Section 1: 10-Q

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

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 2019
Or

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

Commission File Number: 001-36366

1347 Property Insurance Holdings, Inc.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**46-1119100** (I.R.S. Employer Identification No.)

7861 Woodland Center Blvd., Tampa, FL 33614
(Address of principal executive offices and zip code)
813-579-6213
(Registrant's telephone number, including area code)
1511 N. Westshore Blvd., Suite 870, Tampa, FL 33607
(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.001 par value per share	PIH	The Nasdaq Stock Market LLC
8.00% Cumulative Preferred Stock, Series A, $25.00 par value per share	PIHPP	The Nasdaq Stock Market LLC

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes [X] No [ ]

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

Large accelerated filer [ ]	Accelerated filer [ ]	Non-accelerated filer [X]	Smaller Reporting Company [X]	Emerging Growth Company [X]

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. [ ]

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

The number of shares outstanding of the registrant's common stock as of November 11, 2019 was 6,019,816.

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

1347 PROPERTY INSURANCE HOLDINGS INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(in thousands, except share and per share data)

	September 30, 2019 (unaudited)		December 31, 2018	
ASSETS				
Limited liability investments	$	3,994	$	2,987
Cash and cash equivalents		1,803		3,666
Deferred tax asset, net		376		265
Surplus notes receivable from affiliate		18,961		18,244
Other assets		254		67
Assets of discontinued operations held for sale (Note 2)		138,700		144,569
Total assets	$	164,088	$	169,798
LIABILITIES				
Accounts payable		510		66
Current income taxes payable		1,935		932
Due to affiliates		3,108		2,698
Other accrued expenses		43		36
Liabilities of discontinued operations held for sale (Note 2)		102,809		103,319
Total liabilities	$	108,405	$	107,051
Commitments and contingencies (Note 18)				
SHAREHOLDERS' EQUITY				
Series A Preferred Shares, $25.00 par value, 1,000,000 shares authorized, 700,000 shares issued and outstanding as of both periods	$	17,500	$	17,500
Common stock, $0.001 par value; 10,000,000 shares authorized; 6,171,175 and 6,164,123 shares issued as of September 30, 2019 and December 31, 2018, respectively, and 6,019,816 and 6,012,764 shares outstanding as of September 30, 2019 and December 31, 2018, respectively		6		6
Additional paid-in capital		46,502		46,340
Retained earnings		(8,266)		639
Accumulated other comprehensive income (loss), net of tax		950		(729)
		56,692		63,756
Less: treasury stock at cost; 151,359 shares for both periods		(1,009)		(1,009)
Total shareholders' equity		55,683		62,747
Total liabilities and shareholders' equity	$	164,088	$	169,798

See accompanying notes to consolidated financial statements

1347 PROPERTY INSURANCE HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statements of Operations and Comprehensive Income
(in thousands, except share and per share data)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2019	**2018**	**2019**	**2018**
Revenue:				
Net investment income	$ 523	$ 299	$ 1,257	$ 856
Total revenue	523	299	1,257	856
Expenses:				
General and administrative expenses	595	487	2,236	1,097
Accretion of discount on Series B Preferred Shares	–	–	–	33
Loss on repurchase of Series B Preferred Shares and Performance Shares	–	1,000	–	1,612
Total expenses	595	1,487	2,236	2,742
Loss from continuing operations before income tax expense	(72)	(1,188)	(979)	(1,886)
Income tax benefit	(12)	(250)	(162)	(397)
Net loss from continuing operations	(60)	(938)	(817)	(1,489)
Net income (loss) from discontinued operations, net of income taxes	(3,475)	(1,176)	(7,152)	1,461
Net loss	$ (3,535)	$ (2,114)	$ (7,969)	$ (28)
Dividends declared on Series A Preferred Shares	350	350	1,050	758
Loss attributable to common shareholders	$ (3,885)	$ (2,464)	$ (9,019)	$ (786)
Basic and diluted earnings (loss) per common share:				
Continuing operations	$ (0.07)	$ (0.21)	$ (0.31)	$ (0.37)
Discontinued operations	$ (0.58)	$ (0.20)	$ (1.19)	$ 0.24
Loss per share attributable to common shareholders	$ (0.65)	$ (0.41)	$ (1.50)	$ (0.13)
Weighted average common shares outstanding:				
Basic and diluted	6,015,753	5,991,856	6,013,771	5,987,644
Consolidated Statement of Comprehensive Income				
Net loss	$ (3,535)	$ (2,114)	$ (7,969)	$ (28)
Unrealized gains (losses) on investments available for sale, net of income taxes	(92)	(133)	1,783	(1,010)
Comprehensive loss	$ (3,627)	$ (2,247)	$ (6,186)	$ (1,038)

See accompanying notes to consolidated financial statements.

1347 PROPERTY INSURANCE HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statements of Shareholders' Equity
Unaudited
($ in thousands, except share amounts)

	Preferred Stock		Common Stock		Treasury Stock		Paid-in	Retained	Accumulated Other Comprehensive	Total Shareholders'
	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Earnings	Income (Loss)	Equity
Balance, January 1, 2018	–	–	5,984,766	$ 6	151,359	$ (1,009)	$47,064	$ 910	$ (169)	$ 46,802
Stock based compensation	–	–	–	–	–	–	44	–	–	44
Issuance of Series A Cumulative Preferred Stock	700,000	17,500	–	–	–	–	(1,007)	–	–	16,493
Repurchase of Performance Shares	–	–	–	–	–	–	(54)	–	–	(54)
Reclassification of certain tax effects from accumulated other comprehensive income at January 1, 2018	–	–	–	–	–	–	–	33	(33)	–
Net income	–	–	–	–	–	–	–	1,951	–	1,951
Other comprehensive loss	–	–	–	–	–	–	–	–	(684)	(684)
Balance, March 31, 2018	**700,000**	**$ 17,500**	**5,984,766**	**$ 6**	**151,359**	**$ (1,009)**	**$46,047**	**$ 2,894**	**$ (886)**	**$ 64,552**
Stock based compensation	–	–	–	–	–	–	91	–	–	91
Dividends declared on Series A Preferred Shares ($0.58 per share)	–	–	–	–	–	–	–	(408)	–	(408)
Net income	–	–	–	–	–	–	–	135	–	135
Other comprehensive loss	–	–	–	–	–	–	–	–	(193)	(193)
Balance, June 30, 2018	**700,000**	**$ 17,500**	**5,984,766**	**$ 6**	**151,359**	**$ (1,009)**	**$46,138**	**$ 2,621**	**$ (1,079)**	**$ 64,177**
Stock based compensation	–	–	7,666	–	–	–	101	–	–	101
Dividends declared on Series A Preferred Shares ($0.50 per share)	–	–	–	–	–	–	–	(350)	–	(350)
Net income	–	–	–	–	–	–	–	(2,114)	–	(2,114)
Other comprehensive loss	–	–	–	–	–	–	–	–	(133)	(133)
Balance, September 30, 2018	**700,000**	**$ 17,500**	**5,992,432**	**$ 6**	**151,359**	**$ (1,009)**	**$46,239**	**$ 157**	**$ (1,212)**	**$ 61,681**
Balance, January 1, 2019	700,000	$ 17,500	6,012,764	$ 6	151,359	$ (1,009)	$46,340	$ 639	$ (729)	$ 62,747
Cumulative effect of adoption of Topic 842	–	–	–	–	–	–	–	10	–	10
Cumulative effect of adoption of ASU 2016-01	–	–	–	–	–	–	–	104	(104)	–
Stock based compensation	–	–	–	–	–	–	52	–	–	52
Dividends declared on Series A Preferred Shares ($0.50 per share)	–	–	–	–	–	–	–	(350)	–	(350)
Net income	–	–	–	–	–	–	–	98	–	98
Other comprehensive loss	–	–	–	–	–	–	–	–	911	911
Balance, March 31, 2019	**700,000**	**$ 17,500**	**6,012,764**	**$ 6**	**151,359**	**$ (1,009)**	**$46,392**	**$ 501**	**$ 78**	**$ 63,468**
Stock based compensation	–	–	–	–	–	–	51	–	–	51
Dividends declared on Series A Preferred Shares ($0.50 per share)	–	–	–	–	–	–	–	(350)	–	(350)
Net loss	–	–	–	–	–	–	–	(4,532)	–	(4,532)
Other comprehensive income	–	–	–	–	–	–	–	–	964	964
Balance, June 30, 2019	**700,000**	**$ 17,500**	**6,012,764**	**$ 6**	**151,359**	**$ (1,009)**	**$46,443**	**$ (4,381)**	**$ 1,042**	**$ 59,601**
Stock based compensation	–	–	7,052	–	–	–	59	–	–	59
Dividends declared on Series A Preferred Shares ($0.50 per share)	–	–	–	–	–	–	–	(350)	–	(350)
Net loss	–	–	–	–	–	–	–	(3,535)	–	(3,535)
Other comprehensive loss	–	–	–	–	–	–	–	–	(92)	(92)
Balance, September 30, 2019	**700,000**	**$ 17,500**	**6,019,816**	**$ 6**	**151,359**	**$ (1,009)**	**$46,502**	**$ (8,266)**	**$ 950**	**$ 55,683**

See accompanying notes to consolidated financial statements

1347 PROPERTY INSURANCE HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statement of Cash Flows
(Unaudited)
($ in thousands)

	Nine months ended September 30,	
	2019	**2018**
Cash provided by (used in):		
Operating activities:		
Net loss	$ (7,969)	$ (28)
Net (income) loss from discontinued operations, net of income taxes	7,152	(1,461)
Adjustments to reconcile net income to net cash provided by operating activities:		
Accretion of discount on Series B Preferred Stock	–	33
Loss on repurchase of Series B Preferred Shares and Performance Shares	–	612
Net deferred income taxes	(111)	(59)
Stock compensation expense	162	236
Changes in operating assets and liabilities:		
Accrued interest on surplus notes due from affiliate	(717)	(443)
Other assets	(187)	60
Accounts payable and other accrued expenses	451	(5)
Current income taxes payable	1,003	(842)
Amounts due to affiliates	(410)	3,089
Net cash provided by operating activities – continuing operations	194	1,192
Net cash provided (used) by operating activities – discontinued operations	(6,425)	20,304
Net cash provided (used) by operating activities	(6,231)	21,496
Investing activities:		
Proceeds from maturity of surplus note due from affiliate	–	550
Net purchases of furniture and equipment	(3)	–
Purchases of limited liability investments from subsidiary	(1,007)	(2,987)
Net cash used by investing activities – continuing operations	(1,010)	(2,437)
Net cash provided (used) by investing activities – discontinued operations	13,987	(24,750)
Net cash provided (used) by investing activities	12,977	(27,187)
Financing activities:		
Net proceeds from the issuance of Series A Preferred Stock	–	16,493
Repurchase of Series B Preferred Shares and Performance Shares	–	(3,300)
Payment of dividends on preferred shares	(1,050)	(998)
Net cash provided (used) by financing activities – continuing operations	(1,050)	12,195
Net cash used by financing activities – discontinued operations	(32)	(55)
Net cash provided (used) by financing activities	(1,082)	12,140
Net increase in cash and cash equivalents	5,664	6,449
Cash and cash equivalents at beginning of period	30,902	23,575
Cash and cash equivalents at end of period	$ 36,566	$ 30,024
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$ 221	$ 1,510
Cash paid for interest	11	9
Non-cash financing activities:		
Obligation for the acquisition of vehicles under financing leases	$ –	$ 128

See accompanying notes to consolidated financial statements.

1. Nature of Business

1347 Property Insurance Holdings, Inc. ("PIH", the "Company", "we", or "us") is an insurance holding company specialized in providing personal property insurance in coastal markets including those in Louisiana, Texas and Florida. We were incorporated on October 2, 2012 in the State of Delaware under the name Maison Insurance Holdings, Inc., and changed our legal name to 1347 Property Insurance Holdings, Inc. on November 19, 2013. On March 31, 2014, we completed an initial public offering of our common stock. Prior to the offering, we were a wholly owned subsidiary of Kingsway America Inc., which, in turn, is a wholly owned subsidiary of Kingsway Financial Services Inc., or KFSI, a publicly owned Delaware holding company. As of September 30, 2019, KFSI and its affiliates held warrants that, if exercised, would cause KFSI and its affiliates to hold an approximate 20% ownership interest in our common stock. In addition, as of September 30, 2019, Fundamental Global Investors, LLC and its affiliates, or FGI, beneficially owned approximately 45% of our outstanding shares of common stock. D. Kyle Cerminara, Chairman of our Board of Directors, serves as Chief Executive Officer, Co-Founder and Partner of FGI, and Lewis M. Johnson, Co-Chairman of our Board of Directors, serves as President, Co-Founder and Partner of FGI.

We have four wholly owned subsidiaries: Maison Insurance Company, or "Maison", Maison Managers Inc., or "MMI", ClaimCor, LLC, or "ClaimCor", and PIH Re, Ltd, or "PIH Re."

Through Maison, we began providing property and casualty insurance to individuals in Louisiana in December 2012. In September 2015, Maison began writing manufactured home policies in the State of Texas on a direct basis, and in December 2017, Maison began writing wind/hail only policies in Florida via the assumption of policies from Florida Citizens Property Insurance Corporation ("FL Citizens"). Our current insurance offerings in Louisiana, Texas, and Florida include homeowners' insurance, manufactured home insurance and dwelling fire insurance. We write both full peril property policies as well as wind/hail only exposures and we produce new policies through a network of independent insurance agencies. We refer to the policies we write through independent agencies as voluntary policies versus those policies we have assumed through state-run insurers such as FL Citizens, which we refer to as take-out policies.

Maison has participated in multiple take-outs from both FL Citizens, and Louisiana Citizens Property Insurance Corporation, or "LA Citizens", as well as the inaugural depopulation of policies from the Texas Windstorm Insurance Association, or "TWIA", which occurred on December 1, 2016. Under these programs, state-approved insurance companies, such as Maison, are able to assume insurance policies written by FL Citizens, LA Citizens and TWIA. The majority of policies which we have obtained through LA Citizens as well as all of the policies we have obtained through FL Citizens and TWIA cover losses arising only from wind and hail. Prior to our assumption of policies, these policyholders may not have been able to obtain such coverage from any other marketplace.

On August 1, 2018 House Bill No. 333 ("HB 333") became effective, which amended the law with respect to the depopulation of policies from LA Citizens. In July 2018, the Company was notified by LA Citizens of the number of policies which would be available for assumption by all insurers electing to participate in the December 1, 2018 depopulation under the new law. Due to the significant reduction of policies available when compared to those available for assumption in prior years, the Company did not participate in the December 1, 2018 assumption of policies from LA Citizens. The Company does not expect to participate in the December 1, 2019 LA Citizens assumption process.

MMI serves as our management services subsidiary, known as a managing general agency, and provides underwriting, policy administration, claims administration, marketing, accounting and other management services to Maison. MMI contracts primarily with independent agencies for policy sales and services, and contracts with an independent third-party for policy administration services. As a managing general agency, MMI is licensed by, and subject to, the regulatory oversight of the Louisiana Department of Insurance ("LDI"), the Texas Department of Insurance ("TDI") and the Florida Office of Insurance Regulation ("FOIR"). MMI earns commissions on a portion of the premiums Maison writes, as well as a policy fee on each direct policy Maison issues.

ClaimCor is a claim and underwriting technical solutions company. Maison processes claims made by our policyholders through ClaimCor, and through various third-party claims adjusting companies during times of high volume, so that we may provide responsive claims handling service when catastrophe events occur which impact many of our policyholders. We have the ultimate authority over the claims handling process, while the agencies that we appoint have no authority to settle our claims or otherwise exercise control over the claims process.

PIH Re is the Company's Bermuda-domiciled reinsurance subsidiary which was registered on December 6, 2018. PIH Re is still formulating its business plan and has not been party to any reinsurance transaction since its formation.

As further discussed in Note 2 below, the Company has entered into an agreement to sell its insurance operations which consist of Maison, MMI and ClaimCor, and currently expects to consummate the sale transaction in December 2019. The Company does not intend to liquidate following the sale. The Company's Board is currently evaluating alternatives for the use of the cash consideration to be received as a result of the sale, which are expected to include using a portion of the cash consideration to conduct the business of PIH Re, and launching a new growth strategy focused on reinsurance, investment management and new investment opportunities. The Company may also form an additional reinsurance subsidiary in a suitable jurisdiction.

2. Equity Purchase Agreement with FedNat Holding Company

On February 25, 2019, the Company, together with Maison, MMI and ClaimCor, entered into an Equity Purchase Agreement with FedNat Holding Company ("FedNat"), a Florida corporation, providing for the sale of all of the issued and outstanding equity of Maison, MMI and ClaimCor to FedNat, on the terms and subject to the conditions set forth in the agreement (the "Asset Sale"). As consideration for the sale of Maison, MMI and ClaimCor, FedNat has agreed to pay the Company $51,000, consisting of $25,500 in cash and $25,500 in FedNat common stock. In addition, upon closing of the transaction, up to $18,000 of outstanding surplus note obligations payable by Maison to the Company, plus all accrued but unpaid interest, will be repaid to the Company.

The Company's shareholders have approved the Asset Sale. The Company has also received the regulatory approval required from the LDI and FOIR in order to consummate the Asset Sale. The regulatory approvals are contingent on compliance with consent orders issued by the insurance regulators. The Company currently anticipates that the Asset Sale will close in December 2019.

As of June 30, 2019, the Company concluded that the planned sale of Maison, MMI and ClaimCor has met the criteria for assets held for sale as set forth in ASC 205-20 – *Discontinued Operations*. Accordingly, the Company has classified the operations of Maison, MMI and ClaimCor (collectively referred to as the "disposal group") as discontinued operations for all periods presented in this report.

The following table presents a reconciliation of the carrying amounts of major classes of assets and liabilities of the discontinued operations to total assets and liabilities of the disposal group classified as held for sale that are presented separately in the Company's consolidated balance sheet as of September 30, 2019 and December 31, 2018.

(amounts presented in thousands, except share and per share data and as otherwise specified)

(unaudited)		September 30, 2019		December 31, 2018
Carrying amounts of assets included as part of discontinued operations				
Fixed income securities, at fair value (amortized cost of $67,377 and $77,366, respectively	$	68,577	$	76,310
Equity investments, at fair value (cost of $- and $3,130, respectively)		–		3,263
Other investments		904		774
Cash and cash equivalents		34,763		27,236
Deferred policy acquisition costs		9,815		9,111
Premiums receivable, net of allowance of $64 and $50, respectively		2,911		7,720
Ceded unearned premiums		2,126		6,525
Reinsurance recoverable on paid losses		2,401		530
Reinsurance recoverable on loss reserves		6,946		5,661
Current income taxes recoverable		3,704		2,051
Deferred tax asset, net		1,909		1,014
Due from affiliate		3,108		2,698
Other assets		1,536		1,676
Total assets of the disposal group classified as held for sale in the Company's consolidated balance sheet	$	138,700	$	144,569
Carrying amounts of liabilities included as part of discontinued operations				
Loss and loss adjustment expense reserves	$	17,769	$	15,151
Unearned premium reserves		52,952		51,907
Ceded reinsurance premiums payable		3,490		9,495
Agency commissions payable		962		802
Premiums collected in advance		3,803		1,840
Surplus notes plus interest due to affiliate		18,961		18,244
Accrued premium taxes and assessments		2,260		3,059
Other liabilities		2,612		2,821
Total liabilities of the disposal group classified as held for sale in the Company's consolidated balance sheet	$	102,809	$	103,319

The following table presents a reconciliation of the major classes of line items constituting pretax profit (loss) of discontinued operations to the after-tax profit (loss) of discontinued operations that are presented in the Company's consolidated statement of operations for the three- and nine-month periods ended September 30, 2019 and 2018.

(unaudited)	Three months ended September 30,				Nine months ended September 30,			
		2019		2018		2019		2018
Major classes of line items constituting pretax profit (loss) of discontinued operations								
Net premiums earned	$	13,195	$	13,461	$	40,858	$	39,401
Net investment income		1,167		403		2,960		1,208
Other income		778		530		2,345		1,586
Net losses and loss adjustment expenses		(12,251)		(8,656)		(32,977)		(19,774)
Amortization of deferred policy acquisition costs		(4,375)		(3,929)		(13,048)		(10,841)
General and administrative expenses		(2,344)		(3,031)		(7,649)		(8,908)
Interest expense on surplus notes due to affiliate		(478)		(275)		(1,391)		(810)
Pretax profit (loss) of discontinued operations		(4,308)		(1,497)		(8,902)		1,862
Income tax expense (benefit)		(833)		(321)		(1,750)		401
Total profit (loss) on discontinued operations as presented in the Company's statement of operations	$	(3,475)	$	(1,176)	$	(7,152)	$	1,461

3. Significant Accounting Policies

Basis of Presentation:

These statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP").

