving process.

Reserves are estimates of unpaid portions of losses that have occurred, including IBNR losses, therefore the establishment of appropriate reserves, including reserves for catastrophes, is an inherently uncertain and complex process. The ultimate cost of losses may vary materially from recorded amounts, which are based on management’s best estimates. The highest degree of uncertainty is associated with reserves for losses incurred in the current reporting period as it contains the greatest proportion of losses that have not been reported or settled. The Company regularly updates its reserve estimates as new information becomes available and as events unfold that may affect the resolution of unsettled claims. Changes in prior year reserve estimates, which may be material, are reported in the results of operations in the period such changes are determined to be needed and recorded.

Management believes that the reserve for losses and loss adjustment expenses, net of reinsurance recoverables, is appropriately established in the aggregate and adequate to cover the ultimate net cost of reported and unreported claims arising from losses which had occurred by the date of the Consolidated Financial Statements based on available facts and in accordance with applicable laws and regulations.

The table below provides the changes in the reserves for losses and loss adjustment expenses, net of recoverables from reinsurers, for the periods indicated as follows (in thousands):

	Three Months Ended		**Nine Months Ended**	
	September 30, 2015	**2014**	**September 30, 2015**	**2014**
Gross reserves - beginning of period	$ 32,357	$ 31,833	$ 31,531	$ 28,908
	5,022	4,207	3,224	3,953

Less: reinsurance recoverables on unpaid losses				
Net reserves - beginning of period	27,335	27,626	28,307	24,955
Add: incurred losses and loss adjustment expenses, net of reinsurance:				
Current period	9,894	10,509	27,234	31,743
Prior period	(81)	(294)	125	(1,266)
Total net incurred losses and loss adjustment expenses	9,813	10,215	27,359	30,477
Deduct: loss and loss adjustment expense payments, net of reinsurance:				
Current period	6,972	8,090	13,766	16,861
Prior period	2,650	1,767	14,374	10,587
Total net loss and loss adjustment expense payments	9,622	9,857	28,140	27,448
Net reserves - end of period	27,526	27,984	27,526	27,984
Plus: reinsurance recoverables on unpaid losses	5,069	3,673	5,069	3,673
Gross reserves - end of period	$ 32,595	$ 31,657	$ 32,595	$ 31,657

The Company’s incurred losses during the three and nine months ended September 30, 2015, reflect prior-year favorable reserve development of $81,000 and adverse development of $125,000, respectively. In the third quarter of 2015, there was $256,000 and $95,000 of favorable development in the commercial multi-peril and homeowners lines, respectively. This favorable development was partially offset by $163,000 and $161,000 of adverse reserve development in the run-off personal automobile and commercial automobile lines, respectively. For the nine months ended September 30, 2015, the adverse development was generated by the personal and commercial automobiles lines, totaling $494,000 and $696,000, respectively. This adverse development was partially offset by favorable development in other lines, including $530,000, $125,000 and $313,000 in the commercial multi-peril, other liability and workers’ compensation lines, respectively.

The Company's incurred losses during the three and nine months ended September 30, 2014, reflect prior-year favorable reserve development of $294,000 and $1.3 million, respectively. In the third quarter of 2014, there was $91,000 and $91,000 of favorable reserve development in the commercial multi-peril and other liability lines, respectively. For the nine months ended September 30, 2014, there was a similar result, with the favorable development being generated primarily by the commercial multi-peril and other liability lines, totaling $877,000 and $481,000, respectively. This favorable development was partially offset by adverse development of $422,000 in the low-value dwelling line.

7. Reinsurance

In the normal course of business, the Company seeks to minimize the loss that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with reinsurers. Although reinsurance does not discharge the direct insurer from liability to its policyholder, the insurance companies participate in such treaty and facultative reinsurance agreements in order to limit their loss exposure, protect them against catastrophic losses and diversify their business. The Company primarily ceded all specific risks in excess of $500,000 in 2015, and $300,000 in 2014. Failure of reinsurers to honor their obligations could result in losses to the Company. The Company evaluates the financial condition of its reinsurers and monitors the concentration of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. To date, the Company has not experienced any significant difficulties in collecting reinsurance recoverables.