Principles of Consolidation and Discontinued Operations:

In light of the Company's receipt of the stockholder approval and regulatory approval required to consummate the sale of all of the issued and outstanding equity of Maison, MMI and ClaimCor, these operations have been classified as discontinued operations in the Company's financial statements presented herein. Certain transactions between the Company and its subsidiaries, which have historically been eliminated upon consolidation, are shown on a gross basis in the accompanying financial statements as such transactions have occurred or are expected to occur between discontinued operations and those operations which the Company intends to continue to utilize following the consummation of the Asset Sale. These items include surplus notes in the amount of $18,000 plus approximately $1,157 in unpaid interest outstanding on these notes, which have been issued by Maison to the Company, and have been reflected as both an asset of continuing operations and liability of discontinued operations on the Company's consolidated balance sheets as of September 30, 2019 and December 31, 2018. Interest associated with these surplus notes has also been recorded as part of net investment income from continuing operations as well as interest expense as part of discontinued operations on the Company's consolidated statement of operations for the three and nine months ended September 30, 2019 and 2018. Upon closing of the Asset Sale, up to $18,000 in surplus notes plus accrued but unpaid interest (other than default rates of interest, penalties, late fees and other related charges), will be repaid to the Company. Similarly, amounts due from the Company to Maison upon the assignment of certain of Maison's investments to the Company have been reflected as an asset of continuing operations under the heading "Limited liability investments", as well as a corresponding liability under the heading "Due to affiliates" on the Company's consolidated balance sheet as of September 30, 2019 and December 31, 2018. Pursuant to the terms of the Asset Sale, this assignment of investments is to be settled, in cash, prior to closing of the transaction. All other significant intercompany balances and transactions have been eliminated upon consolidation.

The Use of Estimates in the Preparation of Consolidated Financial Statements:

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures about contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the period reported. Actual results could differ from those estimates. Changes in estimates are recorded in the accounting period in which the change is determined. The critical accounting estimates and assumptions in the accompanying consolidated financial statements include the provision for loss and loss adjustment expense reserves (as well as the associated reinsurance recoverable on those reserves), the valuation of fixed income and equity securities, the valuation of net deferred income taxes, the valuation of various securities we have issued in conjunction with the termination of the management services agreement with 1347 Advisors, LLC, the valuation of deferred policy acquisition costs and stock-based compensation expense.

Investments:

Investments in fixed income and equity securities are classified as available-for-sale and reported at estimated fair value. Unrealized gains and losses on fixed income securities are included in accumulated other comprehensive income (loss), net of tax, until sold or an other-than-temporary impairment is recognized, at which point the cumulative unrealized gains or losses are transferred to the consolidated statement of operations. Effective January 1, 2019, we adopted Accounting Standards Update No. 2016-01, *Financial Instruments–Overall*, requiring us to recognize unrealized gains and losses on our available-for-sale equity securities through income. See Note 4 – Recently Adopted and Issued Accounting Standards for additional information. Our fixed income and equity securities are held by the Company's insurance subsidiary, Maison, and accordingly have been listed as part of assets of discontinued operations on the Company's consolidated balance sheet as of September 30, 2019 and December 31, 2018. As of September 30, 2019, the Company has sold its equity securities, other than the limited liability investments discussed below.

Limited liability investments include investments in a limited partnership and a limited liability company in which the Company's interests are deemed minor and therefore, are accounted for under the cost method of accounting which approximates the fair value of these investments. Also included in limited liability investments is an investment where the Company is a limited partner in a limited partnership, which we have determined to be a variable interest entity (VIE), in which the Company is not the primary beneficiary. The Company does not have a controlling financial interest in the limited partnership but exerts significant influence over the entity's operating and financial policies as it owns an economic interest of approximately 47%. Accordingly, the Company has accounted for this investment under the equity method of accounting. See Note 13 – Related Party Transactions for additional information on the Company's investment in the VIE.

Other investments consist of short-term investments, with original maturities between three months and one year, reported at cost, which approximates estimated fair value due to their short-term nature. Other investments also include a fixed rate certificate of deposit with an original maturity of 15 months. These investments are held by the Company's insurance subsidiary, Maison and accordingly have been listed as part of assets of discontinued operations on the Company's consolidated balance sheet as of September 30, 2019 and December 31, 2018.

Realized gains and losses on sales of investments are determined on a first-in, first-out basis, and are included in net investment income.

Interest income is included in net investment income and is recorded as it accrues.

The Company accounts for its investments using trade date accounting.

The Company conducts a quarterly review to identify and evaluate investments that show objective indications of possible impairment. Impairment is charged to the consolidated statement of operations if the fair value of the instrument falls below its amortized cost and the decline is considered other-than-temporary. Factors considered in determining whether a loss is other-than-temporary include the length of time and extent to which fair value has been below cost, the financial condition and near-term prospects of the issuer, and the Company's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery.

Cash and Cash Equivalents:

Cash and cash equivalents include cash and highly liquid investments with original maturities of 90 days or less.

Premiums Receivable:

Premiums receivable include premium balances due and uncollected as well as installment premiums not yet due from our independent agencies and insureds. Premiums receivable are reported net of an estimated allowance for credit losses.

Reinsurance:

Reinsurance premiums, losses, and loss adjustment expenses are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums and losses ceded to other companies have been reported as a reduction of premium revenue and incurred net losses and loss adjustment expenses. A reinsurance recoverable is recorded for that portion of paid and unpaid losses and loss adjustment expenses that are ceded to other companies.

Deferred Policy Acquisition Costs:

The Company defers commissions, premium taxes and other underwriting and agency expenses that are directly related to successful efforts to acquire new or existing insurance policies to the extent they are considered recoverable. Costs deferred on insurance products are amortized over the period in which premiums are earned. Costs associated with unsuccessful efforts or costs that cannot be tied directly to a successful policy acquisition are expensed as incurred. The method followed in determining the deferred policy acquisition costs limits the deferral to its realizable value by giving consideration to estimated future loss, loss adjustment, and maintenance expenses to be incurred as revenues are earned. Changes in estimates, if any, are recorded in the accounting period in which they are determined. Anticipated investment income is included in determining the realizable value of the deferred policy acquisition costs.

Income Taxes:

The Company follows the asset and liability method of accounting for income taxes, whereby deferred income tax assets and liabilities are recognized for (i) the differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases and (ii) loss and tax credit carryforwards. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment. Future tax benefits are recognized to the extent that realization of such benefits is more likely than not, and a valuation allowance is established for any portion of a deferred tax asset that management believes will not be realized. Current federal income taxes are charged or credited to operations based upon amounts estimated to be payable or recoverable as a result of taxable operations for the current year. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense (benefit).

Property and Equipment:

Property and equipment is reported at historical cost less accumulated depreciation. Depreciation of property and equipment is recorded on a straight-line basis over estimated useful lives which range from seven years for furniture, five years for vehicles, three years for computer equipment, and the shorter of estimated useful life or the term of the lease for leased property and leasehold improvements. Property and equipment is estimated to have no salvage value at its useful life-end with the exception of leased property where we have guaranteed a residual value at the end of the lease. Accordingly, leased property is estimated to have a salvage value equal to the guaranteed residual value at the termination of the lease.

Rent expense for the Company’s office leases is recognized on a straight-line basis over the term of the lease. Rent expense was $380 and $324 for the nine months ended September 30, 2019 and 2018, respectively.

Loss and Loss Adjustment Expense Reserves:

Loss and loss adjustment expense reserves represent the estimated liabilities for reported loss events, incurred but not yet reported loss events and the related estimated loss adjustment expenses. The Company performs a continuing review of its loss and loss adjustment expense reserves, including its reserving techniques and its reinsurance. The loss and loss adjustment expense reserves are also reviewed at minimum, on an annual basis by qualified third-party actuaries. Since the loss and loss adjustment expense reserves are based on estimates, the ultimate liability may be more or less than such reserves. The effects of changes in such estimated reserves are included in the results of income in the period in which the estimates are changed. Such changes in estimates could occur in a future period and may be material to the Company’s results of operations and financial position in such period.

Concentration of Credit Risk:

Financial instruments which potentially expose the Company to concentrations of credit risk include investments, cash, premiums receivable, and amounts due from reinsurers on losses incurred. The Company maintains its cash with two major U.S. domestic banking institutions and one regional bank headquartered in the Eastern U.S. Such amounts are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to $250 per institution. At September 30, 2019 the Company held funds in excess of these FDIC insured amounts. The terms of these deposits are on demand to mitigate some of the associated risk. The Company has not incurred losses related to these deposits.

The Company has not experienced significant losses related to premiums receivable from its policyholders and management believes that amounts provided as an allowance for credit losses is adequate.

The Company has not experienced any losses on amounts due from reinsurers. In order to limit the credit risk associated with amounts potentially due from reinsurers, the Company uses several different reinsurers, most of which have an A.M. Best Rating of A- (Excellent) or better. Absent such rating, the Company has required its reinsurers to place collateral on deposit with an independent institution under a trust agreement for the Company’s benefit.

The Company also has risk associated with the lack of geographic diversification because Maison exclusively underwrites policies in Louisiana, Texas, and Florida. Maison insures personal property located in 63 of the 64 parishes in Louisiana, 212 of the 254 counties which comprise the State of Texas, and 31 of the 67 counties which comprise the State of Florida. As of September 30, 2019, these policies are concentrated within Saint Tammany Parish, LA (5.6%), Jefferson Parish, LA (5.6%), and Tarrant County, TX (5.0%); all of which are expressed as a percentage of our total direct and assumed policies in all states. No other parish in Louisiana nor county in Texas or Florida individually has over 5.0% of our total direct and assumed policies as of September 30, 2019.

Revenue Recognition:

Premium revenue is recognized on a pro rata basis over the term of the respective policy contract. Unearned premium reserves represent the portion of premium written that is applicable to the unexpired term of policies in force.

Service charges on installment premiums are recognized as income upon receipt of related installment payments and are reflected in other income.

Revenue from policy fees is deferred and recognized over the term of the respective policy period, with revenue reflected in other income.

Any customer payment received is applied first to any service charge or policy fee due, with the remaining amount applied toward any premium due.

Ceded premiums are charged to income over the applicable term of the various reinsurance contracts with third party reinsurers. Ceded unearned premiums represent the unexpired portion of premiums ceded to reinsurers and are reported as an asset on the Company's consolidated balance sheets.

Premiums collected in advance occur when the policyholder premium is paid in advance of the effective commencement period of the policy and are recorded as a liability on the Company's consolidated balance sheets.

Stock-Based Compensation:

The Company has accounted for stock-based compensation under the provisions of ASC Topic 718 – *Stock Compensation* which requires the use of the fair-value based method to determine compensation for all arrangements under which employees and others receive shares of stock or equity instruments. The fair value of each stock option award is estimated on the date of grant using the Black-Scholes valuation model using assumptions for expected volatility, expected dividends, expected term, and the risk-free interest rate. The fair value of each stock option award is recorded as compensation expense on a straight-line basis over the requisite service period, which is generally the period in which the stock options vest, with a corresponding increase to additional paid-in capital.

The Company has also issued restricted stock units ("RSUs") to certain of its employees and directors which have been accounted for as equity-based awards since, upon vesting, they are required to be settled in the Company's common shares. The Company used the fair value of the Company's common stock on the date the RSUs were issued to estimate the grant date fair value of those RSUs which vest solely based upon the passage of time, as well as a Monte Carlo valuation model to estimate the fair value of those RSUs which vest solely upon market-based conditions. The fair value of each RSU is recorded as compensation expense over the requisite service period, which is generally the expected period over which the awards will vest. In the case of those RSUs which vest upon market-based conditions, should the market-based condition be achieved prior to the expiration of the derived service period, any unrecognized cost will be recorded as compensation expense in the period in which the RSUs actually vest.

Based upon the Company's historical forfeiture rates relating to stock options and RSUs, the Company has not made any adjustment to stock compensation expense for expected forfeitures. See Note 11 – Options, Warrants and Restricted Stock Units for further disclosure.

Fair Value of Financial Instruments:

The carrying values of certain financial instruments, including cash, short-term investments, premiums receivable, accounts payable, and other accrued expenses, approximate fair value due to their short-term nature. The Company measures the fair value of financial instruments in accordance with GAAP which defines fair value as the exchange price that would be received for an asset (or paid to transfer a liability) in the principal or most advantageous market for the asset (or liability) in an orderly transaction between market participants on the measurement date. GAAP also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. See Note 15 – Fair Value of Financial Instruments for further information on the fair value of the Company's financial instruments.

Earnings (Loss) Per Common Share:

Basic earnings (loss) per common share is computed using the weighted average number of shares outstanding during the respective period.

Diluted earnings (loss) per common share assumes conversion of all potentially dilutive outstanding stock options, restricted stock units, warrants or other convertible financial instruments. Potential common shares outstanding are excluded from the calculation of diluted earnings (loss) per share if their effect is anti-dilutive.

Operating Segments:

The Company operates in a single segment – property and casualty insurance.

4. Recently Adopted and Issued Accounting Standards

Recently Adopted Accounting Standards

ASU 2014-09: Revenue from Contracts with Customers:

The Financial Accounting Standards Board (the "FASB") has issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*, and related amendments ASU 2015-14, ASU 2016-10, ASU 2016-12, ASU 2016-20, ASU 2017-05 and ASU 2017-13 (collectively, "Topic 606"). Topic 606 creates a new comprehensive revenue recognition standard that will serve as a single source of revenue guidance for all companies that either enter into contracts with customers to transfer goods or services or enter into contracts for the transfer of non-financial assets, unless those contracts are within the scope of other standards, such as insurance contracts. Topic 606 became effective for annual periods beginning after December 15, 2017, and interim periods within those fiscal years. The Company adopted Topic 606 on January 1, 2018, but since virtually all of the Company's revenues relate to insurance contracts and investment income, the adoption of Topic 606 did not have an impact on the Company's revenues. The Company will continue to monitor and examine transactions that could potentially fall within the scope of Topic 606 as such transactions are consummated.

ASU 2018-02: Income Statement – Reporting Comprehensive Income:

In February 2018, the FASB issued ASU 2018-02: *Income Statement – Reporting Comprehensive Income*. ASU 2018-02 was issued to address financial reporting issues that arose as a result of the passage of the Tax Cuts and Jobs Act, enacted into law by the United States federal government on December 22, 2017. Prior to the issuance of ASU 2018-02, GAAP required that deferred tax assets and liabilities be adjusted for the effect of a change in tax laws or rates with the effect included in income from continuing operations in the reporting period that includes the enactment date. That guidance was applicable even in situations in which the related income tax effects of items in accumulated other comprehensive income were originally recognized in other comprehensive income. Under ASU 2018-02, a reclassification from accumulated other comprehensive income to retained earnings is allowed for stranded tax effects resulting from the Tax Cuts and Jobs Act. However, because ASU 2018-02 only relates to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The Company adopted the amendments in this update on January 1, 2018 and determined that ASU 2018-02 applied to the deferred taxes related to unrealized losses on its investment portfolio, which had been previously recognized in other comprehensive income. This resulted in the reclassification of $33 from accumulated other comprehensive income to retained earnings, representing the stranded tax effect on these losses.

ASU 2016-01: Financial Instruments-Overall:

In January 2016, the FASB issued ASU 2016-01: Financial Instruments-Overall: *Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 amends various aspects of the recognition, measurement, presentation, and disclosure for financial instruments. Most significantly, ASU 2016-01 requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of an investee) to be measured at fair value with changes in fair value recognized in net income. The Company adopted ASU 2016-01 effective January 1, 2019, resulting in a cumulative-effect adjustment to retained earnings in the amount of $104, representing the after-tax unrealized holding gains in accumulated other comprehensive income as of December 31, 2018, related to the Company's available-for-sale equity securities. Subsequent changes in the estimated fair value of the Company's equity securities have now been recognized in the Company's consolidated statement of operations rather than in comprehensive income.

(amounts presented in thousands, except share and per share data and as otherwise specified)

ASU 2016-02: Leases:

In February 2016, the FASB issued ASU 2016-02: *Leases*. ASU 2016-02 was issued to improve the financial reporting of leasing transactions. Under the previous guidance for lessees, leases were only included on the consolidated balance sheet if certain criteria, classifying the agreement as a capital lease, were met. This update requires the recognition of a right-of-use asset and a corresponding lease liability, discounted to present value, for all leases that extend beyond 12 months. The Company adopted this guidance effective January 1, 2019, using the modified retrospective method, under which we elected the package of practical expedients and transition provisions allowing us to bring our existing operating leases onto the Company's consolidated balance sheet without adjusting comparative periods. We have operating leases for our facilities, which resulted in a cumulative-effect adjustment to retained earnings in the amount of $10. We also recognized both a right-of-use asset and lease liability in the amount of $314. Right-of-use assets are recognized at the lease commencement date at amounts equal to the respective lease liabilities, adjusted for prepaid lease payments, initial direct costs, and lease incentives received. Lease liabilities are recognized at the present value of the remaining contractual fixed lease payments, discounted using our incremental borrowing rate. Operating lease expense is recognized on a straight-line basis over the lease term, while variable lease payments are expensed as incurred.

The Company's right-of-use assets and lease liabilities have been reflected in the Company's consolidated balance sheet in Assets of discontinued operations and Liabilities of discontinued operations, respectively, as the Company's leases are intended to be sold with the insurance operations of the business pursuant to the terms of the Equity Purchase Agreement dated February 25, 2019.

<u>Accounting Standards Pending Adoption</u>

ASU 2016-13: Financial Instruments – Credit Losses:

In June 2016, the FASB issued ASU 2016-13: *Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 was issued to provide financial statement users with more useful information regarding the expected credit losses on financial instruments held as assets. Under current GAAP, financial statement recognition for credit losses on financial instruments was generally delayed until the occurrence of the loss was probable. The amendments of ASU 2016-13 eliminate this probable initial recognition threshold and instead reflect an entity's current estimate of all expected credit losses. The amendments also broaden the information that an entity must consider in developing its expected credit loss estimates for those assets measured at amortized cost by using forecasted information instead of the current methodology which only considered past events and current conditions. Under ASU 2016-13, credit losses on available-for-sale debt securities will be measured in a manner similar to current GAAP; however, the amendments require that credit losses be presented as an allowance against the investment, rather than as a write-down. The amendments also allow the entity to record reversals of credit losses in current period net income, which is prohibited under current GAAP. The amendments in this update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption permitted, however smaller reporting companies may delay adoption until January 2023. The Company is currently evaluating the impact of the adoption of ASU 2016-13 on its consolidated financial statements.

5. Investments

A summary of the amortized cost, estimated fair value, and gross unrealized gains and losses on the Company's investments in fixed income and equity securities at September 30, 2019 and December 31, 2018 is as shown in the following table. The Company's fixed income securities are intended to be sold by the Company pursuant to the terms of the Equity Purchase Agreement dated February 25, 2019, and, as such, have been reflected in the Company's consolidated balance sheet as assets of discontinued operations as of September 30, 2019 and December 31, 2018. Additionally, pursuant to the Equity Purchase Agreement, the Company has sold its equity securities as of September 30, 2019, other than the limited liability investments discussed below.

As of September 30, 2019	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
Fixed income securities:				
U.S. government	$ 8,706	$ 114	$ (4)	$ 8,816
State municipalities and political subdivisions	6,310	86	(1)	6,395
Asset-backed securities and collateralized mortgage obligations	28,776	562	(41)	29,297
Corporate	23,585	489	(5)	24,069
Total fixed income securities	$ 67,377	$ 1,251	$ (51)	$ 68,577
As of December 31, 2018				
Fixed income securities:				
U.S. government	$ 8,458	$ 22	$ (58)	$ 8,422
State municipalities and political subdivisions	6,508	3	(83)	6,428
Asset-backed securities and collateralized mortgage obligations	33,153	72	(433)	32,792
Corporate	29,247	25	(604)	28,668
Total fixed income securities	77,366	122	(1,178)	76,310

Equity securities:				
Common stock	2,939	141	(3)	3,077
Warrants to purchase common stock	129	17	(23)	123
Rights to purchase common stock	62	5	(4)	63
Total equity securities	3,130	163	(30)	3,263
Total fixed income and equity securities	$ 80,496	$ 285	$ (1,208)	$ 79,573

(amounts presented in thousands, except share and per share data and as otherwise specified)

The table below summarizes the Company's fixed income securities at September 30, 2019 by contractual maturity periods. Actual results may differ as issuers may have the right to call or prepay obligations, with or without penalties, prior to the contractual maturity of these obligations.

Matures in:	**Amortized Cost**	**Estimated Fair Value**
One year or less	$ 4,576	$ 4,579
More than one to five years	34,926	35,421
More than five to ten years	6,545	6,792
More than ten years	21,330	21,785
Total	$ 67,377	$ 68,577

The following table highlights, by loss position and security type, those fixed income and equity securities in unrealized loss positions as of September 30, 2019 and December 31, 2018. The tables segregate the holdings based on the period of time the investments have been continuously held in unrealized loss positions. There were 80 and 336 fixed income investments that were in unrealized loss positions as of September 30, 2019 and December 31, 2018, respectively. The Company did not hold any equity securities as of September 30, 2019, other than the limited liability investments discussed below, and held 21 equity securities in unrealized loss positions at December 31, 2018.

	Less than 12 Months		**Greater than 12 Months**		**Total**	
	Estimated Fair Value	**Unrealized Loss**	**Estimated Fair Value**	**Unrealized Loss**	**Estimated Fair Value**	**Unrealized Loss**
As of September 30, 2019						
Fixed income securities:						
U.S. government	$ 3,109	$ (12)	$ 3,449	$ (29)	$ 6,558	$ (41)
State municipalities and political subdivisions	675	(2)	1,023	(4)	1,698	(6)
Asset-backed securities and collateralized mortgage obligations	214	–	529	(1)	743	(1)
Corporate	756	–	777	(3)	1,533	(3)
Total fixed income securities	$ 4,754	$ (14)	$ 5,778	$ (37)	$ 10,532	$ (51)
As of December 31, 2018						
Fixed income securities:						
U.S. government	$ 4,552	$ (10)	$ 2,300	$ (48)	$ 6,852	$ (58)
State municipalities and political subdivisions	1,145	(5)	4,681	(78)	5,826	(83)
Asset-backed securities and collateralized mortgage obligations	8,682	(48)	14,864	(385)	23,546	(433)
Corporate	11,087	(204)	13,917	(400)	25,004	(604)
Total fixed income securities	25,466	(267)	35,762	(911)	61,228	(1,178)
Equity securities:						
Common stock	149	(3)	-	-	149	(3)
Warrants to purchase common stock	84	(23)	-	-	84	(23)
Rights to purchase common stock	25	(4)	-	-	25	(4)
Total equity securities	258	(30)	-		258	(30)
Total fixed income and equity securities	$ 25,724	$ (297)	$ 35,762	$ (911)	$ 61,486	$ (1,208)

Under the terms of the certificate of authority granted to Maison by the TDI, Maison is required to pledge assets totaling approximately $2,000 with the State of Texas. These assets consist of cash and various fixed income securities listed in the preceding tables which have an amortized cost basis of $2,000 and estimated fair value of $2,015 as of September 30, 2019.

The Company's limited liability investments are comprised of investments in a limited partnership and a limited liability company which seek to provide equity and asset-backed debt investment in a variety of privately-owned companies. The Company had a total potential commitment of $935 related to these investments, of which the two entities have drawn down approximately $776 through September 30, 2019. The limited liability company is managed by Argo Management Group, LLC, an entity which, as of April 21, 2016, is wholly owned by KFSI. The Company has accounted for these two investments under the cost method, as the investments do not have readily determinable fair values and the Company does not exercise significant influence over the operations of the investments or the underlying privately-owned companies.

Additionally, on June 18, 2018 the Company invested $2,219 in FGI Metrolina Property Income Fund, LP (the "Fund"), which invests in real estate through a real estate investment trust which is wholly owned by the Fund. The general partner of the Fund, FGI Metrolina GP, LLC, is managed, in part, by Messrs. Cerminara and Johnson, the Chairman and Co-Chairman of the Board of Directors of the Company, respectively. The Company, a limited partner of the Fund, does not have a controlling financial interest in the Fund, but exerts significant influence over the entity's operating and financial policies as it owns an economic interest of approximately 47%. Accordingly, the Company has accounted for this investment under the equity method of accounting. The Company has committed to a total potential investment of up to $4,000 in the Fund. As of September 30, 2019, the total amount invested in the Fund was $2,719, while the carrying amount on the Company's balance sheet was $3,217.

Pursuant to the terms of the Equity Purchase Agreement, prior to the closing of the Asset Sale, Maison intends to assign all of its right, title and interest in each of the limited liability investments to the Company in exchange for the statutory carrying value of each investment (approximately $4,100). Accordingly, these investments have been included on the Company's consolidated balance sheet as of September 30, 2019 and December 31, 2018 as part of continuing operations. Investment income resulting from the Company's limited liability investments has also been included in net investment income as part of continuing operations, on the Company's consolidated statement of operations for the three and nine months ended September 30, 2019 and 2018.

Also included in assets of discontinued operations on the Company's balance sheet as of September 30, 2019 and December 31, 2018 are short-term investments, with original maturities between three months and one year, which have been recorded at cost, as well as a $300 certificate of deposit with an original term of 18 months deposited with the State of Florida pursuant to the terms of the certificate of authority issued to Maison from the OIR.

Other-than-Temporary Impairment:

The establishment of an other-than-temporary impairment on an investment requires a number of judgments and estimates. The Company performs a quarterly analysis of the individual investments to determine if declines in market value are other-than-temporary. The analysis includes some or all of the following procedures as deemed appropriate by the Company:

- considering the extent and length of time during which the market value has been below cost;
- identifying any circumstances which management believes may impact the recoverability of the unrealized loss positions;
- obtaining a valuation analysis from a third-party investment manager regarding the intrinsic value of these investments based upon their knowledge and experience combined with market-based valuation techniques;
- reviewing the historical trading volatility and trading range of the investment and certain other similar investments;
- assessing if declines in market value are other-than-temporary for debt instruments based upon the investment grade credit ratings from third-party credit rating agencies;
- assessing the timeliness and completeness of principal and interest payment due from the investee; and
- assessing the Company's ability and intent to hold these investments until the impairment may be recovered

The risks and uncertainties inherent in the assessment methodology used to determine declines in market value that are other-than-temporary include, but may not be limited to, the following:

- the opinions of professional investment managers could be incorrect;
- the past trading patterns of investments may not reflect their future valuation trends;

(amounts presented in thousands, except share and per share data and as otherwise specified)

- the credit ratings assigned by credit rating agencies may be incorrect due to unforeseen events or unknown facts related to the investee company's financial situation; and
- the historical debt service record of an investment may not be indicative of future performance and may not reflect a company's unknown underlying financial problems.

As a result of the analysis performed by the Company, we recorded a write-down for an other-than-temporary impairment on a single equity investment resulting in a charge of $215 against net investment income in December, 2018. We recorded this write-down as a result of our analysis of the investment's operating losses for 2018, which showed a considerable decline when compared to its results for 2017. For the Company's remaining investments with estimated fair values less than their carrying amounts, the Company believes that these unrealized losses are primarily due to temporary market and sector-related factors rather than to issuer-specific factors. There were no write-downs for other-than-temporary impairment on our investments for the three and nine months and ended September 30, 2019 and 2018.

The Company does not have any exposure to subprime mortgage-backed investments.

Net investment income from ongoing operations for the three and nine months ended September 30, 2019 and 2018 is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Investment income:				
Interest on surplus notes issued by Maison	$ 478	$ 281	$ 1,391	$ 810
Limited liability investment profit distributions	45	–	90	–
Loss on assignment of limited liability investments	–	–	(239)	–
Other	–	18	15	46
Net investment income	$ 523	$ 299	$ 1,257	$ 856

The Company has also included investment income associated with its fixed income and equity securities portfolio in discontinued operations, net of income taxes on the Company's consolidated statement of operations for the three and nine months ended September 30, 2019 and 2018 as this portfolio is intended to be sold by the Company in connection with the Asset Sale. See Note 2 for additional information.

6. Reinsurance

The Company reinsures, or cedes, a portion of its written premiums on a per-risk and an excess of loss basis to non-affiliated insurers in order to limit its loss exposure. Although reinsurance is intended to reduce the Company's exposure risk, the ceding of insurance does not legally discharge the Company from its primary liability for the full amount of coverage under its policies. If our reinsurers fail to meet their obligations under the applicable reinsurance agreements, the Company would still be required to pay the insured for the loss.

Under the Company's per-risk treaties, reinsurance recoveries are received for up to $3,400 in excess of a retention of $600. The Company estimates that the total cost of its per-risk treaty will be approximately $425 for the 2019-2020 treaty-year, which began June 1, 2019 and will end on May 31, 2020. This represents an increase of $50 from the cost of the prior treaty-year.

Historically, the Company's excess of loss treaties were based upon a treaty year beginning on June 1st of each year and expiring on May 31st of the following year. For the treaty year beginning June 1, 2017, the Company's excess of loss treaty covered losses of up to $170,000 in excess of a retention of $5,000 per event. For any event above $175,000, the Company purchased top, drop and aggregate coverage, with an additional limit of $25,000. The $25,000 aggregate coverage applies in total to all events occurring during each of the treaty years.

(amounts presented in thousands, except share and per share data and as otherwise specified)

For the period beginning on June 1, 2018 and ending on December 30, 2018, the Company's excess of loss treaty covered losses of up to $252,000 in excess of a retention of $10,000 per occurrence. Effective December 31, 2018, the Company procured an additional layer of single-limit coverage of $5,000 in excess of a retention of $5,000. Thus, for the period beginning December 31, 2018 and ending on May 31, 2019, the Company's excess of loss treaty covered losses of up to $257,000 in excess of a retention of $5,000 per occurrence. We had also purchased reinstatement premium protection contracts to indemnify us against the potential cost of reinstatement premiums. Our coverage also reduced our retention in multiple event scenarios through the purchase of three subsequent event contracts. The first subsequent event contract had an occurrence limit of $6,000, an occurrence retention of $4,000, and was subject to an otherwise recoverable amount of $6,000. The second subsequent event contract had an occurrence limit of $3,000, an occurrence retention of $1,000, and was subject to an otherwise recoverable amount of $6,000. Both subsequent event contracts included one prepaid reinstatement. The third subsequent event contract provided $10,000 of additional reinstatement limit for the first layer of the catastrophe program and attaches after the first reinstatement has been completely exhausted. Furthermore, for the Florida Hurricane Catastrophe Fund Reimbursement Contracts effective June 1, 2018, the Company had elected 45% coverage on its Florida exposures.

The Company's total cost of its excess of loss reinsurance program, inclusive of brokerage fees, was approximately $34,400 for the 2018-2019 treaty-year.

Given the pending sale of Maison, the Company and FedNat agreed to combine their 2019-2020 excess of loss catastrophe reinsurance program into a single program (the "Program"). In order to facilitate this process, the Company purchased an excess of loss stub treaty covering the month of June 2019. Under this treaty, Maison could recover one limit of $5,000 in excess of $5,000 and two limits of $205,000 in excess of $10,000 for a total cost of approximately $6,000.

Under the Program, effective July 1, 2019, Maison has entered into a combined program with the two wholly owned insurance subsidiaries of FedNat, FedNat Insurance Company ("FNIC") and Monarch National Insurance Company ("Monarch"). The Program provides approximately $1,280,000 of single-event coverage, and aggregate coverage of $1,840,000. Maison's single-event retention will be $5,000 and includes one prepaid automatic reinstatement. Additionally, the Program is structured such that coverage is provided in layers, with a cascading feature which allows substantially all layers to attach after $5,000 in losses for Maison. If the aggregate limit of the preceding layer is exhausted, the next layer drops down (cascades) in its place. Any unused layer of protection cascades for subsequent events until exhausted. The reinsurers participating in the Program currently have an A.M. Best Company or Standard & Poor's rating of "A-" or better, or have fully collateralized their maximum potential obligations in dedicated trusts.

Maison's share of the total cost of the Program, including the separate coverage Maison has placed with the Florida Hurricane Catastrophe Fund, is expected to be approximately $44,400.

Maison has also assumed premium via the depopulation of policies from FL Citizens on both December 19, 2017 and December 18, 2018. The policies assumed from FL Citizens are primarily along the coast of Florida and cover the perils of wind and hail only.

The impact of reinsurance treaties on the Company is as shown in the following table and has been presented as part of discontinued operations in the Company's financial statements presented in this report.

	Three months ended September 30,		Nine months ended September 30,	
	2019	**2018**	**2019**	**2018**
Premium written:				
Direct	$ 27,456	$ 26,324	$ 75,352	$ 70,848
Assumed	(19)	(36)	(198)	(264)
Ceded	(9,825)	(8,023)	(28,852)	(23,541)
Net premium written	$ 17,612	$ 18,265	$ 46,302	$ 47,043
Premium earned:				
Direct	$ 23,954	$ 20,818	$ 69,988	$ 55,663
Assumed	783	991	4,121	4,979
Ceded	(11,542)	(8,348)	(33,251)	(21,241)
Net premium earned	$ 13,195	$ 13,461	$ 40,858	$ 39,401
Losses and LAE incurred:				
Direct	$ 13,400	$ 10,417	$ 56,542	$ 29,107
Assumed	637	12	398	(119)
Ceded	(1,786)	(1,773)	(23,963)	(9,214)
Net losses and LAE incurred	$ 12,251	$ 8,656	$ 32,977	$ 19,774

(amounts presented in thousands, except share and per share data and as otherwise specified)

7. Deferred Policy Acquisition Costs

Deferred policy acquisition costs ("DPAC") consist primarily of commissions, premium taxes, assessments and other policy processing fees incurred which are related to successful efforts to acquire new or renewal insurance contracts. Acquisition costs deferred on insurance products are amortized over the period in which the related revenues are earned. Costs associated with unsuccessful efforts or costs that cannot be tied directly to a successful policy acquisition are expensed as incurred.

DPAC as well as the related amortization expense associated with DPAC for the three and nine months ended September 30, 2019 and 2018, is as shown in the following table and has been presented as part of discontinued operations in the Company's financial statements presented in this report.

	Three months ended September 30,		Nine months ended September 30,	
	2019	**2018**	**2019**	**2018**
Balance, beginning of period, net	$ 9,216	$ 8,675	$ 9,111	$ 6,785
Additions	4,974	4,820	13,752	13,622
Amortization	(4,375)	(3,929)	(13,048)	(10,841)
Balance, September 30, net	$ 9,815	$ 9,566	$ 9,815	$ 9,566

8. Loss and Loss Adjustment Expense Reserves

The Company continually revises its estimates of the ultimate financial impact of claims made. A significant degree of judgment is required to determine amounts recorded in the consolidated financial statements for the provision for loss and loss adjustment expense ("LAE") reserves. The process for establishing this provision reflects the uncertainties and significant judgmental factors inherent in predicting future results of both known and unknown loss events. The process of establishing the provision for loss and LAE reserves relies on the judgment and opinions of a large number of individuals within the Company.

The Company's evaluation of the adequacy of loss and LAE reserves includes a re-estimation of the liability for loss and LAE reserves relating to each preceding financial year compared to the liability that was previously established. The results of this comparison and the changes in the provision, net of amounts recoverable from reinsurers, for the three and nine months ended September 30, 2019 and 2018 were as shown in the following table and have been presented as part of discontinued operations in the Company's financial statements presented in this report.

	Three months ended September 30,		Nine months ended September 30,	
	2019	**2018**	**2019**	**2018**
Balance, beginning of period, gross of reinsurance	$ 23,838	$ 13,817	$ 15,151	$ 13,488
Less reinsurance recoverable on loss and LAE expense reserves	(11,560)	(6,867)	(5,661)	(8,971)
Balance, beginning of period, net of reinsurance	12,278	6,950	9,490	4,517
Incurred related to:				
Current year	12,110	8,779	33,559	21,696
Prior years	141	(123)	(582)	(1,922)
Paid related to:				
Current year	(12,841)	(6,997)	(25,076)	(14,332)
Prior years	(865)	(132)	(6,568)	(1,482)
Balance, September 30, net of reinsurance	10,823	8,477	10,823	8,477
Plus reinsurance recoverable related to loss and LAE expense reserves	6,946	5,695	6,946	5,695
Balance, September 30, gross of reinsurance	$ 17,769	$ 14,172	$ 17,769	$ 14,172

(amounts presented in thousands, except share and per share data and as otherwise specified)

9. Income Taxes

Income tax expense for the three and nine months ended September 30, 2019 and 2018 varies from the amount that would result by applying the applicable statutory federal income tax rate to income before income taxes as summarized in the following table:

	Three months ended September 30,				Nine months ended September 30,			
	2019		2018		2019		2018	
Income tax expense at statutory income tax rate of 21%	$	(920)	$	(564)	$	(2,075)	$	(5)
State income tax (net of federal tax benefit)		72		(10)		115		(6)
Share-based compensation		3		–		43		15
Other		1		3		6		–
Income tax expense (benefit)	$	(844)	$	(571)	$	(1,911)	$	4
Income tax expense (benefit)–from continuing operations	$	(12)	$	(250)	$	(162)	$	(397)
Income tax expense (benefit)–from discontinued operations	$	(832)	$	(321)	$	(1,749)	$	401

The Company carries a net deferred income tax asset of $2,285 and $1,279 at September 30, 2019 and December 31, 2018, respectively, all of which the Company believes is more likely than not to be fully realized based upon management's assessment of future taxable income. Significant components of the Company's net deferred tax assets are as follows:

	September 30, 2019		December 31, 2018	
Deferred income tax assets:				
Loss and loss adjustment expense reserves	$	100	$	87
Unearned premium reserves		2,294		1,983
Investments		1,369		216
Share-based compensation		241		257
Deferred fee income		337		357
State deferred taxes		349		247
Net operating loss carryforward		–		–
Other		72		81
Deferred income tax assets	$	4,762	$	3,228
Deferred income tax liabilities:				
Deferred policy acquisition costs	$	2,061	$	1,913
Investments		383		–
Other		33		36
Deferred income tax liabilities	$	2,477	$	1,949
Net deferred income tax assets	$	2,285	$	1,279
Net DTA – from continuing operations	$	376	$	265
Net DTA – from discontinued operations	$	1,909	$	1,014

As of September 30, 2019, the Company had net operating loss carryforwards ("NOLs") for federal income tax purposes of approximately $6,519, which will be available to offset future taxable income. Approximately $6,140 of the Company's NOLs will expire on December 31, 2039, while the remaining $379 of the Company's NOLs do not expire under current tax law.

As of September 30, 2019, the Company had no unrecognized tax benefits. The Company analyzed its tax positions in accordance with the provisions of Accounting Standards Codification Topic 740, *Income Taxes*, and has determined that there are currently no uncertain tax positions. The Company generally recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense.

10. Net Earnings Per Share

Net earnings per share is computed by dividing net income by the weighted average number of common shares and common share equivalents outstanding during the periods presented. In calculating diluted earnings per share, those potential common shares that are found to be anti-dilutive are excluded from the calculation. The table below provides a summary of the numerators and denominators used in determining basic and diluted earnings per share for the three and nine months ended September 30, 2019 and 2018.

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Basic and diluted:				
Net loss (in thousands)	$ (3,535)	$ (2,114)	$ (7,969)	$ (28)
Less: dividends declared on Series A Preferred Shares	(350)	(350)	(1,050)	(758)
Loss attributable to common shareholders	$ (3,885)	$ (2,464)	$ (9,019)	$ (786)
Weighted average common shares outstanding	6,015,753	5,991,856	6,013,771	5,987,644
Loss per share attributable to common shareholders	$ (0.65)	$ (0.41)	$ (1.50)	$ (0.13)
Net loss from continuing operations	$ (60)	$ (938)	$ (817)	$ (1,489)
Less: dividends declared on Series A Preferred Shares	(350)	(350)	(1,050)	(758)
Loss from continuing operations attributable to common shareholders	(410)	(1,288)	(1,867)	(2,247)
Weighted average common shares outstanding	6,015,753	5,991,856	6,013,771	5,987,644
Loss per common share from continuing operations	$ (0.07)	$ (0.21)	$ (0.31)	$ (0.37)
Net income (loss) from discontinued operations, net of income taxes	$ (3,475)	$ (1,176)	$ (7,152)	$ 1,461
Weighted average common shares outstanding	6,015,753	5,991,856	6,013,771	5,987,644
Earnings (loss) per common share from discontinued operations	$ (0.58)	$ (0.20)	$ (1.19)	$ 0.24

(amounts presented in thousands, except share and per share data and as otherwise specified)

The following potentially dilutive securities outstanding as of September 30, 2019 and 2018 have been excluded from the computation of diluted weighted-average shares outstanding as their effect would be anti-dilutive.