Effective December 31, 2014, the Company entered into a quota share reinsurance agreement in which it ceded 25% of the subject premium, net of other reinsurance, and ceded 25% of the related losses within the Company's retention which is between $0 and $500,000. The subject premium represents substantially all product lines other than the Florida homeowners and personal automobile policies. The Company recorded $9.5 million of ceded earned premiums during the nine months ended September 30, 2015, under the quota share reinsurance agreement. This agreement was terminated by the Company in August 2015. The purpose of the quota share arrangement was to reduce the capital requirements necessary to support the premium growth initiatives prior to the completion of the IPO. The IPO is expected to provide sufficient capital to support the current growth initiatives, and therefore management deemed the quota share was no longer necessary.

Beginning in December 2014, the Company assumed written premium of $5.5 million under a policy assumption agreement with Citizens Property and Casualty Corporation ("Citizens"). Citizens is a Florida government-sponsored insurer that provides homeowners insurance to Florida residences that cannot find coverage in the voluntary market. Upon assuming this premium, the Company becomes the primary insurer to the policyholders. The Company is responsible for claims occurring on or after the effective date of the assumption.

In the first quarter of 2015, another assumption from Citizens took place for $1.4 million. This assumption was offset during the nine months ended September 30, 2015 by a return of $1.3 million of assumed premiums from the 2014 assumption and $702,000 of assumed premiums from the 2015 assumption. The return premiums are related to the policyholders opting out of the related assumptions.

The Company assumed $1.2 million and $3.4 million of written premiums under insurance fronting arrangements for the three and nine months ended September 30, 2015, respectively. These fronting arrangements are with unaffiliated insurers who write on behalf of the Company in markets that require a higher A.M. Best rating than the Company’s rating, the business is written in a state where the Company is not licensed or for other strategic reasons.

The following table presents the effects of such reinsurance and assumption transactions on premiums, losses and loss adjustment expenses, and policy acquisition costs (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	**2014**	**2015**	**2014**
Written premiums:				
Direct	$22,438	$18,912	$65,067	$55,580
Assumed	1,804	-	3,438	-
Ceded	4,357	(2,695)	(10,298)	(5,962)
Net written premiums	$28,599	$16,217	$58,207	$49,618
Earned premiums:				
Direct	$21,136	$17,248	$60,487	$47,868
Assumed	1,906	-	5,716	-
Ceded	(5,159)	(2,677)	(18,712)	(6,665)
Net earned premiums	$17,883	$14,571	$47,491	$41,203
Loss and loss adjustment expenses:				
Direct	$10,605	$10,420	$31,149	$33,850
Assumed	1,082	16	1,887	14
Ceded	(1,874)	(221)	(5,677)	(3,387)
Net Loss and loss adjustment expenses	$9,813	$10,215	$27,359	$30,477
Policy acquisition costs:				
Policy acquisition costs	$5,184	$3,738	$13,359	$10,488
Ceding commissions	(579)	-	(3,520)	-
Net Policy acquisition costs	$4,605	$3,738	$9,839	$10,488

8. Senior Debt

A summary of the outstanding senior debt is as follows (in thousands):

	September 30, 2015	**December 31, 2014**
Revolver	$ -	$ 16,562
Term Note	3,000	3,500

2014 Term Note	6,750	7,500
Total	9,750	27,562

The following amendments were made to the terms and conditions of the Amended Credit Agreement during the nine months ended September 30, 2015: On May 4, 2015, the Company entered into a first amendment to its Amended Credit Agreement which, among other things, revised the provision that the Company's Chairman's ownership interest be not less than 50% to not less than 33%. On June 29, 2015, the Company entered into a second amendment to its Amended Credit Agreement which, among other things, further revised the provision that the Company's Chairman's ownership interest be not less than 20% after the consummation of an IPO. On August 6, 2015, the Company entered into a third amendment to its Amended Credit Agreement ("Third Amendment"). The Third Amendment, among other things, further revised the provision that the Company's Chairman's ownership interest shall not be less than 33%, or after consummation of an IPO, not less than 15%. The Company was in compliance with its debt covenants at September 30, 2015.