	As of September 30,	
	2019	**2018**
Options to purchase common stock	–	177,456
Warrants to purchase common stock	1,500,000	1,906,875
Restricted stock units	202,634	300,168
Performance shares(1)	–	375,000
	1,657,329	2,759,499

(1) On July 24, 2018, the Company entered into a Termination Agreement whereby the remaining performance shares owned by KFSI and its affiliates were cancelled in exchange for a payment from the Company (see Note 13-Related Party Transactions for further information).

11. Options, Warrants, and Restricted Stock Units

In April 2014, the Company established an equity incentive plan for employees and directors of the Company (the “2014 Plan”). The purpose of the Plan was to create incentives designed to motivate recipients to significantly contribute toward the Company’s growth and success, to attract and retain persons of outstanding competence, and to provide such persons with an opportunity to acquire an equity interest in the Company.

The Plan allowed for the issuance of non-qualified stock options, restricted stock, restricted stock units (“RSUs”), performance shares, performance cash awards, and other stock-based awards and provided for the issuance of 354,912 shares of common stock. On May 31, 2018, the 2014 Plan was terminated with the adoption of the 2018 Plan, as discussed below.

On May 31, 2018, our shareholders approved the 1347 Property Insurance Holdings, Inc. 2018 Equity Incentive Plan (the “2018 Plan”). The purpose of the 2018 Plan is to attract and retain directors, consultants, and other key employees of the Company and its subsidiaries and to provide to such persons incentives and rewards for superior performance. The 2018 Plan is administered by the Compensation and Management Resources Committee of the Board and has a term of ten years. The 2018 Plan allows for the issuance of both incentive stock options and non-qualified stock options, stock appreciation rights, RSUs, and other stock-based, as well as cash-based awards, and provides for a maximum of 300,000 shares available for issuance.

Stock Options

For the three and nine months ended September 30, 2019, a total of 0 and 177,456 of the Company’s stock options expired unexercised, respectively. The stock options had a weighted average exercise price of $8.06 per share. There were no grants or exercises of the Company’s stock options for the nine months ended September 30, 2019. The Company did not have any employee stock options outstanding as of September 30, 2019.

Restricted Stock Units

On May 29, 2015, the Company’s Board of Directors granted RSUs to certain of its executive officers under the 2014 Plan. Each RSU granted entitles the grantee to one share of the Company’s common stock upon the vesting date of the RSU. The RSUs vest as follows: (i) 50% upon the date that the closing price of the Company’s common stock equals or exceeds $10.00 per share; and (ii) 50% upon the date that the closing price of the Company’s common stock equals or exceeds $12.00 per share. Prior to the vesting of the RSUs, the grantee will not be entitled to any dividends declared on the Company’s common stock. The RSUs do not expire; however, should the grantee discontinue employment with the Company for any reason other than death or disability, all unvested RSUs will be deemed forfeited on the date employment is discontinued.

On May 31, 2017, the Compensation Committee of the Company’s Board of Directors approved a share matching arrangement resulting in the issuance of 108,330 RSUs to the Company’s officers and non-employee directors then serving under the 2014 Plan. The RSUs were issued on December 15, 2017, and entitle each grantee to one share of the Company’s common stock upon the vesting date of the RSU, which will vest 20% per year over a period of five years following the date granted, subject to each officer’s continued employment with the Company, or each director’s continued service on the Board. Prior to the vesting of the RSUs, the grantee will not be entitled to any dividends declared on the Company’s common stock. The RSUs do not expire; however, should the grantee discontinue employment with the Company for any reason other than death or disability, all unvested RSUs will be deemed forfeited on the date employment is discontinued. The Board of Directors may, in its discretion, accelerate vesting in the event of early retirement. Similarly, should a director make himself available and consent to be nominated by the Company for continued service but is not nominated by the Board for election by the shareholders, other than for good reason as determined by the Board in its discretion, then such director’s RSU grant will vest in full as of his last date of service as a director with the Company. Accordingly, since Mr. Joshua Horowitz’s term as a director did not continue following the Company’s annual meeting of stockholders held on May 31, 2018, Mr. Horowitz’ 6,666 RSUs shares vested in full on May 31, 2018. Directors are required to maintain ownership of the shares purchased through the full five-year vesting period, except as set forth above.

(amounts presented in thousands, except share and per share data and as otherwise specified)

On August 22, 2018, the Compensation Committee of the Company's Board of Directors granted 1,000 shares of the Company's common stock (the "Bonus Shares") and 1,000 RSUs to the Company's Chief Financial Officer, John S. Hill, under the 2018 Plan. Each RSU represents a contingent right to receive one share of the Company's common stock. These RSUs vest in five equal annual installments beginning with the first anniversary of the grant date, subject to continued employment, with vesting subject to Mr. Hill maintaining ownership of the Bonus Shares through the full five-year vesting period.

Also on August 22, 2018, the Company modified its compensation program for all non-employee directors of the Company, effective September 1, 2018. The modified compensation program allows for an annual grant of RSUs with a value of $40, vesting in five equal annual installments, beginning with the first anniversary of the grant date. Accordingly, on August 22, 2018 and again on August 13, 2019, the Board issued RSUs to each of the Company's then serving non-employee directors, representing a value of $40 per director. The total number of RSUs granted were 34,284 on August 22, 2018 and 61,776 on August 13, 2019. Furthermore, on January 11, 2019, the Company's board of directors appointed two new directors to the Board, Ambassador Rita Hayes and Dr. Marsha G. King, resulting in the issuance of 5,397 RSUs to each of these two directors, representing their pro-rata share of the RSU grant issued to each of the Company's non-employee directors on an annual basis. The following table summarizes RSU activity for the year ended December 31, 2018 and the nine months ended September 30, 2019.

Restricted Stock Units	**Number of Units**	**Weighted Average Grant Date Fair Value**
Non-vested units, January 1, 2018	128,830	$ 6.27
Granted	171,338	7.48
Vested	(26,998)	7.20
Forfeited	(136,054)	7.60
Non-vested units, December 31, 2018	137,116	$ 6.27
Granted	72,570	5.14
Vested	(7,052)	7.00
Forfeited	–	–
Non-vested units, September 30, 2019	202,634	$ 5.84

Total stock-based compensation expense for the nine months ended September 30, 2019 and 2018 was $163 and $236, respectively. As of September 30, 2019, total unrecognized stock compensation expense of $1,018 remains, which will be recognized through September 30, 2024. Stock compensation expense has been reflected in the Company's financial statements as part of general and administrative expense and has been included in net loss from continuing operations.

Warrants

For the nine months ended September 30, 2019, a total of 406,875 warrants expired having a weighted average exercise price of $9.69. Warrants were neither granted nor exercised during the nine-month period. As of September 30, 2019, the Company had 1,500,000 warrants outstanding with an exercise price of $15.00 which expire on February 24, 2022.

12. Shareholders' Equity

Grant of Bonus Shares to Chief Financial Officer

On August 22, 2018, the Company's Board of Directors granted 1,000 shares of the Company's common stock to the Company's Vice President and Chief Financial Officer, John S. Hill, as previously discussed in Note 11 – Options, Warrants and Restricted Stock Units.

Offering of 8.00% Cumulative Preferred Stock, Series A

On February 28, 2018, we completed the underwritten public offering of 640,000 shares of the Preferred Stock designated as 8.00% Cumulative Preferred Stock, Series A, par value $25.00 per share. Also, on March 26, 2018, we issued an additional 60,000 shares of Preferred Stock pursuant to the exercise of the underwriters' over-allotment option. Dividends on the Preferred Stock are cumulative from the date of original issue and are payable quarterly on the 15th day of March, June, September and December of each year, when, as and if declared by our Board of Directors or a duly authorized committee thereof. The first dividend record date for the Preferred Stock was on June 1, 2018. For the nine months ended September 30, 2019 and 2018, the Company declared dividends totaling $1,050 and $758, respectively, on the Preferred Stock. Dividends are payable out of amounts legally available therefor at a rate equal to 8.00% per annum per $25.00 of stated liquidation preference per share, or $2.00 per share of Preferred Stock per year. The Company's Board of Directors declared the fourth quarter 2019 dividend on the shares of Series A Preferred Stock on November 14, 2019.

The Preferred Stock is not redeemable prior to February 28, 2023. On and after that date, the Preferred Stock will be redeemable at our option, for cash, in whole or in part, at a redemption price of $25.00 per share of Preferred Stock, plus all accumulated and unpaid dividends to, but not including, the date of redemption. The Preferred Stock has no stated maturity and will not be subject to any sinking fund or mandatory redemption. The Preferred Stock will generally have no voting rights except as provided in the Certificate of Designations or as from time to time provided by law. The affirmative vote of the holders of at least two-thirds of the outstanding shares of Preferred Stock and each other class or series of voting parity stock will be required at any time for us to authorize, create or issue any class or series of our capital stock ranking senior to the Preferred Stock with respect to the payment of dividends or the distribution of assets on liquidation, dissolution or winding up, to amend any provision of our Certificate of Incorporation so as to materially and adversely affect any rights of the Preferred Stock or to take certain other actions.

Trading of the shares commenced on March 22, 2018 on the Nasdaq Stock Market under the symbol "PIHPP". Net proceeds received by the Company were approximately $16,500. The Company used $1,500 of the net proceeds to repurchase 60,000 shares of its Series B Preferred Stock from IWS Acquisition Corporation, as discussed under Note 13 – Related Party Transactions, with the remainder of the proceeds to be used to support organic growth, including spending for business development, sales and marketing and working capital, and for future potential acquisition opportunities.

A fund managed by Fundamental Global Investors, LLC, one of the Company's significant shareholders, purchased an aggregate of 34,620 shares of the Series A Preferred Stock in the Company's public offering of the shares, at the public offering price of $25.00 per share, including 31,680 shares purchased for a total of approximately $792 on February 28, 2018, the closing date of the offering, and 2,940 shares purchased for a total of approximately $74 on March 26, 2018 in connection with the underwriters' exercise of their over-allotment option. In addition, CWA Asset Management Group, LLC, of which 50% is owned by Fundamental Global Investors, LLC, holds 56,846 shares of the Series A Preferred Stock for customer accounts (including 44 shares of the Series A Preferred Stock held by Mr. Cerminara in a joint account with his spouse) purchased at the public offering price in connection with the underwriters' exercise of their over-allotment option. No discounts or commissions were paid to the underwriters on the purchase of these shares.

13. Related Party Transactions

Related party transactions 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.

Termination of Performance Share Grant Agreement

On July 24, 2018, the Company entered into a Termination Agreement with Kingsway America, Inc. ("KAI", a wholly owned subsidiary of KFSI) pursuant to which KAI agreed to terminate the Performance Share Grant Agreement ("PSGA") dated March 26, 2014, between the Company and KAI in exchange for a payment of $1,000 from the Company, which has been recorded as a charge under the heading "Loss on repurchase of Series B Preferred Shares and Performance Shares" on the Company's consolidated statement of operations for year ended December 31, 2018. As a result of the Termination Agreement, KAI has no further rights to any of the performance share grants contemplated by the PSGA. Under the PSGA, KAI was entitled to receive up to an aggregate of 375,000 shares of our common stock upon achievement of certain milestones regarding our stock price. Mr. Larry G. Swets, Jr., who is a director of the Company, served as Chief Executive Officer and Director of KFSI on the date the Company entered into the Termination Agreement. The Company did not issue any shares under the PSGA while the PSGA was outstanding. The Termination Agreement was approved by a special committee of the Board of Directors of the Company consisting solely of independent directors.

Termination of Management Services Agreement and Repurchase of Series B Preferred Shares

On February 24, 2015, we terminated our Management Services Agreement with 1347 Advisors, LLC ("1347 Advisors"), a wholly owned subsidiary of KFSI. In connection with the termination, we entered into a Performance Shares Grant Agreement, dated February 24, 2014, with 1347 Advisors pursuant to which we agreed to issue 100,000 shares of our common stock to 1347 Advisors subject to the achievement of certain events specified in the agreement. We also issued to 1347 Advisors 120,000 shares of our Series B preferred stock having a liquidation amount per share equal to $25.00 (the "Series B Preferred Shares") and a warrant to purchase 1,500,000 shares of our common stock at an exercise price of fifteen dollars per share. The warrant expires seven years from the date of issuance. 1347 Advisors subsequently transferred 60,000 of the Series B Preferred Shares to IWS Acquisition Corporation, an affiliate of KFSI.

On January 2, 2018, the Company entered into a Stock Purchase Agreement with 1347 Advisors and IWS Acquisition Corporation, pursuant to which the Company repurchased 60,000 Series B Preferred Shares from 1347 Advisors for an aggregate purchase price of $1,740, representing (i) the par value of the Series B Preferred Shares, or $1,500; and (ii) declared and unpaid dividends with respect to the dividend payment due on February 23, 2018, or $240. Also in connection with the Stock Purchase Agreement, the Performance Shares Grant Agreement, dated February 24, 2015, between the Company and 1347 Advisors was terminated. In connection with the termination, the Company made a cash payment of $300 to 1347 Advisors. Upon termination of the MSA Agreement, the Company recorded an increase of approximately $54 to additional paid in capital, representing the estimated fair value of the Performance Share Grant Agreement on the grant date. Upon the termination of the Performance Share Grant Agreement, we compared the amount previously recorded in additional paid in capital to the amount paid to terminate the agreement, resulting in a reversal of the $54 originally recorded to additional paid in capital as well as a charge of $246 recorded to Loss on repurchase of Series B Preferred Shares and Performance Shares on the Company's consolidated statement of operations for the nine months ended September 30, 2018.

Pursuant to the Stock Purchase Agreement, the Company also agreed to repurchase the remaining 60,000 Series B Preferred Shares from IWS Acquisition Corporation for an aggregate purchase price of $1,500, upon the completion of a capital raise resulting in the Company receiving net proceeds in excess of $5,000. On February 28, 2018, the Company purchased the remaining 60,000 Series B Preferred Shares from IWS Acquisition Corporation for $1,500 with the proceeds from the offering of the Company's 8.00% Cumulative Preferred Stock, Series A (the "Preferred Stock") offering (discussed under Note 12 – Shareholders' Equity).

The Company applied the guidance outlined in ASC 480 – *Distinguishing Liabilities from Equity* in recording the issuance of the Series B Preferred Shares. Due to the fact that the shares had a mandatory redemption date of February 24, 2020, applicable guidance required that we classify the shares as a liability on our consolidated balance sheet, rather than recording the value of the shares in equity. The resulting liability was recorded at a discount to the $4,200 redemption amount plus dividends expected to be paid on the shares while outstanding, discounted for the Company's estimated cost of equity (13.9%). As a result, total amortization in the amount of $33 has been charged to continuing operations for the nine months ended September 30, 2018. Upon our repurchase of the Series B Preferred Shares in both January and February 2018, we compared the amortized carrying amount of the liability to the amount paid to repurchase the shares, resulting in a charge of $366 to Loss on repurchase of Series B Preferred Shares and Performance Shares on the Company's consolidated statement of operations for the nine months ended September 30, 2018.

Investment in Limited Liability Company and Limited Partnership

On April 21, 2016, KFSI completed the acquisition of Argo Management Group LLC ("Argo"). Argo's primary business is to act as the Managing Member of Argo Holdings Fund I, LLC, an investment fund in which the Company has committed to invest $500, of which the Company has invested $341 as of September 30, 2019. The managing member of Argo, Mr. John T. Fitzgerald, was appointed as President and Chief Executive Officer of KFSI on September 5, 2018 and has served on its board of directors since April 21, 2016.

As of September 30, 2019, the Company has invested $2,719 as a limited partner in FGI Metrolina Property Income Fund, LP (the "Fund"). The general partner of the Fund, FGI Metrolina GP, LLC, is managed, in part, by Messrs. Cerminara and Johnson, the Chairman and Co-Chairman of the Board of Directors of the Company, respectively. The Fund's investment program is managed by FGI Funds Management LLC, an affiliate of FGI, which, with its affiliates, is the largest stockholder of the Company. The Company's investment represents an approximate 47% ownership stake in the Fund.

(amounts presented in thousands, except share and per share data and as otherwise specified)

Upon analysis of the Fund's capital structure, related contractual relationships and terms, nature of the Fund's operations and purpose, as well as our involvement with the entity, we have determined that the Fund represents a variable interest entity (VIE) investment of the Company. Applicable guidance requires us to consolidate those VIEs where we are determined to be the primary beneficiary. The primary beneficiary is the entity that has both 1) the power to direct the activities of the VIE which most significantly affect the VIE's economic performance; and 2) the obligation to absorb losses or the right to receive the benefits that could be potentially significant to the VIE. The Company's investment in the Fund is that of a limited partner with an approximate 47% ownership interest. As limited partners in the Fund do not have the authority to direct the operations of the Fund, we have determined we are not the primary beneficiary of the VIE, and, accordingly, have accounted for this investment under the equity method of accounting.

As of September 30, 2019, the total assets of the Fund were $5,573. Our maximum exposure to loss associated with our investment in the Fund was $2,719 as of September 30, 2019. The Company's maximum exposure to loss associated with the Fund is limited to our investment; however, the Company has committed to invest up to $4,000 in the Fund. Our investment is reflected on our consolidated balance sheet under the heading Limited liability investments. Although it is not the Company's intent, should the Company's ownership percentage in the Fund exceed 50% of the total ownership interest in the Fund, we would be required to consolidate the Fund's financial statements with our results in future periods as we would be deemed to have a controlling interest in the Fund.

14. Accumulated Other Comprehensive Income (Loss)

The table below details the change in the balance of each component of accumulated other comprehensive income (loss), net of tax, for the three and nine months ended September 30, 2019 and 2018 and has been presented as part of discontinued operations in the Company's financial statements presented in this report.

	Three months ended September 30,		Nine months ended September 30,	
	2019	**2018**	**2019**	**2018**
Unrealized gains (losses) on available-for-sale securities:				
Balance, beginning of period	$ 1,042	$ (1,079)	$ (729)	$ (169)
Other comprehensive income (loss) before reclassifications	(501)	(169)	1,832	(1,308)
Amounts reclassified from accumulated other comprehensive income	384	–	397	63
Income taxes	25	36	(446)	235
Net current-period other comprehensive income (loss)	(92)	(133)	1,783	(1,010)
Reclassifications due to adoption of new accounting standards	–	–	(104)	(33)
Balance, September 30	$ 950	$ (1,212)	$ 950	$ (1,212)

15. Fair Value of Financial Instruments

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 income and equity securities as available-for-sale and reports these investments at fair value. Fair values of fixed income securities for which no active market exists are derived from quoted market prices of similar instruments or other third-party evidence.

(amounts presented in thousands, except share and per share data and as otherwise specified)

The FASB has issued guidance that defines fair value as the exchange price that would be received for an asset (or paid to transfer a liability) in the principal, or most advantageous market in an orderly transaction between market participants. This guidance also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The guidance categorizes assets and liabilities at fair value into one of three different levels depending on the observation of the inputs employed in the measurements, as follows:

- Level 1 – inputs to the valuation methodology are quoted prices for identical assets or liabilities in active markets providing the most reliable measurement of fair value since it is directly observable.

- Level 2 – inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets. These inputs are observable, either directly or indirectly, for substantially the full-term of the financial instrument.

- Level 3 – inputs to the valuation methodology are unobservable and significant to the measurement of fair value.

Financial instruments measured at fair value as of September 30, 2019 and December 31, 2018 in accordance with this guidance are as follows.