All outstanding borrowings under our credit facility (the "Revolver") were repaid from the proceeds received from the Company's IPO, in August 2015. The undrawn portion of the Revolver, which was $17.5 million as of September 30, 2015, is available to finance working capital and for other general corporate purposes, including but not limited to, surplus contributions to its insurance company subsidiaries to support premium growth or strategic acquisitions.

9. Shareholders' Equity

Common Stock

On August 18, 2015, the Company completed its IPO whereby it issued and sold 3,300,000 shares of common stock, which included 100,000 shares issued and sold to the Company's Chief Executive Officer, at a public offering price of $10.50 per share. The Company received net proceeds of $30.7 million after deducting underwriting discounts and commissions of $2.4 million and other offering expenses of $1.5 million. A portion of the net proceeds was used to repay indebtedness, including accrued interest, under the Revolver of $17.0 million, repurchase outstanding shares of preferred stock and pay accrued preferred dividends, totaling $6.3 million.

Concurrent with the closing of the IPO, the Company closed on a private placement transaction as further discussed in *Note ~ 10 Redeemable Preferred Stock*.

Immediately prior to the IPO, the Company amended its articles of incorporation to change its authorized capital stock to consist of (i) 100,000,000 shares of common stock, no par value per share, and (ii) 10,000,000 shares of preferred stock, 60,600 designated as redeemable preferred stock. Following the IPO and the repurchase of all outstanding shares of preferred stock, the Company further amended its articles of incorporation to remove the preferred stock designations.

As of September 30, 2015 and 2014, the Company had 7,644,492 and 3,995,013 issued and outstanding shares of common stock, respectively.

Preferred Stock

As of September 30, 2014, the Company had 66,000 issued and outstanding shares of preferred stock at $10.00 per share. On October 1, 2014, the then-outstanding shares of preferred stock were exchanged for shares of redeemable preferred stock. Refer to *Note 10 ~ Redeemable Preferred Stock* for further details.

10. Redeemable Preferred Stock

At December 31, 2014, the Company had 60,600 shares of redeemable preferred stock outstanding. The shares of redeemable preferred stock were initially recorded at fair value and thereafter increased by accrued paid-in-kind dividends. The Company classified the shares of redeemable preferred within temporary equity on its consolidated balance sheet at December 31, 2014, due to its liquidation rights. The redeemable preferred stock was redeemable in cash upon a deemed liquation event (i.e., the sale of 50% or more of the outstanding shares of voting capital stock) that is not solely within the control of the Company.

On March 25, 2015, the Company further amended its articles of incorporation with the consent of more than 80% of the holders of the preferred stock and a majority of the holders of the common stock to restrict the definition of a Liquidation Event to the liquidation, dissolution or winding up of the Company and to eliminate from that definition a change of control or a public offering of the Company. All or part of the preferred stock may be redeemed after one year from the date of issuance, at the option of the Company, by a cash payment of the original purchase price plus any accumulated and as yet unpaid preferred dividends and paid-in-kind dividends. On the effective date of the modification, the Company reclassified the carrying amount of its redeemable preferred stock from temporary equity to permanent equity as the redemption of the redeemable preferred stock was within the Company's control.

Pursuant to agreements effective on or before July 1, 2015, the holders of preferred stock agreed to allow the Company to repurchase their outstanding preferred shares at the original purchase price (i.e. $100 per share) plus all accrued and unpaid preferred dividends. In addition, the holders of 29,550 shares (or 49%) of preferred stock agreed to use such cash received from the Company's repurchase of their preferred stock to purchase shares of common stock at the same per share price as the common stock offered in the Company's IPO. The closing of these transactions were conditioned on the completion of the Company's IPO.

Following the closing of the Company's IPO on August 18, 2015, the Company paid $6.3 million to holders of shares of preferred stock to repurchase such shares and for the payment of accrued dividends. Additionally, the Company issued 294,450 shares of common stock to former holders of the preferred stock for proceeds of $3.1 million. There are no shares of preferred stock outstanding after the closing of the IPO.

11. Other Comprehensive Income (Loss)

The following table presents changes in accumulated other comprehensive income (loss) for unrealized gains and losses on available-for-sale securities (in thousands):

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2015	**2014**	**2015**	**2014**
Balance at beginning of period	$459	$1,135	$1,158	$536
Other comprehensive income (loss) before reclassifications	379	(190)	104	743
Amounts reclassified from accumulated other comprehensive income (loss)	146	65	570	399
Net current period other comprehensive income (loss)	233	(255)	(466)	344
Balance at end of period	$692	$880	$692	$880

The following table provides the impact of the reclassification adjustments to the respective line items in the statements of operations for the three and nine months ended September 30, 2015 and 2014 (in thousands).

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2015	**2014**	**2015**	**2014**
Net realized investment gains	$146	$ 98	$570	$604
Income tax expense	-	33	-	205
Total impact to net income (loss)	146	65	570	399

12. Earnings Per Share

Basic and diluted earnings (loss) per share are computed by dividing net income allocable to common shareholders by the weighted average number of common shares outstanding during the period. The dividends on preferred stock and other gains are deducted from the net income to arrive at net income allocable to common shareholders. In the period of a net loss, the dividends on preferred stock are added to the net loss to arrive at net loss allocable to common shareholders. The following table presents the calculation of basic and diluted earnings (loss) per common share, as follows (in thousands, except share and per share amounts):

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2015	**2014**	**2015**	**2014**
Net income (loss) attributable to Conifer	$1,326	$(2,234)	$2,368	$(6,999)
Preferred stock dividends	81	16	384	43
Paid-in-kind dividends	33	-	156	-
Net income (loss) allocable to common shareholders	**$1,212**	**$(2,250)**	**$1,828**	**$(7,042)**
Weighted average common shares, basic and diluted*	5,701,794	2,514,229	4,603,451	2,335,315
Earnings (loss) per share allocable to common, basic and diluted	$0.21	$(0.89)	$0.40	$(3.02)

*The nonvested shares of the restricted stock units were anti-dilutive as of September 30, 2015. Therefore, the basic and and diluted weighted average common shares are equal as of September 30, 2015.

13. Stock-based Compensation

In March 2015, the Company established the *Conifer Holdings, Inc. 2015 Omnibus Incentive Plan* (“2015 Plan”), which permits the granting of stock options, stock appreciation rights, restricted stock units and other stock-based awards. The 2015 Plan authorizes up to 1,377,000 shares of common stock for awards to be issued to employees, directors or consultants of the Company. The stock-based awards will be issued at no less than the market price on the date the awards are granted.

On August 18, 2015, the Company issued an aggregate of 380,952 restricted stock units ("RSU") to executive officers and other employees to be settled in shares of common stock. The total RSUs were valued at $4.0 million on the date of grant. The grant-date fair value was determined using the fair value of the Company's common stock as of the grant date. The awards vest in five annual installments, commencing on the first anniversary from the date of grant. The Company will expense the grant date fair value of the RSUs as compensation expense on a straight-line basis over the requisite service period. Upon vesting, each RSU will convert into one share of common stock. The unvested RSUs are subject to forfeiture in the event the employee is involuntarily or voluntarily terminated. If the employee is terminated by the Company for cause, the Company has the option to forfeit the terminated employees' vested shares for no consideration and to cause the employee to have no further rights or interest in the vested RSUs.

The Company recorded $100,000 of compensation expense related to the RSUs for the three and nine months ended September 30, 2015. The total compensation cost related to the non-vested portion of the restricted stock units which has not been recognized as of September 30, 2015 was $3.9 million.