September 30, 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
Fixed income securities:				
U.S. government	$ –	$ 8,816	$ –	$ 8,816
State municipalities and political subdivisions	–	6,395	–	6,395
Asset-backed securities and collateralized mortgage obligations	–	29,297	–	29,297
Corporate	–	24,069	–	24,069
Total fixed income securities	$ –	$ 68,577	$ –	$ 68,577
December 31, 2018				
Fixed income securities:				
U.S. government	$ -	$ 8,422	$ -	$ 8,422
State municipalities and political subdivisions	-	6,428	-	6,428
Asset-backed securities and collateralized mortgage obligations	-	32,792	-	32,792
Corporate	-	28,668	-	28,668
Total fixed income securities	$ -	$ 76,310	$ -	$ 76,310
Equity securities:				
Common stock	3,077	-	-	3,077
Warrants to purchase common stock	123	-	-	123
Rights to purchase common stock	63	-	-	63
Total equity securities	$ 3,263	$ -	$ -	$ 3,263
Total fixed income and equity securities	$ 3,263	$ 76,310	$ -	$ 79,573

16. Statutory Requirements

The Company's insurance subsidiary, Maison, prepares statutory basis financial statements in accordance with accounting practices prescribed or permitted by the LDI. Prescribed statutory accounting practices include state laws, rules and regulations as well as accounting practices and rules as outlined in a variety of publications of the National Association of Insurance Commissioners ("NAIC"). Permitted statutory accounting practices encompass all accounting practices that are not prescribed, but instead have been specifically requested by an insurer and allowed by the state in which the insurer is domiciled (in Maison's case, Louisiana). Permitted practices may differ from state to state, or company to company within a state, and may change in the future. In converting from statutory accounting basis to U.S. GAAP, typical adjustments include the deferral of acquisition costs (which are all charged to operations as incurred on a statutory basis), the inclusion of statutorily non-admitted assets on the balance sheet, the inclusion of net unrealized holding gains or losses related to investments included on the balance sheet, as well as the inclusion of changes in deferred tax assets and liabilities in the statement of operations.

(amounts presented in thousands, except share and per share data and as otherwise specified)

Statutory Surplus and Capital Requirements

In order to retain its certificates of authority in Louisiana and Florida, Maison is required to maintain a minimum capital surplus of $5,000 and $35,000, respectively. Accordingly, on September 30, 2019, the Company made a capital contribution in the amount of $7,000 to Maison, resulting in Maison having a capital surplus of $40,436 as of September 30, 2019.

Our state regulators employ risk-based capital (“RBC”) reports to monitor Maison’s financial condition. Risk-based capital is determined in accordance with a formula adopted by the NAIC which takes into consideration the covariance between asset risk, credit risk, underwriting risk, and other business risks. The RBC report determines whether Maison falls into the “no action” level or one of the four action levels set forth in the Louisiana Insurance Code. Furthermore, in order to retain its certificate of authority in Texas and Florida, Maison is required to maintain an RBC ratio of 300% or more. As of December 31, 2018, Maison’s RBC ratio was 345%; as a result, our surplus was considered to be in the “no action” level.

States routinely require deposits of assets for the protection of policyholders either in those states or for all policyholders. As of September 30, 2019, Maison held certificates of deposit with an estimated fair value of approximately $100 and $300 as a deposit with the LDI and FOIR, respectively. Maison also held cash and investment securities with an estimated fair value of approximately $2,015 as a deposit with the TDI.

Surplus Notes

PIH, as the parent company of Maison, is subject to the insurance holding company laws of the State of Louisiana, which, among other things, regulate the terms of surplus notes issued by insurers to their parent company. As of September 30, 2019, Maison’s capital includes six surplus notes issued to PIH in the aggregate amount of $18,000, all of which were approved by the LDI prior to their issuance. Interest payments on the notes are due annually and are also subject to prior approval by the LDI. The Company’s surplus notes, as of September 30, 2019, are as follows.

Date of Issuance	Maturity Date	Interest Rate	Principal Amount as of September 30, 2019	Principal Amount as of December 31, 2018
December 21, 2015	December 21, 2019	10.0%	$ 850	$ 850
September 29, 2016	September 29, 2020	10.0%	3,450	3,450
September 28, 2017	September 28, 2021	10.0%	2,950	2,950
December 28, 2017	December 28, 2019	10.0%	2,300	2,300
November 14, 2018	November 14, 2020	10.0%	5,250	5,250
December 27, 2018	December 27, 2020	9.25%	3,200	3,200
			$ 18,000	$ 18,000
Accrued interest			961	244
Surplus notes receivable from affiliate			$ 18,961	$ 18,244

Upon closing of the Asset Sale, up to $18,000 in surplus notes plus accrued but unpaid interest (other than default rates of interest, penalties, late fees and other related charges), will be repaid to the Company. Accordingly, the surplus notes have been shown on a gross basis as both an asset of continuing operations and liability of discontinued operations on the Company’s consolidated balance sheet as of September 30, 2019 and December 31, 2018. Interest associated with the surplus notes has also been recorded as part of net investment income as well as interest expense in discontinued operations on the Company’s consolidated statement of operations for the three and nine months ended September 30, 2019 and 2018.

Restrictions on Payments from our Subsidiary Companies

As an insurance holding company, we are dependent on dividends and other permitted payments from our subsidiary companies to serve as operating capital. The ability of Maison to pay dividends to us is subject to certain restrictions imposed under Louisiana insurance law, which is the state of domicile for Maison. Dividend payments from Maison may be further restricted pursuant to consent agreements entered into with the LDI and the FOIR as a condition of our licensure in each state. Interest payments on the surplus notes issued to us by Maison are also subject to the prior approval of the LDI. Our other subsidiary companies collect the majority of their revenue through their affiliation with Maison. Our subsidiary company, MMI, earns commission income from Maison for underwriting, policy administration, claims handling, and other services provided to Maison. Our subsidiary company, ClaimCor, earns claims adjusting income for adjusting certain of the claims of Maison’s policyholders. While dividend payments from our other subsidiaries are not restricted under insurance law, the underlying contracts between Maison and our other subsidiary companies are regulated by, and subject to the approval of, insurance regulators.

17. Commercial Line of Credit Facility

On April 23, 2018, the Company and MMI executed a Commercial Business Loan Agreement and related Promissory Note with Hancock Bank, a trade name for Whitney Bank (the “Lender”). The agreements provided for a revolving line of credit of $5,000. The line of credit expired pursuant to its terms on April 19, 2019. The Company and MMI did not draw down funds under the Loan Agreement during the period it was outstanding.

On August 20, 2019, the Company entered into a $7,000 Loan Agreement and a related Commercial Note (collectively, the “Loan Agreement”) with the Lender. The Loan Agreement provides for a non-revolving line of credit of $7,000. The line of credit will expire on the earlier of (i) January 20, 2020, or (ii) the closing of the transactions contemplated by the Asset Sale. Proceeds of borrowings under the Loan Agreement may be used for providing short-term working capital to the Company’s subsidiaries and other general corporate purposes. The line of credit is secured by a collateral assignment of the Company’s right to receive cash proceeds under the Equity Purchase Agreement for the Asset Sale.

Borrowings under the Loan Agreement will bear interest at a rate per annum equal to one-month ICE LIBOR (rounded up to the nearest one-eighth (1/8th) of one percent or rounded up to one-eighth (1/8th) of one percent if the reported one-month ICE LIBOR is less than zero) plus a margin of 3.00%. The initial interest rate is 5.25% per annum, to be adjusted on the first day of each calendar month. The line of credit is to be repaid in monthly payments of interest only, payable in arrears, commencing on the first day of the month following the initial borrowing under the Loan Agreement. All principal and remaining interest will be payable in full at maturity. As of November 14, 2019, the Company had not drawn on the Loan Agreement.

The Loan Agreement contains certain restrictive covenants customary for transactions of this type, including restrictions on liens, indebtedness, loans and guarantees, acquisitions and mergers, sales of assets, and stock repurchases.

The Loan Agreement also provides for customary events of default with corresponding grace periods, including: (1) failure to make payments under the Loan Agreement when due; (2) failure to comply with other covenants and agreements contained in the Loan Agreement; (3) breach of or default under the collateral assignment; (4) making of false or materially inaccurate representations and warranties; (5) certain defaults under other debt obligations of the Company; (6) money judgments, material adverse changes or events regarding the validity of the Loan Agreement or other loan documents; and (7) certain events of bankruptcy or insolvency affecting the Company. Upon the occurrence of an event of default, the Lender may declare the entire unpaid principal balance and accrued unpaid interest immediately due and payable and/or exercise any and all remedial and other rights under the Loan Agreement. The default interest rate is 18%, subject to the maximum rate permitted by law.

18. Commitments and Contingencies

Legal Proceedings:

From time to time, we are involved in legal proceedings and litigation arising in the ordinary course of business. Currently, it is not possible to predict legal outcomes and their impact on the future development of claims. Any such development will be affected by future court decisions and interpretations. Because of these uncertainties, additional liabilities may arise for amounts in excess of the Company’s current reserves. In addition, the Company’s estimate of ultimate loss and loss adjustment expenses may change. These additional liabilities, or increases in estimates, or a range of either, cannot be reasonably estimated, and could result in consolidated statement of operations charges that could be material to the Company’s results of operations in future periods.

Operating Lease Commitments:

Our management services subsidiary MMI has entered into leases for the use of office space in Baton Rouge, LA, Dallas, TX, and Tampa, FL. Pursuant to our adoption of FASB Topic 842 – *Leases*, effective January 1, 2019, we recorded a right-of-use asset and corresponding lease liability in the amount of $314 on the date of adoption, pertaining to our Baton Rouge and Dallas leases. We did not recognize a right-of-use asset or related lease liability for our prior facility lease in Tampa as the lease term on the date of adoption was less than twelve months; this lease subsequently expired in October 2019. Such lease payments have been recorded in the Company’s consolidated statement of operations as part of discontinued operations in the period in which the obligation for those payments was incurred as the Company’s leases are intended to be included as part of the sale of the Company’s insurance operations in the Asset Sale. Future minimum lease payments on our prior Tampa facility as of September 30, 2019 were $25, all of which were incurred in October 2019.

(amounts presented in thousands, except share and per share data and as otherwise specified)

As of September 30, 2019, the balance of right-of-use assets was $208 and lease liabilities was $210, both of which are reflected on the Company's consolidated balance sheet as assets and liabilities of discontinued operations, respectively. The weighted-average remaining lease term for our operating leases (excluding the short-term Tampa lease) is 1.4 years, while the weighted-average discount rate used in the determination of our lease liabilities was 5.5%.

Future minimum lease payments as of September 30, 2019 were as follows:

Year ending September 30,		
2020	$	154
2021		65
Total undiscounted lease payments	$	219
Less: imputed interest		(9)
Total discounted lease payments (lease liability at September 30, 2019)	$	210

On May 20, 2019, MMI entered into a lease agreement for new office space in Tampa, FL to replace the Company's lease for office space which expired in October 2019. The new lease commenced on October 28, 2019, and consists of approximately six thousand square feet of office space. Total minimum rent will be approximately $444 over the 63-month term of the lease.

Financing Lease Commitments:

In March 2018, MMI entered into an agreement to lease vehicles for the use of our sales representatives in Louisiana, Texas and Florida, which have been recorded as financing leases having a carrying value of approximately $86 as of September 30, 2019, and are reflected as liabilities from discontinued operations in the Company's consolidated balance sheet as of September 30, 2019 and December 31, 2018. Future minimum lease payments, together with the present value of the net minimum lease payments as of September 30, 2019, are presented in the following table.

Year ending September 30,		
2020	$	57
2021		39
Total minimum lease payments		96
Less: amount representing estimated executory costs included in total minimum lease payments		–
Net minimum lease payments		96
Less: amount representing interest		(10)
Present value of minimum lease payments	$	86

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion in conjunction with our consolidated financial statements and related notes and information included elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report for the year ended December 31, 2018 on Form 10-K filed with the Securities and Exchange Commission ("SEC") on March 20, 2019.

Unless context denotes otherwise, the terms "Company," "we," "us," and "our," refer to 1347 Property Insurance Holdings, Inc., and its subsidiaries. Except where noted otherwise, all dollar amounts have been reported in thousands.

Emerging Growth Company

We are an "emerging growth company" as defined in Section 2(a)(19) of the Securities Act of 1933, as amended, or the Securities Act, as modified by the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. As such, we are eligible to take advantage of certain exemptions from various reporting requirements applicable to other public companies that are not emerging growth companies, including (i) the exemption from the auditor attestation requirements with respect to internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, (ii) delayed application of newly adopted or revised accounting standards, (iii) the exemptions from say-on-pay, say-on-frequency and say-on-golden parachute voting requirements and (iv) reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements. We will continue to be an emerging growth company until the earliest to occur of (i) the last day of the fiscal year during which we had total annual gross revenues of at least $1,000,000 (as indexed for inflation), (ii) the last day of the fiscal year following the fifth anniversary of our initial public offering (December 31, 2019), (iii) the date on which we have, during the previous three-year period, issued more than $1,000,000 in non-convertible debt, or (iv) the date on which we are deemed to be a "large accelerated filer," as defined under the Securities Exchange Act of 1934, as amended, or the Exchange Act. We expect to lose our emerging growth company status as of December 31, 2019.

Cautionary Note about Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Sections 27A of the Securities Act of 1933, as amended, and 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These statements are therefore entitled to the protection of the safe harbor provisions of these laws. These statements may be identified by the use of forward-looking terminology such as "anticipate," "believe," "budget," "can," "contemplate," "continue," "could," "envision," "estimate," "expect," "evaluate," "forecast," "goal," "guidance," "indicate," "intend," "likely," "may," "might," "outlook," "plan," "possibly," "potential," "predict," "probable," "probably," "pro-forma," "project," "seek," "should," "target," "view," "will," "would," "will be," "will continue," "will likely result" or the negative thereof or other variations thereon or comparable terminology. We have based these forward-looking statements on our current expectations, assumptions, estimates, and projections. While we believe these to be reasonable, such forward-looking statements are only predictions and involve a number of risks and uncertainties, many of which are beyond our control. These and other important factors may cause our actual results, performance, or achievements to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. Management cautions that the forward-looking statements in this Quarterly Report on Form 10-Q are not guarantees of future performance, and we cannot assume that such statements will be realized, or the forward-looking events and circumstances will occur.

Factors that might cause such a difference include, without limitation: our limited operating history as a publicly traded company and status as an emerging growth company; our ability to obtain market share; our ability to access capital; changes in economic, business and industry conditions; legal, regulatory and tax developments; our ability to comply with regulations imposed by the states of Louisiana, Texas and Florida and the other states where we may do business in the future; the ability of our insurance subsidiary, Maison Insurance Company, to meet minimum capital and surplus requirements; our ability to participate in take-out programs; our ability to expand our business to other states; the level of demand for our coverage and the incidence of catastrophic events related to our coverage; our ability to compete with other insurance companies; inadequate loss and loss adjustment expense reserves; effects of emerging claim and coverage issues; the failure of third party adjusters to properly evaluate claims or the failure of our claims handling administrator to pay claims fairly; investment losses; climate change and increasing occurrences of weather-related events; increased litigation in the insurance industry; non-availability of reinsurance; our ability to recover amounts due from reinsurers; reinsurance costs allocated to Maison Insurance Company; increased reinsurance costs incurred by the Company; the accuracy of models used to predict future losses; failure of risk mitigation strategies and/or loss limitation methods; Maison Insurance Company’s failure to maintain certain rating levels; our ability to establish and maintain an effective system of internal controls; any potential conflicts of interest between us and our controlling stockholders and different interests of controlling stockholders; failure of our information technology systems, data breaches and cyber-attacks; the ability of our third-party policy administrator to properly handle our policy administration process; the requirements of being a public company; our ability to develop and implement new technologies; our ability to accurately price the risks that we underwrite; the amount of operating resources necessary to develop future new insurance policies; assumptions related to the rate at which our existing policies will renew; our status as an insurance holding company; the ability of our subsidiaries to pay dividends to us; our ability to attract and retain qualified personnel, including independent agents; the impact of tax reform; risks or disruptions to our business as a result of the proposed sale of three of the Company’s subsidiaries, which constitutes the sale of substantially all of the Company’s assets (the “Asset Sale”); the occurrence of any event, change or other circumstance that could give rise to the termination of the Equity Purchase Agreement governing the terms of the Asset Sale; an inability to complete the Asset Sale due to a failure of any condition to the closing of the Asset Sale to be satisfied or waived by the applicable party; our ability to spend or invest the net proceeds from the Asset Sale in a manner that yields a favorable return; potential conflicts of interest of certain of our executive officers in the Asset Sale; the outcome of any litigation we may become subject to relating to the Asset Sale; an increase in the amount of costs, fees and expenses and other charges related to the Equity Purchase Agreement or the Asset Sale; risks arising from the diversion of management’s attention from our ongoing business operations; a decline in the market price for our common shares if the Asset Sale is not completed; a lack of alternative potential transactions if the Asset Sale is not completed; volatility or decline of the shares of FedNat Holding Company common stock to be received by us as consideration in the Asset Sale or limitations on our ability to sell or otherwise dispose of such shares; risks of being a minority stockholder of FedNat Holding Company if the Asset Sale is completed; disruptions in our operations from the Asset Sale that prevent us from realizing intended benefits of the Asset Sale; risks associated with our inability to identify and realize business opportunities, and undertaking of any new such opportunities, following the Asset Sale; our inability to execute on our reinsurance, investment and investment management strategy; potential loss of value of investments; risk of becoming an investment company; risks of being unable to attract and retain qualified management and personnel to implement and execute on our growth strategy following completion of the Asset Sale; and risks of our inability to continue to satisfy the continued listing standards of the Nasdaq following completion of the Asset Sale.

Our expectations may not be realized. If one of these risks or uncertainties materialize, or if our underlying assumptions prove incorrect, actual results may vary materially from those expected, estimated or projected. You are cautioned not to place undue reliance on forward-looking statements. The forward-looking statements are made only as of the date hereof and do not necessarily reflect our outlook at any other point in time. We do not undertake and specifically decline any obligation to update any such statements or to publicly announce the results of any revisions to any such statements to reflect new information, future events or developments.

Overview

1347 Property Insurance Holdings, Inc. is an insurance holding company specialized in providing personal property insurance in coastal markets including those in Louisiana, Texas and Florida. These markets are characterized as regions where larger, national insurers have reduced their market share in favor of other, less catastrophe exposed markets. These markets are also characterized by state-administered residual insurers controlling large market shares. These unique markets can trace their roots to Hurricane Andrew, after which larger national carriers limited their capital allocation and approaches to property risk aggregation. These trends accelerated again after back to back exceptionally active hurricane seasons in 2004 and 2005. However, the decade following Hurricane Katrina in 2005, had relatively few losses arising from tropical storm activity which led to declines in reinsurance pricing and increases in its availability. We were incorporated on October 2, 2012 in the State of Delaware to take advantage of these favorable dynamics where premium could be acquired relatively more quickly and under less competitive pressure than in other property insurance markets and where the cost of reinsurance, a significant expense for primary insurers, was declining from record high levels. We execute on this opportunity via a management team with expertise in the critical facets of our business: underwriting, claims, reinsurance, and operations. Within our three-state market, we seek to sell our products in territories with the highest rate per exposure and the least complexity in terms of risk. As of September 30, 2019, we covered risks under approximately 64,000 policies.

On November 19, 2013, we changed our legal name from Maison Insurance Holdings, Inc. to 1347 Property Insurance Holdings, Inc., and on March 31, 2014, we completed an initial public offering of our common stock. Prior to March 31, 2014, we were a wholly owned subsidiary of Kingsway America Inc., which, in turn, is a wholly owned subsidiary of Kingsway Financial Services Inc., or KFSI, a publicly owned Delaware holding company. As of September 30, 2019, KFSI and its affiliates held warrants that, if exercised, would cause KFSI and its affiliates to hold an approximate 20% ownership interest in our common stock. In addition, as of September 30, 2019, Fundamental Global Investors, LLC and its affiliates, or FGI, beneficially owned approximately 45% of our outstanding shares of common stock. D. Kyle Cerminara, Chairman of our Board of Directors, serves as Chief Executive Officer, Co-Founder and Partner of FGI, and Lewis M. Johnson, Co-Chairman of our Board of Directors, serves as President, Co-Founder and Partner of FGI.

We have four wholly owned subsidiaries: Maison Insurance Company, or “Maison”, Maison Managers Inc., or “MMI”, ClaimCor, LLC, or “ClaimCor”, and PIH Re, Ltd or “PIH Re”.