14. Related Party Transactions

In December 2012, the Company entered into a short-term, unsecured note payable with an executive of the Company for $1.0 million. The note required quarterly interest-only payments at 12% per annum. The note was converted to equity of the Company in two separate transactions. On January 31, 2014, the Company issued 41,126 shares of common stock in satisfaction of $500,000 of the note balance. The remaining note balance was satisfied through the issuance of 41,126 shares of common stock on June 30, 2014. Interest expense recorded on the note was $34,500 for the nine months ended September 30, 2014.

15. Commitments and Contingencies

Legal proceedings

The Company and its subsidiaries are subject at times to various claims, lawsuits and proceedings relating principally to alleged errors or omissions in the placement of insurance, claims administration, and other business transactions arising in the ordinary course of business. Where appropriate, the Company vigorously defends such claims, lawsuits and proceedings. Some of these claims, lawsuits and proceedings seek damages, including consequential, exemplary or punitive damages, in amounts that could, if awarded, be significant. Most of the claims, lawsuits and proceedings arising in the ordinary course of business are covered by the policy of insurance at issue. We account for such activity through the establishment of unpaid loss and loss expense reserves. In accordance with accounting guidance, if it is probable that an asset has been impaired or a liability has been incurred as of the date of the financial statements and the amount of loss is reasonably estimable; then an accrual for the costs to resolve these claims is recorded by the Company in the accompanying consolidated balance sheets. Period expenses related to the defense of such claims are included in the accompanying consolidated statements of operations. On the basis of current information, the Company does not believe that there is a reasonable possibility that any material loss exceeding amounts already accrued, if any, will result from any of the claims, lawsuits and proceedings to which the Company is subject to, either individually, or in the aggregate.

16. Segment Information

The Company is engaged in the sale of property and casualty insurance products and has organized its principal operations into two types of insurance businesses: commercial lines and personal lines. Within these two insurance businesses, the Company offers various insurance products. Such insurance businesses are engaged in underwriting and marketing insurance coverages, and administering claims processing for such policies.

The Company defines its operating segments as components of the business where separate financial information is available and used by the chief operating decision-making group in deciding how to allocate resources to its segments and in assessing its performance. In assessing performance of its operating segments, the Company's chief operating decision-making group, comprised of key senior executives, reviews a number of financial measures including gross written premiums, net earned premiums, and loss and loss adjustment expenses, net of reinsurance recoveries. The primary measure used for making decisions about resources to be allocated to an operating segment and assessing its performance is segment underwriting gain or loss which is defined as segment revenues, consisting of net earned premiums and other income, less segment expenses, consisting of losses and loss adjustment expenses, policy acquisition costs and other underwriting and operating expenses of the operating segments. Other underwriting and operating expenses include primarily compensation and related benefits for underwriting personnel, licensing of policy issuance and claims systems, rent and utilities. The Company markets, distributes and sells its insurance products through its own insurance agencies and a network of independent agents. All of the Company's insurance activities are conducted in the United States with a concentration of activity in Florida, Michigan and Pennsylvania. For the nine months ended September 30, 2015 and 2014, gross written premiums attributable to these three states were 58% and 59%, respectively, of the Company's total gross written premiums.

The commercial lines and personal lines accounted for approximately 71% and 29%, respectively, of net earned premiums for the nine months ended September 30, 2015, and approximately 59% and 41%, respectively, of net earned premiums for the nine months ended September 30, 2014. Other income includes installment and policy fees charged to policyholders and commissions income from third party insurers on policies written through our agencies relating to our product lines.

The following provides a description of the Company’s two insurance businesses and product offerings within these businesses:

Commercial lines—offers coverage for property, liability, automobile and other miscellaneous coverage primarily to owner-operated small and mid-sized businesses, professional organizations and hospitality businesses such as restaurant, bars and taverns. Included within commercial insurance business are the following key products:

Commercial multi-peril (“CMP”)—provides property and liability coverages in a package to the policyholder.