Through Maison, we began providing property and casualty insurance to individuals in Louisiana in December 2012. In September 2015, Maison began writing manufactured home policies in the State of Texas on a direct basis, and in December 2017, Maison began writing wind/hail only policies in Florida via the assumption of policies from Florida Citizens Property Insurance Corporation (“FL Citizens”). Our current insurance offerings in Louisiana, Texas, and Florida include homeowners’ insurance, manufactured home insurance and dwelling fire insurance. We write both full peril property policies as well as wind/hail only exposures and we produce new policies through a network of independent insurance agencies. We refer to the policies we write through independent agencies as voluntary policies versus those policies we have assumed through state-run insurers such as FL Citizens, which we refer to as take-out policies.

Maison has participated in take-outs from both FL Citizens and Louisiana Citizens Property Insurance Corporation, or “LA Citizens”, as well as the inaugural depopulation of policies from the Texas Windstorm Insurance Association, or “TWIA”, which occurred on December 1, 2016. Under these programs, state-approved insurance companies, such as Maison, are able to assume insurance policies written by FL Citizens, LA Citizens and TWIA. The majority of policies which we have obtained through LA Citizens as well as all of the policies we have obtained through FL Citizens and TWIA cover losses arising only from wind and hail. Prior to our take-out, some of these policyholders may not have been able to obtain such coverage from any other marketplace.

On August 1, 2018, House Bill No. 333 (“HB 333”) became effective, which amended the law with respect to the depopulation of policies from LA Citizens. In July 2018, the Company was notified by LA Citizens of the number of policies which would be available for assumption by all insurers electing to participate in the December 1, 2018 depopulation under the new law. Due to the significant reduction of policies available when compared to those available for assumption in prior years, the Company did not participate in the December 1, 2018 assumption of policies from LA Citizens. The Company does not expect to participate in the December 1, 2019 LA Citizens assumption process.

MMI serves as our management services subsidiary, known as a managing general agency, and provides underwriting, policy administration, claims administration, marketing, accounting and other management services to Maison. MMI contracts primarily with independent agencies for policy sales and services, and also contracts with an independent third-party for policy administration services. As a managing general agency, MMI is licensed by, and subject to, the regulatory oversight of the Louisiana Department of Insurance (“LDI”), Texas Department of Insurance (“TDI”) and the Florida Office of Insurance Regulation (“OIR”). MMI earns commissions on a portion of the premiums Maison writes, as well as a policy fee on each direct policy Maison issues.

ClaimCor is a claim and underwriting technical solutions company. Maison processes claims made by our policyholders through ClaimCor, and also through various third-party claims adjusting companies during times of high volume, so that we may provide responsive claims handling service when catastrophe events occur which impact many of our policyholders. We have the ultimate authority over the claims handling process, while the agencies that we appoint have no authority to settle our claims or otherwise exercise control over the claims process.

PIH Re is our Bermuda-domiciled reinsurance subsidiary which was registered on December 6, 2018. PIH Re is still formulating its business plan and has not been party to any reinsurance transaction since its formation.

Equity Purchase Agreement with FedNat Holding Company

On February 25, 2019, the Company, together with Maison, MMI and ClaimCor, entered into an Equity Purchase Agreement (the "Purchase Agreement") with FedNat Holding Company, a Florida corporation ("FedNat"), providing for the sale of all of the issued and outstanding equity of Maison, MMI and ClaimCor to FedNat, on the terms and subject to the conditions set forth in the Purchase Agreement (the "Asset Sale"). As consideration for the sale of Maison, MMI and ClaimCor, FedNat has agreed to pay the Company $51,000, consisting of $25,500 in cash (the "Cash Consideration") and $25,500 in FedNat common stock (the "Equity Consideration"). In addition, upon closing of the Asset Sale (the "Closing"), up to $18,000 of outstanding surplus note obligations payable by Maison to the Company, plus all accrued but unpaid interest (other than default rates of interest, penalties, late fees and other related charges), will be repaid to the Company.

The Equity Consideration is expected to be issued pursuant to the terms and conditions of a Standstill Agreement to be entered into among the Company and FedNat at the Closing. The Company and FedNat also plan to enter into a Registration Rights Agreement at the Closing providing for the registration under the Securities Act of the resale of the Equity Consideration.

The Company's shareholders have approved the Asset Sale. The Company has also received the regulatory approval required from the LDI and FOIR in order to consummate the Asset Sale. The regulatory approvals are contingent on compliance with consent orders issued by the insurance regulators. The Company currently anticipates that the Asset Sale will close in December 2019.

All of the employees of MMI are expected to become employees of FedNat as of the Closing, either directly or by remaining employees of MMI, other than John S. Hill, the Company's Chief Financial Officer, and Brian D. Bottjer, the Company's Controller, who the Company expects to hire as employees of the Company after the Closing. Douglas N. Raucy, the Company's current President and Chief Executive Officer and a director, and Dean E. Stroud, the Company's current Vice President and Chief Underwriting Officer, have entered into employment agreements with FedNat, with the effectiveness of such agreements subject to the occurrence of the Closing and continuous employment with the Company through the Closing.

The Company, and not its stockholders, will receive the Cash Consideration and the Equity Consideration from the Asset Sale. The Company does not intend to liquidate following the Closing. The Company's board of directors is currently evaluating alternatives for the use of the Cash Consideration, which are expected to include using a portion of the Cash Consideration to conduct the business of PIH Re, and launching a new growth strategy focused on reinsurance, investment management and new investment opportunities. The Company may form an additional reinsurance subsidiary in a suitable jurisdiction.

FedNat's obligation to close the Asset Sale is subject to Maison, MMI and ClaimCor having a consolidated net book value of at least $42,000 at the Closing (without considering the effect of the repayment of the surplus notes), Maison having at the Closing statutory surplus of at least $29,000 after accounting for the full repayment of all of the surplus notes in effect at the closing, total capital and surplus assets equal to or greater than 300% of its total risk-based capital on all authorized control level risk-based capital requirements as of December 31, 2018, and there being no change to Maison's "A" rating with Demotech, Inc. as of the Closing, other than changes resulting from the execution of the Purchase Agreement and/or the circumstances of FedNat.

In connection with the Purchase Agreement, the Company and FedNat plan to enter into a Reinsurance Capacity Right of First Refusal Agreement (the "Reinsurance ROFR Agreement") at the Closing pursuant to which the Company will have a right of first refusal to sell reinsurance coverage to the insurance company subsidiaries of FedNat, providing reinsurance on up to 7.5% of annual in force limit of any layer in FedNat's catastrophe reinsurance program purchased by FedNat and its subsidiaries, subject to the annual reinsurance limit of $15,000, on the terms and subject to the conditions set forth in the Reinsurance ROFR Agreement. All reinsurance sold by the Company pursuant to the right of first refusal, if any, will be memorialized in an agreement in such form and subject to such terms and conditions as are customary in the property and casualty insurance industry. The Reinsurance ROFR Agreement will be assignable by the Company subject to conditions set forth in the agreement. The term of the Reinsurance ROFR Agreement will be five years.

In addition, at the Closing, the Company and FedNat plan to enter into a five-year agreement, pursuant to which the Company will provide investment advisory services to FedNat for $100 per year.

The Purchase Agreement contains customary representations, warranties and covenants of the parties, including covenants concerning the conduct of business by Maison, MMI and ClaimCor prior to Closing. The Company was permitted to solicit superior offers to acquire its insurance businesses, pursuant to the terms of the Purchase Agreement, during a 30-day go-shop period which expired on March 27, 2019. Having not received a superior offer during the go-shop period, the Company and its representatives are prohibited from initiating, soliciting, knowingly facilitating, encouraging or engaging in discussions or negotiations relating to any competing acquisition proposal, subject to certain limited exceptions. In addition, the Company and FedNat have each agreed to use their commercially reasonable best efforts to consummate the Asset Sale and the other transactions contemplated by the Purchase Agreement. Subject to certain limitations, the Company and FedNat have also agreed to indemnify the other party against certain losses, including losses arising out of breaches of representations, warranties and covenants set forth in the Purchase Agreement.

Our Products

As of September 30, 2019, we covered risks under approximately 64,000 direct and assumed policies. Of these policies, approximately 25% were obtained via take-out from LA Citizens, FL Citizens and TWIA, with the remaining 75% obtained from our independent agency force. In total, from both take-out and voluntary business, approximately 57% of our policies are homeowner multi-peril, approximately 11% are manufactured home multi-peril policies, approximately 28% are wind/hail only policies, approximately 2% are multi-peril dwelling policies, and approximately 2% are dwelling fire policies.

Homeowners' Insurance

Our homeowners' insurance policy is written on an owner-occupied dwelling and protects from all perils, except for those specifically excluded from coverage by the policy. It also provides replacement cost coverage on the home and other structures and will provide optional coverage for replacement cost on personal property in the home. It may also offer the option of specifically scheduling individual personal property items for coverage. Additionally, coverage for loss of use of the home until it can be repaired is provided. Personal liability and medical payment coverage to others is included, as well.

Wind/Hail Insurance

Our wind/hail insurance policy is written on an owner or non-owner-occupied dwelling and protects from the perils of wind and/or hail-only weather events. This policy type may also provide coverage for personal property, but only for specific types of coverage. It provides replacement cost or actual cash value coverage on the home and other structures depending on the form under which the policy is written. Personal property in the home is written at actual cash value. Additionally, coverage for loss of use of the home is provided.

Manufactured Home Insurance

Our manufactured home insurance policy is written on a manufactured or mobile home and is similar to both the homeowners' insurance policy and the dwelling fire policy. The policy can provide for coverage on the manufactured home, the insured's personal property in the home and liability and medical payments can be included. Furthermore, our manufactured home policies can be endorsed to include coverage for flood and earthquake (coverage for these perils is not available under our other policy types). The policy can also be written on either owner occupied or non-owner-occupied units. Property coverage can be written on an actual cash value or stated amount basis with an optional replacement cost coverage available for partial loss. There are several other optional coverages that can be included, and residential and commercial-use rental units can be written along with seasonal use mobile homes or homes that are used for part of the year.

Dwelling Fire Insurance

Our dwelling fire policy can be issued on an owner occupied or non-owner (tenant) occupied dwelling property. It will also provide coverage against all types of loss unless the peril causing the loss is specifically excluded in the policy. Losses from vandalism and malicious mischief are also included in the coverage. All claims and losses on a dwelling are covered on a replacement cost basis and additional coverage for personal property (contents) can also be added. Personal liability and medical payments to others may be included on an optional basis.

Our policy counts by type as of September 30, 2019 and December 31, 2018 are as follows:

	Policies as of	
Source of Policies	**September 30, 2019**	**December 31, 2018**
Homeowners	36,667	39,904
Manufactured Homes	6,651	6,250
Other Dwellings	5,141	5,200
Total Voluntary Policies in Force	48,459	51,354
Assumed through LA Citizens Depopulation Program	9,085	9,930
Assumed through FL Citizens Depopulation Program	6,219	6,882
Assumed through TWIA Quota-Share Agreement	561	627
Total Assumed Policies	15,865	17,439
Total all Policies	64,324	68,793

Non U.S.-GAAP Financial Measures

The Company assesses its results of operations using certain non-U.S. GAAP financial measures, in addition to U.S. GAAP financial measures. These non-U.S. GAAP financial measures are defined below. The Company believes these non-U.S. GAAP financial measures provide useful information to investors and others in understanding and evaluating our operating performance in the same manner as management does.

The non-U.S. GAAP financial measures should be considered in addition to, and not as a substitute for or superior to, any financial measures prepared in accordance with U.S. GAAP. The Company's non-U.S. GAAP financial measures may be defined differently from time to time and may be defined differently than similar terms used by other companies, and accordingly, care should be exercised in understanding how we define our non-U.S. GAAP financial measures.

Underwriting Ratios

The Company, like many insurance companies, analyzes performance based on underwriting ratios such as loss ratio, expense ratio and combined ratio. The loss ratio is derived by dividing the amount of net losses and loss adjustment expenses incurred by net premiums earned. The expense ratio is derived by dividing the sum of amortization of deferred policy acquisition costs and general and administrative expenses incurred by net premiums earned. All items included in the loss and expense ratios are presented in the Company's U.S. GAAP financial statements. The combined ratio is the sum of the loss ratio and the expense ratio. A combined ratio below 100% demonstrates underwriting profit whereas a combined ratio over 100% demonstrates an underwriting loss.

Critical Accounting Policies

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses for the reporting period. Actual results could differ from these estimates. Estimates and their underlying assumptions are reviewed on an ongoing basis. Changes in estimates are recorded in the accounting period in which they are determined. The critical accounting estimates and assumptions in the accompanying consolidated financial statements include the provision for loss and loss adjustment expense reserves (as well as the reinsurance recoverable on those reserves), the valuation of fixed income and equity securities, the valuation of net deferred income taxes, the valuation of various securities we have issued in conjunction with the termination of the management services agreement with 1347 Advisors, LLC, the valuation of deferred policy acquisition costs and stock-based compensation expense.

Discontinued Operations

In light of the Company's receipt of the stockholder approval and regulatory approval to consummate the sale of all of the issued and outstanding equity of Maison, MMI and ClaimCor, the operations of Maison, MMI and ClaimCor have been classified as discontinued operations in the Company's financial statements presented in this report. Certain transactions between the Company and its subsidiaries, which have historically been eliminated upon consolidation, are shown on a gross basis in the accompanying financial statements as such transactions have occurred or are expected to occur between discontinued operations and those operations which the Company intends to continue to utilize following the consummation of the Asset Sale. These items include surplus notes in the amount of $18,000 plus approximately $961 in unpaid interest outstanding on these notes, which have been issued by Maison to the Company, and have been reflected as both an asset in continuing operations and liability of discontinued operations on the Company's consolidated balance sheet as of September 30, 2019 and December 31, 2018. Interest associated with these surplus notes has also been recorded as part of net investment income as well as interest expense in discontinued operations on the Company's consolidated statement of operations for the three and nine months ended September 30, 2019 and 2018. Similarly, amounts due from the Company to Maison upon the assignment of certain of Maison's investments to the Company have also been reflected as an asset of continuing operations as well as a corresponding liability under the heading due to affiliates on the Company's consolidated balance sheet as of September 30, 2019 and December 31, 2018.

Provision for Loss and Loss Adjustment Expense Reserves

A significant degree of judgment is required to determine amounts recorded in the consolidated financial statements for the provision for loss and loss adjustment expense reserves. The process for establishing the provision for loss and loss adjustment expense reserves reflects the uncertainties and significant judgmental factors inherent in predicting future results of both known and unknown loss events. As such, the process is inherently complex and imprecise, and estimates are constantly refined. The process of establishing the provision for loss and loss adjustment expense reserves relies on the judgment and opinions of a large number of individuals, including the opinions of the Company's independent actuaries.

Factors affecting the provision for loss and loss adjustment expense reserves include the continually evolving and changing regulatory and legal environment, actuarial studies, professional experience and expertise of the Company's claims department 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.

In the actuarial review process, an analysis of the provision for loss and loss adjustment expense reserves is completed for the Company's insurance subsidiary. Unpaid losses, allocated loss adjustment expenses and unallocated loss adjustment expenses are separately analyzed by line of business or coverage by accident year. A wide range of actuarial methods are utilized in order to appropriately measure ultimate loss and loss adjustment expense costs. These methods include paid loss development, incurred loss development and frequency-severity method. Reasonability tests such as ultimate loss ratio trends and ultimate allocated loss adjustment expense to ultimate loss are also performed prior to selection of the final provision. The provision is indicated by line of business or coverage and is separated into case reserves, reserves for losses incurred but not reported ("IBNR") claims and a provision for loss adjustment expenses ("LAE").

Because the establishment of the provision for loss and loss adjustment expense reserves is an inherently uncertain process involving estimates, current provisions may need to be updated. Adjustments to the provision, both favorable and unfavorable, are reflected in the consolidated statements of income and comprehensive income for the periods in which such estimates are updated. Management determines the loss and loss adjustment expense reserves as recorded on the Company's financial statements, while the Company's independent actuaries develop a range of reasonable estimates and a point estimate of loss and loss adjustment expense reserves. The actuarial point estimate is intended to represent the actuaries' best estimate and will not necessarily be at the mid-point of the high and low estimates of the range.

Valuation of Fixed Income and Equity Securities

The Company’s fixed income and equity securities are recorded at fair value using observable inputs such as quoted prices in inactive markets, quoted prices in active markets for similar instruments, benchmark interest rates, broker quotes and other relevant inputs. Any change in the estimated fair value of its investments could impact the amount of unrealized gain or loss the Company has recorded, which could change the amount the Company has recorded for its investments as well as net income and other comprehensive loss on its consolidated balance sheets and statements of income and comprehensive income.

Gains and losses realized on the disposition of investments are determined on the first-in first-out basis and credited or charged to the consolidated statement of operations and comprehensive income. Premium and discount on investments are amortized and accreted using the interest method and charged or credited to net investment income.

The Company performs a quarterly analysis of its investment portfolio to determine if declines in market value are other-than-temporary. Further information regarding its detailed analysis and factors considered in establishing an other-than-temporary impairment on an investment is discussed within Note 5 - Investments, to the consolidated financial statements.

Valuation of Net Deferred Income Taxes

The provision for income taxes is calculated based on the expected tax treatment of transactions recorded in the Company’s consolidated financial statements. In determining its provision for income taxes, the Company interprets tax legislation in a variety of jurisdictions and makes assumptions about the expected timing of the reversal of deferred income tax assets and liabilities and the valuation of net deferred income taxes.

The ultimate realization of the deferred income tax asset balance is dependent upon the generation of future taxable income during the periods in which the Company’s temporary differences reverse and become deductible. A valuation allowance is established when it is more likely than not that all or a portion of the deferred income tax asset balance will not be realized. In determining whether a valuation allowance is needed, management considers all available positive and negative evidence affecting specific deferred income tax asset balances, including the Company’s past and anticipated future performance, the reversal of deferred income tax liabilities, and the availability of tax planning strategies. To the extent a valuation allowance is established in a period, an expense must be recorded within the income tax provision in the consolidated statements of income and comprehensive income.

The Company carries a net deferred income tax asset of $2,285 and $1,279 at September 30, 2019 and December 31, 2018, respectively, all of which the Company believes is more likely than not to be fully realized based upon management’s assessment of future taxable income.

Securities issued to 1347 Advisors, LLC

Pursuant to the termination of the Management Services Agreement with 1347 Advisors, LLC (“Advisors,” a wholly owned subsidiary of KFSI), the Company issued Series B Preferred Shares, Warrants, and entered into a Performance Share Grant Agreement with Advisors on February 24, 2015. On January 2, 2018, the Company entered into a stock purchase agreement with Advisors and IWS Acquisition Corporation, also an affiliate of KFSI, pursuant to which the Company agreed to repurchase all 60,000 Series B Preferred Shares held by Advisors and all 60,000 Series B Preferred Shares held by IWS Acquisition Corporation. The Company completed the repurchase of the shares held by Advisors on January 2, 2018 and the repurchase of the shares held by IWS Acquisition Corporation on February 28, 2018. In connection with the stock purchase agreement, the Performance Share Grant Agreement, dated February 24, 2015, between the Company and Advisors was terminated. No common shares were issued to Advisors under the Performance Share Grant Agreement. Advisors has subsequently transferred the warrants to its affiliate, Kingsway America Inc.

Because the Series B Preferred Shares had a redemption provision requiring mandatory redemption on February 24, 2020, the Company was required to classify the shares as a liability on its consolidated balance sheet. The resulting liability was recorded at a discount to the $4,200 ultimate redemption amount which included all dividends to be paid on the Series B Preferred Shares based upon an analysis of the timing and amounts of cash payments expected to occur under the terms of the shares discounted for the Company’s estimated cost of equity (13.9%).

The Company estimated the fair value of the Warrants on their grant date based upon the Black-Scholes option pricing model while it utilized a Monte Carlo model to determine the fair value of the Performance Share Grant Agreement due to the fact that the underlying shares are only issuable based upon the achievement of certain market conditions.

Deferred Policy Acquisition Costs

Deferred policy acquisition costs represent the deferral of expenses that the Company incurs related to successful efforts to acquire new business or renew existing business. Acquisition costs, primarily commissions, premium taxes and underwriting and agency expenses related to issuing insurance policies are deferred and charged against income ratably over the terms of the related insurance policies. Management regularly reviews the categories of acquisition costs that are deferred and assesses the recoverability of this asset. Costs associated with unsuccessful efforts or costs that cannot be tied directly to a successful policy acquisition are expensed as incurred, as opposed to being deferred and amortized as the premium is earned.

Stock-Based Compensation Expense

The Company uses the fair-value method of accounting for stock-based compensation awards granted. The Company determines the fair value of the stock options on their grant date using the Black-Scholes option pricing model and determines the fair value of restricted stock units ("RSUs") on their grant date using the fair value of the Company's common stock on the date the RSUs were issued (for those RSU which vest solely based upon the passage of time), as well as using multiple Monte Carlo simulations for those RSUs with market-based vesting conditions. The fair value of these awards is recorded as compensation expense over the requisite service period, which is generally the expected period over which the awards will vest, with a corresponding increase to additional paid-in capital. When the stock options are exercised, or correspondingly, when the restricted stock units vest, the amount of proceeds together with the amount recorded in additional paid-in capital is recorded in shareholders' equity.

New Accounting Pronouncements

See Note 4 – "Recently Adopted and Issued Accounting Standards" in the Notes to our consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q for a discussion of recent accounting pronouncements and their effect, if any, on the Company.

Analysis of Financial Condition
As of September 30, 2019 compared to December 31, 2018

Dollar amounts included in the Analysis of Financial Condition are presented in thousands, except as otherwise specified.

Investments

The Company's investments in fixed income and equity securities are classified as available-for-sale and are reported at estimated fair value. The Company held an investments portfolio comprised primarily of fixed income securities issued by the U.S. Government, government agencies and high-quality corporate issuers. The fixed income portfolio is managed by a third-party investment management firm in accordance with the investment policies and guidelines approved by the investment committee of the Company's Board of Directors. These guidelines stress the preservation of capital, market liquidity and the diversification of risk. Investments held by the Company's insurance subsidiary must also comply with applicable domiciliary state regulations that prescribe the type, quality and concentration of investments. The Company's intends to sell its fixed income securities portfolio pursuant to the terms of the Purchase Agreement. Accordingly, the portfolio has been reflected in the Company's consolidated balance sheet as assets of discontinued operations as of September 30, 2019 and December 31, 2018. Additionally, pursuant to the Equity Purchase Agreement, the Company has sold its equity securities as of September 30, 2019, other than the limited liability investments discussed below.

The table below summarizes, by type, the Company's investments as of September 30, 2019 and December 31, 2018.

Type of Investment	September 30, 2019 Carrying Amount	September 30, 2019 Percent of Total	December 31, 2018 Carrying Amount	December 31, 2018 Percent of Total
Fixed income securities:				
U.S. government	$ 8,816	12.0%	$ 8,422	10.1%
State municipalities and political subdivisions	6,395	8.7%	6,428	7.7%
Asset-backed securities and collateralized mortgage obligations	29,297	39.9%	32,792	39.4%
Corporate	24,069	32.8%	28,668	34.4%
Total fixed income securities	68,577	93.4%	76,310	91.6%
Equity securities:				
Common stock	–	–%	3,077	3.7%
Warrants to purchase common stock	–	–%	123	0.1%
Rights to purchase common stock	–	–%	63	0.1%
Total equity securities	–	–%	3,263	3.9%
Limited liability investments	3,994	5.4%	2,987	0.6%
Other investments	904	1.2%	774	3.9%
Total investments	$ 73,475	100.0%	$ 83,334	100.0%

Pursuant to the certificate of authority we received from the TDI, we are required to deposit assets with the State of Texas. These assets consist of cash and various fixed income securities listed in the table above having an amortized cost basis of $2,000 and an estimated fair value of $2,015 as of September 30, 2019.

The Company's limited liability investments are comprised of investments in a limited partnership and a limited liability company which seek to provide equity and asset-backed debt investment in a variety of privately-owned companies. The Company has a total potential commitment of $935 related to these investments, of which the two entities have drawn down approximately $776 through September 30, 2019. The limited liability company is managed by Argo Management Group, LLC, an entity which is wholly owned by KFSI. The Company has accounted for these two investments under the cost method, as the investments do not have readily determinable fair values and the Company does not exercise significant influence over the operations of the investments or the underlying privately-owned companies.

Additionally, on June 18, 2018 the Company invested $2,219 in FGI Metrolina Property Income Fund, LP (the "Fund"), which intends to invest in real estate through a real estate investment trust which is wholly owned by the Fund. The general partner of the Fund, FGI Metrolina GP, LLC, is managed, in part, by Messrs. Cerminara and Johnson, the Chairman and Co-Chairman of the Board of Directors of the Company, respectively. The Company, a limited partner of the Fund, does not have a controlling financial interest in the Fund, but exerts significant influence over the entity's operating and financial policies as it owns an economic interest of approximately 47%. Accordingly, the Company has accounted for this investment under the equity method of accounting. The Company has committed to a total potential investment of up to $4,000 in the Fund. As of September 30, 2019, the total amount invested in the Fund was $2,719, while the carrying amount on the Company's consolidated balance sheet was $3,217.

Pursuant to the terms of the Purchase Agreement, prior to Closing, Maison intends to assign all of its right, title and interest in each of the limited liability investments to the Company in exchange for the statutory carrying value of each investment. Accordingly, these investments have been included on the Company's consolidated balance sheet as of September 30, 2019 and December 31, 2018 as part of continuing operations. Investment income resulting from the Company's limited liability investments has also been included in net investment income as part of continuing operations, on the Company's consolidated statement of operations for the three and nine months ended September 30, 2019 and 2018.

Included in assets of discontinued operations are short-term investments, with original maturities between three months and one year, which have been recorded at cost, as well as a $300 certificate of deposit with an original term of 18 months deposited with the State of Florida pursuant to the terms of the certificate of authority issued to Maison from the OIR.

Liquidity and Cash Flow Risk

The table below summarizes the fair value of the Company's fixed income securities by contractual maturity as of September 30, 2019 and December 31, 2018. Actual results may differ as issuers may have the right to call or prepay obligations, with or without penalties, prior to the contractual maturity of these obligations.

Matures in:	September 30, 2019 Carrying Amount	September 30, 2019 Percent of Total	December 31, 2018 Carrying Amount	December 31, 2018 Percent of Total
One year or less	$ 4,579	6.7%	$ 3,758	4.9%
More than one to five years	35,421	51.6%	34,169	44.8%

More than five to ten years	6,792	9.9%	13,806	18.1%
More than ten years	21,785	31.8%	24,577	32.2%
Total	$ 68,577	100.0%	$ 76,310	100.0%

The Company holds cash and high-grade short-term assets which, along with its fixed income securities, provides an amount which management believes is sufficient for the payment of loss and loss adjustment expense reserves and other operating subsidiary obligations on a timely basis. The Company may not be able to liquidate its investments in the event that additional cash is required to meet obligations to its policyholders; however, the Company believes that the high-quality, liquid investments in its portfolio provide it with sufficient liquidity.

Market Risk

Market risk is the risk that the Company will incur losses due to adverse changes in interest or currency exchange rates and equity prices. Given the Company's operations predominantly invest in U.S. dollar denominated instruments and maintain a relatively insignificant investment in equity instruments, its primary market risk exposures in the investments portfolio are to changes in interest rates.

Because the investments portfolio is comprised of primarily fixed maturity instruments that are usually held to maturity, periodic changes in interest rate levels generally impact the Company's financial results to the extent that the investments are recorded at market value and reinvestment yields are different than the original yields on maturing instruments. During periods of rising interest rates, the market values of the existing fixed income securities will generally decrease. The reverse is true during periods of declining interest rates.

Credit Risk

Credit risk is defined as the risk of financial loss due to failure of the other party to a financial instrument to discharge an obligation. Credit risk arises from the Company's positions in short-term investments, corporate debt instruments and government, government agency and municipal bonds.

At September 30, 2019 and December 31, 2018, the Company's debt securities had the following quality ratings as assigned by Standard and Poor's ("S&P") or Moody's Investors Service ("Moody's").

	September 30, 2019		December 31, 2018	
Rating (S&P/Moody's)	**Carrying Amount**	**Percent of Total**	**Carrying Amount**	**Percent of Total**
AAA/Aaa	$ 40,357	58.9%	$ 44,605	58.5%
Aa/Aa	6,959	10.1%	7,159	9.4%
A/A	13,395	19.5%	16,211	21.2%
BBB	7,866	11.5%	8,335	10.9%
Total fixed income securities	$ 68,577	100.0%	$ 76,310	100.0%

Other-Than-Temporary Impairment

The length of time an individual investment may be held in an unrealized loss position may vary based on the opinion of the investment manager and their respective analyses related to valuation and to the various credit risks that may prevent the Company from recapturing the principal investment. In the case of an individual investment with a maturity date where the investment manager determines that there is little or no risk of default prior to the maturity of a holding, the Company would elect to hold the investment in an unrealized loss position until the price recovers or the investment matures. In situations where facts emerge that might increase the risk associated with recapture of principal, the Company may elect to sell investments at a loss.

The Company performs a quarterly analysis of its investment portfolio to determine if declines in market value are other-than-temporary. Further information regarding the Company's detailed analysis and factors considered in establishing an other-than-temporary impairment on an investment is discussed within Note 5 - "Investments," to the consolidated financial statements in Item 1 of this report.

As a result of the analysis performed by the Company, we recorded a write-down for an other-than-temporary impairment on a single equity investment resulting in a charge of $215 against net investment income for the quarter ended December 31, 2018. We recorded this write-down as a result of our analysis of the investment's operating losses for 2018, which showed a considerable decline when compared to its results for 2017. There were no write-downs for other-than-temporary impairment on our investments for the three and nine months ended September 30, 2019 or 2018.

At September 30, 2019, the Company did not hold any equity securities, other than its limited liability investments, while gross unrealized losses for fixed income securities amounted to $51. There were no unrealized losses attributable to non-investment grade fixed income securities. Fixed income securities in unrealized loss positions continued to pay interest and were not subject to material changes in their respective debt ratings. The Company concluded the declines in value on its fixed income securities were considered temporary. As the Company has the capacity to hold these investments to maturity, no impairment provision was considered necessary.

Deferred Policy Acquisition Costs

The Company's deferred policy acquisition costs ("DPAC") include commissions, premium taxes, assessments and other policy processing fees that are directly related to successful efforts to acquire new or existing insurance policies to the extent they are considered recoverable and represent those costs related to acquiring the premiums the Company has yet to earn (the unearned premium reserve). DPAC as well as the related amortization expense associated with DPAC for the three and nine months ended September 30, 2019 and 2018 has been presented as part of discontinued operations in the Company's financial statements.

DPAC increased $704, to $9,815 as of September 30, 2019 compared to $9,111 as of December 31, 2018, related primarily to the deferral of retaliatory taxes associated with the premiums we write in Texas and Florida as well as third-party computer programming costs associated with the development of new products for the Company's policy administration system. DPAC expressed as a percentage of unearned premium reserves was 18.5% and 17.6% as of September 30, 2019 and December 31, 2018, respectively.

Premiums Receivable, Net of Allowance for Doubtful Accounts

Premiums receivable, net of allowances for credit losses, decreased by $4,809 to $2,911 as of September 30, 2019 from $7,720 as of December 31, 2018, due, in large part, to our collection, in January 2019, of premiums due to us from FL Citizens as of December 31, 2018. Premiums receivable have been presented as part of discontinued operations in the Company's financial statements.

Ceded Unearned Premiums

Ceded unearned premiums represents the unexpired portion of premiums which have been paid to the Company's reinsurers and have been presented as part of discontinued operations in the Company's financial statements. Ceded unearned premiums are charged to income over the terms of the respective reinsurance treaties. Our catastrophe excess of loss ("CAT XOL") treaties make up the majority of our ceded unearned premiums at both September 30, 2019 and December 31, 2018. Ceded unearned premiums have been presented as part of discontinued operations in the Company's financial statements.

Reinsurance Recoverable

Reinsurance recoverable on both paid losses and loss reserves represents amounts due to the Company or expected to be due to the Company from its reinsurers, based upon claims and claim reserves which have exceeded the retention amount under our reinsurance treaties. As of September 30, 2019, we have recorded an expected recovery of $2,401 on paid losses as well as $6,946 on loss and loss adjustment expense reserves, compared to $530 and $5,661, respectively, as of December 31, 2018. This increase relates to recoveries expected to be received under our 2018/2019 CAT XOL reinsurance program for hailstorms affecting our policyholders in the Dallas Metroplex area in late-March 2019. Reinsurance recoverable on paid losses and loss reserves have been presented as part of discontinued operations in the Company's financial statements.

Current Income Taxes Recoverable/Payable

Current federal income taxes have been allocated between the Company and its subsidiaries pursuant to a tax allocation and sharing agreement which apportions federal taxes among the members of the affiliated group on a pro-rata basis in accordance with each member's taxable income as compared to total consolidated taxable income. This has resulted in an income tax recoverable of $3,704 as of September 30, 2019 compared to $2,051 as of December 31, 2018, for our insurance subsidiaries subject to the Asset Sale, and therefore has been classified as assets of discontinued operations on the Company's consolidated balance sheet as of both periods. Pursuant to the Purchase Agreement, the Company expects to settle these balances prior to Closing, via a cash payment from the Company to its subsidiaries. Current income taxes payable from continuing operations were $1,935 and $932 as of September 30, 2019 and December 31, 2018, respectively.

Net Deferred Tax Asset

The Company carries a net deferred income tax asset of $2,285 and $1,279 at September 30, 2019 and December 31, 2018, respectively, all of which the Company believes is more likely than not to be fully realized based upon management's assessment of future taxable income. Significant components of the Company's net deferred tax assets are as follows:

	September 30, 2019		December 31, 2018	
Deferred income tax assets:				
Loss and loss adjustment expense reserves	$	100	$	87
Unearned premium reserves		2,294		1,983
Investments		1,369		216
Share-based compensation		241		257
Deferred fee income		339		357
State deferred taxes		349		247
Net operating loss carryforward		–		–
Other		72		81
Deferred income tax assets	$	4,762	$	3,228
Deferred income tax liabilities:				
Deferred policy acquisition costs	$	2,061	$	1,913
Investments		383		–
Other		33		36
Deferred income tax liabilities	$	2,477	$	1,949
Net deferred income tax assets	$	2,285	$	1,279
Net DTA – from continuing operations	$	376	$	265
Net DTA – from discontinued operations	$	1,909	$	1,014

Other Assets

Other assets are comprised of the following:

Other Assets	September 30, 2019		December 31, 2018	
PP&E – computer equipment	$	2	$	–
Prepaid expenses		250		65
Other		2		2
Total	$	254	$	67
In assets of discontinued operations				
Funds deposited with reinsured companies	$	165	$	287
PP&E		259		316
Prepaid expenses		484		618
Security deposits for facility leases		37		25
Right-of-use asset for operating leases		208		–
Accrued interest on investments		354		406
Other		29		24
Other assets of disposal group classified as held for sale	$	1,536	$	1,676

Surplus Notes Receivable from Affiliate

PIH, as the parent company of Maison, is subject to the insurance holding company laws of the State of Louisiana, which, among other things, regulate the terms of surplus notes issued by insurers to their parent company. As of September 30, 2019, Maison's capital includes six surplus notes issued to PIH in the aggregate amount of $18,000, all of which were approved by the LDI prior to their issuance. Interest payments on the notes are due annually and are also subject to prior approval by the LDI. The Company's surplus notes are as follows.

Date of Issuance	Maturity Date	Interest Rate	Principal Amount as of September 30, 2019		Principal Amount as of December 31, 2018	
December 21, 2015	December 21, 2019	10.0%	$	850	$	850
September 29, 2016	September 29, 2020	10.0%		3,450		3,450
September 28, 2017	September 28, 2021	10.0%		2,950		2,950
December 28, 2017	December 28, 2019	10.0%		2,300		2,300

November 14, 2018	November 14, 2020	10.0%	5,250	5,250
December 27, 2018	December 27, 2020	9.25%	3,200	3,200
			$ 18,000	$ 18,000
Accrued interest			961	244
Surplus notes receivable from affiliate			$ 18,961	$ 18,244

Pursuant to the terms of the Purchase Agreement, upon closing of the Asset Sale, up to $18,000 of the surplus notes plus accrued but unpaid interest (other than default rates of interest, penalties, late fees and other related charges), will be repaid to the Company. Accordingly, the surplus notes have been reflected as both an asset of continuing operations and liability of discontinued operations on the Company's consolidated balance sheets as of September 30, 2019 and December 31, 2018.

Assets of Discontinued Operations

As of September 30, 2019, the Company concluded that the planned sale of Maison, MMI and ClaimCor has met the criteria for assets held for sale as set forth in ASC 205-20 – *Discontinued Operations*. The Company has classified the operations of Maison, MMI and ClaimCor as discontinued operations for all periods presented in this report. The following table presents the assets of discontinued operations as shown in the Company's consolidated balance sheet as of September 30, 2019 and December 31, 2018.

(unaudited)	September 30, 2019	December 31, 2018
Fixed income securities, at fair value (amortized cost of $67,377 and $77,366, respectively)	$ 68,577	$ 76,310
Equity investments, at fair value (cost of $- and $3,130, respectively)	–	3,263
Other investments	904	774
Cash and cash equivalents	34,763	27,236
Deferred policy acquisition costs	9,815	9,111
Premiums receivable, net of allowance of $64 and $50, respectively	2,911	7,720
Ceded unearned premiums	2,126	6,525
Reinsurance recoverable on paid losses	2,401	530
Reinsurance recoverable on loss reserves	6,946	5,661
Current income taxes recoverable	3,704	2,051
Deferred tax asset, net	1,909	1,014
Due from affiliate	3,108	2,698
Other	1,536	1,676
Assets of discontinued operations	$ 138,700	$ 144,569

Loss and Loss Adjustment Expense Reserves

Loss and loss adjustment expense reserves represent the estimated liabilities for reported loss events, incurred but not reported ("IBNR") loss events, as well as the related estimated loss adjustment expenses ("LAE") gross of amounts expected to be recovered from reinsurance. Loss and loss adjustment expense reserves have been presented as part of discontinued operations in the Company's financial statements. The table below separates our loss reserves and LAE between IBNR and case specific estimates as of September 30, 2019 and December 31, 2018 and shows the expected reinsurance recoverable on those reserves.

	Case Loss Reserves	Case LAE Reserves	Total Case Reserves	IBNR Reserves (including LAE)	Total Reserves	Reinsurance Recoverable on Reserves
September 30, 2019						
Homeowners[(1)]	$ 7,265	$ 855	$ 8,120	$ 6,318	$ 14,438	$ 5,365
Special Property[(2)]	1,552	350	1,902	1,429	3,331	1,581
Total	$ 8,817	$ 1,205	$ 10,022	$ 7,747	$ 17,769	$ 6,946
December 31, 2018						
Homeowners	$ 4,635	$ 587	$ 5,222	$ 3,729	$ 8,951	$ 1,584
Special Property	3,244	419	3,663	2,537	6,200	4,077
Total	$ 7,879	$ 1,006	$ 8,885	$ 6,266	$ 15,151	$ 5,661

(1) Homeowners refers to our multi-peril policies for traditional dwellings as well as mobile and manufactured homes.
(2) Special property includes both our fire and allied lines of business, which are primarily wind/hail only products, and also includes the commercial lines wind/hail only business we had assumed through our agreement with Brotherhood and our personal lines wind/hail only business we have assumed through our agreements with LA Citizens, FL Citizens and TWIA.

Gross reserves as of September 30, 2019 were $17,769, comprised primarily of reserves for wind and hail events which occurred in the first and second quarters of 2019. Gross reserves also include a reserve in the amount of $1,294 for Hurricane Harvey, a major storm which made initial landfall in the United States as a Category 4 hurricane near Rockport, Texas, in August 2017, all of which we expect to recover under our reinsurance program.

As of September 30, 2019, we anticipate our total incurred losses from Hurricane Harvey to be $28,000 gross, and $5,000 net of reinsurance recoveries. We anticipate our total incurred losses from PCS 1920, a major hailstorm affecting the Dallas Metroplex area in the first quarter of 2019, to be $22,000 gross, and $0 net of reinsurance recoveries. We do not expect Hurricane Barry, a category 1 hurricane making landfall on Louisiana on July 10, 2019, to exceed the retention under the Company's current reinsurance program. As of November 3, 2019, we have received approximately 500 claims related to Hurricane Barry and anticipate our gross incurred losses to be $3,500 from the storm.

The Company cannot predict whether loss and loss adjustment expense reserves will develop favorably or unfavorably from the amounts reported in the Company's consolidated financial statements. Any such development could have a material effect on the Company's consolidated financial results for a given period.