Other liability—provides coverage for general liability and liquor liability on an individual policy.

Automobile—provides coverage for commercial automobiles for businesses that supply to their employees company-owned vehicles.

Other—includes primarily workers’ compensation coverage in narrowly selected areas.

Personal lines—offers coverage for low-value dwelling, wind-exposed homeowners and automobile. Included within personal insurance business are the following key products:

Low-value dwelling (previously known as Midwest homeowners)—provides coverage for nonstandard homeowners insurance and dwelling fire insurance products (property and basic perils coverage only) located primarily in Indiana and Illinois.

Wind-exposed homeowners (previously known as Specialty homeowners)—provides coverage in niche homeowners markets that have special risk characteristics, including coastal exposure to wind, located primarily in Florida, Hawaii and Texas.

Automobile—provides coverage for nonstandard private passenger automobile insurance policies primarily for individuals located in Florida and Illinois. Both the Florida and Illinois books of nonstandard auto business are currently in run-off.

The Company renamed Midwest homeowners to low-value dwelling as the Company began to enter into other geographic areas in the U.S. which target the niche, low-value dwelling market that is similar to the product offering within Midwest homeowners. The Company also renamed specialty homeowners to wind-exposed homeowners to better describe the underlying business.

In addition to the reportable segments, the Company maintains a Corporate and Other category to reconcile segment results to the consolidated totals. The Corporate and Other category includes: (i) corporate operating expenses such as salaries and related benefits of the Company’s executive management team and finance and information technology personnel, and other corporate headquarters expenses, (ii) interest expense on the Company’s senior debt obligations; (iii) depreciation and amortization on property and equipment, and (iv) all investment income activity. All investment income activity is reported within net investment income and net realized investment gains on the consolidated statements of operations. The Company’s assets on the consolidated balance sheet are not allocated to the reportable segments.

The following tables present information by reportable segment (in thousands):

Three Months Ended September 30, 2015	**Commercial Lines** CMP	Other Liability	Auto	Other	Total	**Personal Lines** Homeowners Low-value Dwelling	Wind-exposed	Auto	Total	**Corporate & Other**	**Total**
Gross written premiums	$9,413	$3,109	$3,226	$907	$16,655	$2,071	$5,537	$(21)	$7,587	$-	$24,242
Net written premiums	$12,186	$3,541	$3,891	$1,168	$20,786	$2,201	$5,633	$(21)	$7,813	$-	$28,599
Net earned premiums	$8,458	$2,107	$2,312	$744	$13,621	$1,530	$2,417	$315	$4,262	$-	$17,883
Other income	(269)	651	8	-	390	50	60	5	115	18	523
Segment revenue	8,189	2,758	2,320	744	14,011	1,580	2,477	320	4,377	18	18,406
Loss and loss adjustment expenses, net	4,581	716	1,535	211	7,043	1,179	1,139	452	2,770	-	9,813
Policy acquisition costs	2,069	684	549	146	3,448	444	616	97	1,157	-	4,605
Operating expenses	884	253	109	58	1,304	220	155	807	1,182	839	3,325
Segment expenses	7,534	1,653	2,193	415	11,795	1,843	1,910	1,356	5,109	839	17,743
Segment underwriting gain (loss)	$655	$1,105	$127	$329	$2,216	$(263)	$567	$(1,036)	$(732)	$(821)	$663
Investment income										505	505
Net realized investment gains										6	6
Other gains										104	104
Interest expense										(181)	(181)
Income (loss) before income taxes										$(387)	$1,097

Three Months Ended September 30, 2014	**Commercial Lines** CMP	Other Liability	Auto	Other	Total	**Personal Lines** Homeowners Low-value Dwelling	Wind-exposed	Auto	Total	**Corporate & Other**	**Total**
Gross written premiums	$8,695	$1,771	$2,010	$789	$13,265	$2,198	$1,630	$1,819	$5,647	$-	$18,912
Net written premiums	$7,192	$1,471	$1,811	$719	$11,193	$1,863	$1,342	$1,819	$5,024	$-	$16,217
Net earned premiums	$6,540	$1,312	$1,360	$446	$9,658	$1,681	$888	$2,344	$4,913	$-	$14,571
Other income	158	25	6	-	189	104	-	123	227	(29)	387
Segment revenue	6,698	1,337	1,366	446	9,847	1,785	888	2,467	5,140	(29)	14,958
Loss and loss adjustment expenses, net	3,169	404	880	300	4,753	2,590	455	2,417	5,462	-	10,215
Policy acquisition costs	1,670	371	350	87	2,478	528	302	430	1,260	-	3,738
Operating expenses	879	174	92	57	1,202	108	80	694	882	1,349	3,433
Segment expenses	5,718	949	1,322	444	8,433	3,226	837	3,541	7,604	1,349	17,386
Segment underwriting gain (loss)	$980	$388	$44	$2	$1,414	$(1,441)	$51	$(1,074)	$(2,464)	$(1,378)	$(2,428)
Investment income										321	321
Net realized investment gains										94	94
Other gains										-	-
Interest expense										(108)	(108)
Income (loss) before income taxes										$(1,071)	$(2,121)

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	Commercial Lines					**Personal Lines**					
						Homeowners					
Nine Months Ended September 30, 2015	CMP	Other Liability	Auto	Other	Total	Low-value Dwelling	Wind-exposed	Auto	Total	**Corporate & Other**	**Total**
Gross written premiums	$29,840	$9,704	$8,510	$2,669	$50,723	$5,119	$11,595	$1,068	$17,782	$-	$68,505
Net written premiums	$24,859	$8,441	$7,468	$2,396	$43,164	$4,196	$9,779	$1,068	$15,043	$-	$58,207
Net earned premiums	$21,049	$5,269	$5,673	$1,788	$33,779	$4,409	$6,706	$2,597	$13,712	$-	$47,491
Other income	308	737	19	-	1,064	165	101	85	351	77	1,492
Segment revenue	21,357	6,006	5,692	1,788	34,843	4,574	6,807	2,682	14,063	77	48,983
Loss and loss adjustment expenses, net	11,788	1,649	3,978	422	17,837	3,305	3,297	2,920	9,522	-	27,359
Policy acquisition costs	4,333	1,231	1,251	288	7,103	1,222	1,030	484	2,736	-	9,839
Operating expenses	2,785	696	325	181	3,987	405	390	1,010	1,805	4,844	10,636
Segment expenses	18,906	3,576	5,554	891	28,927	4,932	4,717	4,414	14,063	4,844	47,834
Segment underwriting gain (loss)	$2,451	$2,430	$138	$897	$5,916	$(358)	$2,090	$(1,732)	$-	$(4,767)	$1,149
Investment income										1,460	1,460
Net realized investment gains										238	238
Other gains										104	104
Interest expense										(664)	(664)
Income (loss) before income taxes										$(3,629)	$2,287

	Commercial Lines					**Personal Lines**					
						Homeowners					
Nine Months	CMP	Other	Auto	Other	Total	Low-value	Wind-	Auto	Total	**Corporate**	**Total**

Ended		Liability				Dwellingexposed				**& Other**	
September 30, 2014											
Gross written premiums	$23,806	$5,775	$6,257	$1,875	$37,713	$6,243	$4,691	$6,933	$17,867	$-	$55,580
Net written premiums	$20,295	$5,142	$5,861	$1,708	$33,006	$5,573	$4,106	$6,933	$16,612	$-	$49,618
Net earned premiums	$16,790	$3,767	$2,797	$1,056	$24,410	$4,636	$2,362	$9,795	$16,793	$-	$41,203
Other income	573	103	18	-	694	314	-	436	750	(20)	1,424
Segment revenue	17,363	3,870	2,815	1,056	25,104	4,950	2,362	10,231	17,543	(20)	42,627
Loss and loss adjustment expenses, net	11,322	1,100	1,845	731							