Unearned Premium Reserves

Unearned premium reserves increased $1,045 to $52,952 as of September 30, 2019, compared to $51,907 as of December 31, 2018, and have been presented as part of discontinued operations in the Company's financial statements. The increase is primarily due to the seasonal pattern whereby the majority of the Company's policies have renewal dates occurring in the third and early fourth quarter of each year, resulting in an increase in unearned premium during those periods. The following table outlines the changes in unearned premium reserves by state and by line of business.

	September 30, 2019	December 31, 2018
Homeowners - LA	$ 17,620	$ 16,639
Special Property - LA	7,907	7,633
Total Louisiana	25,527	24,272
Homeowners – TX	15,055	15,746
Special Property – TX	3,324	3,241
Total Texas	18,379	18,987
Special Property – FL	9,046	8,648
Total Florida	9,046	8,648
Unearned Premium Reserves	$ 52,952	$ 51,907

Ceded Reinsurance Premiums Payable

Ceded reinsurance premiums payable decreased $6,005, to $3,490 as of September 30, 2019, compared to $9,495 as of December 31, 2018 and have been presented as part of discontinued operations in the Company's financial statements. The bulk of the balance payable as of September 30, 2019 represents expected amounts due to the Florida Hurricane Catastrophe Fund pursuant to our 2019/2020 catastrophe excess of loss reinsurance program.

Agency Commissions Payable

Agency commissions payable increased $160 to $962 as of September 30, 2019 versus $802 as of December 31, 2018 and have been presented as part of discontinued operations in the Company's financial statements. As agency commissions are paid in arrears, this balance represents commissions owed to the Company's independent agencies on policies written throughout the months ended September 30, 2019 and, December 31, 2018, respectively. Since the commissions we pay to our independent agencies are based upon a percentage of the premium our agencies write, the balance due will vary directly with the volume of premium written each month.

Premiums Collected in Advance

Advance premium deposits increased $1,963 to $3,803 as of September 30, 2019 compared to $1,840 as of December 31, 2018 and represent cash the Company has received for policies which were not yet in-force as of September 30, 2019 and December 31, 2018, respectively. Upon the effective date of coverage, advance premiums are reclassified to the unearned premium reserve account. Advance premium deposits have been presented as part of discontinued operations in the Company’s financial statements.

Accrued Premium Taxes and Assessments

Accrued premium taxes and assessments decreased $799 to $2,260 as of September 30, 2019, compared to $3,059 as of December 31, 2018, primarily due to the payment of premium taxes due March 1st of each year, along with the filing of the Company’s premium tax returns in Louisiana, Texas and Florida. Accrued premium taxes and assessments have been presented as part of discontinued operations in the Company’s financial statements.

Due to Affiliates

Amounts due to affiliates increased $410 to $3,108 as of September 30, 2019, compared to $2,698 as of December 31, 2018 and represent net amounts owed by the Company to its subsidiaries, Maison, MMI and ClaimCor. Historically, these amounts have been eliminated upon consolidation of the Company and its subsidiaries, however, the Company has presented these amounts on a gross basis as both a liability as part of continuing operations and a corresponding asset of discontinued operations on the Company’s consolidated balance sheet. These balances represent the planned assignment of limited liability investments to the Company from Maison as discussed under Investments in Item 2 of this report pursuant to the Purchase Agreement. As the Company intends to settle these balances with its subsidiaries prior to Closing, management determined it appropriate to show these corresponding assets and liabilities separately on the Company’s financial statements.

Liabilities of Discontinued Operations

As of September 30, 2019, the Company concluded that the planned sale of Maison, MMI and ClaimCor has met the criteria for assets held for sale as set forth in ASC 205-20 – *Discontinued Operations*. Accordingly, the Company has classified the operations of Maison, MMI and ClaimCor as discontinued operations for all periods presented in this report. The following table presents the liabilities of discontinued operations as shown in the Company’s consolidated balance sheet as of September 30, 2019 and December 31, 2018.

(unaudited)	September 30, 2019	December 31, 2018
Loss and loss adjustment expense reserves	$ 17,769	$ 15,151
Unearned premium reserves	52,952	51,907
Ceded reinsurance premiums payable	3,490	9,495
Agency commissions payable	962	802
Premiums collected in advance	3,803	1,840
Surplus notes plus interest due to affiliate	18,961	18,244
Accrued premium taxes and assessments	2,260	3,059
Other liabilities	2,612	2,819
Liabilities of discontinued operations	$ 102,809	$ 103,319

Related Party Transactions

Termination of Management Services Agreement and Repurchase of Series B Preferred Shares

On February 24, 2015, we terminated our Management Services Agreement with 1347 Advisors, LLC (“1347 Advisors”), a wholly owned subsidiary of KFSI. In connection with the termination, we entered into a Performance Shares Grant Agreement, dated February 24, 2014, with 1347 Advisors pursuant to which we agreed to issue 100,000 shares of our common stock to 1347 Advisors subject to the achievement of certain events specified in the agreement. We also issued to 1347 Advisors 120,000 shares of our Series B preferred stock having a liquidation amount per share equal to $25.00 (the “Series B Preferred Shares”). 1347 Advisors subsequently transferred 60,000 of the Series B Preferred Shares to IWS Acquisition Corporation, an affiliate of KFSI.

On January 2, 2018, the Company entered into a Stock Purchase Agreement with 1347 Advisors and IWS Acquisition Corporation, pursuant to which the Company repurchased 60,000 Series B Preferred Shares from 1347 Advisors for an aggregate purchase price of $1,740, representing (i) the par value of the Series B Preferred Shares, or $1,500; and (ii) declared and unpaid dividends with respect to the dividend payment due on February 23, 2018, or $240. Also, in connection with the Stock Purchase Agreement, the Performance Shares Grant Agreement, dated February 24, 2015, between the Company and 1347 Advisors was terminated. No shares of common stock were issued to 1347 Advisors under the Performance Shares Grant Agreement. In connection with the termination of the Performance Shares Grant Agreement, the Company made a cash payment of $300 to 1347 Advisors. Upon termination of the MSA Agreement, the Company recorded an increase of approximately $54 to additional paid in capital, representing the estimated fair value of the Performance Shares Grant Agreement on the grant date. Upon the termination of the Performance Shares Grant Agreement, we compared the amount previously recorded in additional paid in capital to the amount paid to terminate the agreement, resulting in a reversal of the $54 originally recorded to additional paid in capital as well as a charge of $246 recorded to Loss on repurchase of Series B Preferred Shares and Performance Shares on the Company's consolidated statement of operations for the nine months ended September 30, 2018.

Pursuant to the Stock Purchase Agreement, the Company also agreed to repurchase the remaining 60,000 Series B Preferred Shares from IWS Acquisition Corporation for an aggregate purchase price of $1,500, upon the completion of a capital raise resulting in the Company receiving net proceeds in excess of $5,000. On February 28, 2018, the Company purchased the remaining 60,000 Series B Preferred Shares from IWS Acquisition Corporation for $1,500 with the proceeds from the Company's 8.00% Cumulative Preferred Stock, Series A (the "Series A Preferred Stock") offering (discussed under the heading Shareholders' Equity below).

The Company applied the guidance outlined in ASC 480 – *Distinguishing Liabilities from Equity* in recording the issuance of the Series B Preferred Shares. Due to the fact that the shares had a mandatory redemption date of February 24, 2020, applicable guidance required that we classify the shares as a liability on our consolidated balance sheet, rather than recording the value of the shares in equity. The resulting liability was recorded at a discount to the $4,200 redemption amount plus dividends expected to be paid on the shares while outstanding, discounted for the Company's estimated cost of equity (13.9%). As a result, total amortization in the amount of $33 has been charged to continuing operations for the nine months ended September 30, 2018. Upon our repurchase of the Series B Preferred Shares in both January and February 2018, we compared the amortized carrying amount of the liability to the amount paid to repurchase the shares, resulting in a charge of $366 to Loss on repurchase of Series B Preferred Shares and Performance Shares on the Company's consolidated statement of operations for the nine months ended September 30, 2018.

Investment in Limited Partnership and Limited Liability Company

On April 21, 2016, KFSI completed the acquisition of Argo Management Group LLC ("Argo"). Argo's primary business is to act as the Managing Member of Argo Holdings Fund I, LLC, an investment fund in which the Company has committed to invest $500, of which the Company has invested $341 as of September 30, 2019. The managing member of Argo, Mr. John T. Fitzgerald, was appointed as President and Chief Executive Officer of KFSI on September 5, 2018 and has served on its board of directors since April 21, 2016.

On June 18, 2018, the Company invested $2,219 as a limited partner in FGI Metrolina Property Income Fund, LP (the "Fund"). The general partner of the Fund, FGI Metrolina GP, LLC, is managed, in part, by Messrs. Cerminara and Johnson, the Chairman and Co-Chairman of the Board of Directors of the Company, respectively. As of September 30, 2019, the Company's total investment in the Fund was $2,719, representing an approximate 47% ownership stake in the Fund.

Public Offering of Preferred Stock

A fund managed by Fundamental Global Investors, LLC, one of the Company's significant stockholders, purchased an aggregate of 34,620 shares of the Series A Preferred Stock in the Company's public offering of the shares, at the public offering price of $25.00 per share, including 31,680 shares purchased for a total of approximately $792 on February 28, 2018, the closing date of the offering, and 2,940 shares purchased for a total of approximately $74 on March 26, 2018 in connection with the underwriters' exercise of their over-allotment option. In addition, CWA Asset Management Group, LLC, of which 50% is owned by Fundamental Global Investors, LLC, holds 56,846 shares of the Series A Preferred Stock for customer accounts (including 44 shares of the Series A Preferred Stock held by Mr. Cerminara in a joint account with his spouse) purchased at the public offering price in connection with the underwriters' exercise of their over-allotment option. No discounts or commissions were paid to the underwriters on the purchase of these shares.

Contractual Obligations

As of September 30, 2019, the Company had the following minimum amounts due for its office facilities and automobile leases in Louisiana, Florida and Texas.

Year ending September 30,	Facility Leases	Automobile Leases	Total
2020	$ 154	$ 57	$ 211
2021	65	39	104
Total	$ 219	$ 96	$ 315

In addition to the amounts listed in the table above, on May 20, 2019, MMI entered into a lease agreement for new office space in Tampa, FL, to replace the Company's lease which expired in October 2019. The new lease commenced on October 28, 2019 and consists of approximately six thousand square feet of office space. Total minimum rent will be approximately $444 over the 63-month term of the lease.

Shareholders' Equity

Offering of 8.00% Cumulative Preferred Stock, Series A

On February 28, 2018, we completed the underwritten public offering of 640,000 preferred shares designated as 8.00% Cumulative Preferred Stock, Series A, par value $25.00 per share (the "Series A Preferred Stock"). Also, on March 26, 2018, we issued an additional 60,000 shares of Series A Preferred Stock pursuant to the exercise of the underwriters' over-allotment option. Dividends on the Series A Preferred Stock are cumulative from the date of original issue and will be payable quarterly on the 15th day of March, June, September and December of each year, commencing on June 15, 2018, when, as and if declared by our Board of Directors or a duly authorized committee thereof. The first dividend record date for the Series A Preferred Stock was on June 1, 2018. For the nine months ended September 30, 2019 and 2018, the Board of Directors declared dividends totaling $1,050 and $758, respectively, representing all quarterly amounts due for the Preferred Stock. Dividends are payable out of amounts legally available therefor at a rate equal to 8.00% per annum per $25.00 of stated liquidation preference per share, or $2.00 per share of Series A Preferred Stock per year. The Company's Board of Directors declared the fourth quarter 2019 dividend on the shares of Series A Preferred Stock on November 14, 2019.

The Series A Preferred Stock is not redeemable prior to February 28, 2023. On and after that date, the stock will be redeemable at our option, for cash, in whole or in part, at a redemption price of $25.00 per share, plus all accumulated and unpaid dividends to, but not including, the date of redemption. The Series A Preferred Stock has no stated maturity and will not be subject to any sinking fund or mandatory redemption. The stock will generally have no voting rights except as provided in the Certificate of Designations or as from time to time provided by law. The affirmative vote of the holders of at least two-thirds of the outstanding shares of Series A Preferred Stock and each other class or series of voting parity stock will be required at any time for us to authorize, create or issue any class or series of our capital stock ranking senior to the Series A Preferred Stock with respect to the payment of dividends or the distribution of assets on liquidation, dissolution or winding up, to amend any provision of our Certificate of Incorporation so as to materially and adversely affect any rights of the Series A Preferred Stock or to take certain other actions.

The shares have been listed on the Nasdaq Stock Market under the symbol "PIHPP", and trading of the shares commenced on March 22, 2018. Net proceeds received by Company were approximately $16,500. The Company used $1,500 of the net proceeds to repurchase 60,000 shares of its Series B Preferred Shares from IWS Acquisition Corporation, as previously discussed under the heading Related Party Transactions.

The table below presents the primary drivers behind the changes to total shareholders' equity for the nine months ended September 30, 2019 and 2018.

	Preferred Shares Outstanding	Common Shares Outstanding	Treasury Shares	Total Shareholders' Equity
Balance, January 1, 2018	–	5,984,766	151,359	$ 46,802
Issuance of Series A Preferred Stock	700,000	–	–	16,493
Repurchase of Performance Shares	–	–	–	(54)
Stock compensation expense	–	7,666	–	236
Dividends declared on Series A Preferred Shares	–	–	–	(758)
Net loss	–	–	–	(28)
Unrealized losses on investment portfolio (net of income taxes)	–	–	–	(1,010)
Balance, September 30, 2018	700,000	5,992,432	151,359	$ 61,681
Balance, January 1, 2019	700,000	6,012,764	151,359	$ 62,747
Adoption of new accounting standards	–	–	–	10
Dividends declared on Series A Preferred Stock ($0.50 per share each quarter)	–	–	–	(1,050)
Stock compensation expense	–	7,052	–	162
Net loss	–	–	–	(7,969)
Unrealized gains on investment portfolio (net of income				

taxes)	–	–	–	1,783
Balance, September 30, 2019	700,000	6,019,816	151,359	$ 55,683

Results of Operations

Three and Nine Months Ended September 30, 2019 Compared with Three and Nine Months Ended September 30, 2018

Dollar amounts included in the Results of Operations are presented in thousands, except as otherwise specified.
Gross Premiums Written

The following table shows our gross premiums written by state and by line of business for the three and nine months ended September 30, 2019 and 2018. Gross premiums written have been presented as part of discontinued operations in the Company's financial statements.

	Three months ended September 30,			Nine months ended September 30,		
Line of Business	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Homeowners'-LA	$ 9,212	$ 8,935	$ 277	$ 25,122	$ 25,058	$ 64
Special Property-LA	3,556	3,954	(398)	11,570	12,662	(1,092)
Total Louisiana	12,778	12,889	(121)	36,692	37,720	(1,028)
Homeowners'-TX	7,609	9,170	(1,561)	21,979	22,568	(589)
Special Property-TX	1,505	1,620	(115)	4,949	5,690	(741)
Total Texas	9,114	10,790	(1,676)	26,928	28,258	(1,330)
Special Property-FL	5,545	2,608	2,937	11,534	4,605	6,929
Total Florida	5,545	2,608	2,937	11,534	4,605	6,929
Gross Premium Written	$ 27,437	$ 26,287	$ 1,140	$ 75,154	$ 70,583	$ 4,571

The increase in gross written premiums during the three and nine months ended September 30, 2019 was primarily the result of our depopulation of policies from FL Citizens, along with growth in voluntary production from our independent agencies in Florida. We have discontinued writing new business in areas of Texas which we have determined to be less profitable, resulting in a decrease in our Texas book of business when comparing the three and nine-month periods.

Ceded Premiums Written

Ceded written premiums have been presented as part of discontinued operations in the Company's financial statements and increased by $1,802 to $9,825 for the three months ended September 30, 2019, compared to $8,023 for the three months ended September 30, 2018. For the nine-month periods ended September 30, 2019 and 2018, ceded written premiums were $28,852 and $23,541, respectively. The nine-month increase in ceded premiums written is primarily due to the purchase of a single month catastrophe excess of loss treaty covering the month of June 2019. Given the pending sale of Maison, the Company and FedNat agreed to combine their 2019-2020 excess of loss catastrophe reinsurance program into a single program (the "Program"). In order to facilitate this process, the Company purchased an excess of loss stub treaty covering the month of June 2019. Under this treaty, Maison could recover one limit of $5,000 in excess of $5,000 and two limits of $205,000 in excess of $10,000 for a total cost of approximately $6,000. Due to the timing of this treaty falling during the beginning of the Atlantic Hurricane Season, the cost of this single month coverage was significantly more expensive than that of the pro-rata portion of a twelve-month treaty.

Under the Program, effective July 1, 2019, Maison has entered into a combined program with the two wholly owned insurance subsidiaries of FedNat, FedNat Insurance Company ("FNIC") and Monarch National Insurance Company ("Monarch"). The Program provides approximately $1,280,000 of single-event coverage, and aggregate coverage of $1,840,000. Maison's single-event retention is $5,000 and includes one prepaid automatic reinstatement. Additionally, the Program is structured such that coverage is provided in layers, with a cascading feature which allows substantially all layers to attach after $5,000 in losses for Maison. If the aggregate limit of the preceding layer is exhausted, the next layer drops down (cascades) in its place. Any unused layer of protection cascades for subsequent events until exhausted. The reinsurers participating in the Program currently have an A.M. Best Company or Standard & Poor's rating of "A-" or better or have fully collateralized their maximum potential obligations in dedicated trusts.

Maison's share of the total cost of the Program, including the separate coverage Maison has placed with the Florida Hurricane Catastrophe Fund, is expected to be approximately $44,400.

Net Premium Earned

The following table shows our premiums earned on a gross and ceded basis. Net premiums earned have been presented as part of discontinued operations in the Company's financial statements.

	Three months ended September 30,			Nine months ended September 30,		
	2019	2018	Change	2019	2018	Change
Gross premium earned	$ 24,737	$ 21,809	$ 2,928	$ 74,109	$ 60,642	$ 13,467
Ceded premium earned	(11,542)	(8,348)	(3,194)	(33,251)	(21,241)	(12,010)
Net premium earned	$ 13,195	$ 13,461	$ (266)	$ 40,858	$ 39,401	$ 1,457

Net premiums earned decreased $266 when comparing the three-month periods. This decrease was primarily due to the cost of the combined reinsurance program effective July 1, 2019, which represents a significant cost increase over our prior-year catastrophe excess of loss program. Similarly, the Company's ratio of ceded premium earned to gross premium earned increased to 45% from 35% for the nine months ended September 30, 2019 and 2018, respectively, as a result of both the combined reinsurance program effective July 1, 2019 and the high cost of the single month catastrophe coverage the Company purchased for the month of June 2019 as previously discussed.

Net Investment Income

Net investment income from ongoing operations for the three and nine months ended September 30, 2019 and 2018 is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Investment income:				
Interest on surplus notes issued by Maison	$ 478	$ 281	$ 1,391	$ 810
Limited liability investment profit distributions	45	–	90	–
Loss on assignment of limited liability investments	–	–	(239)	–
Other	–	18	15	46
Net investment income	$ 523	$ 299	$ 1,257	$ 856

The Company has also included investment income associated with its fixed income and equity securities portfolio in discontinued operations, net of income taxes on the Company's consolidated statement of operations. Pursuant to the terms of the Asset Sale, as of September 30, 2019, the Company has sold the equity securities in the portfolio (other than certain limited liability investments) and intends to sell the fixed income securities in the portfolio at closing of the Asset Sale. See Notes 2 and 5 to the financial statements for additional information.

Other Income

Other income, which is included in discontinued operations on the Company's financial statements, increased $248 to $778 for the quarter ended September 30, 2019, compared to $530 for the same period in 2018. For the nine-month periods ended September 30, 2019 and 2018, other income was $2,345 and $1,586, respectively. Other income is comprised of claims adjusting fee revenue earned by our subsidiary, ClaimCor, policy fee income charged to our policyholders by our subsidiary, MMI, on each policy issued, premium financing fees charged by our subsidiary, Maison, and also commission revenue resulting from a brokerage sharing agreement between Maison, and the intermediary Maison uses to place its CAT XOL Program.

Losses and Loss Adjustment Expenses

Losses and LAE represent both actual payments made and changes in estimated future payments to be made to our policyholders. The following table sets forth the components of our net losses and loss ratios for the periods presented. Loss and loss adjustment expenses have been presented as part of total profit or loss from discontinued operations in the Company's consolidated statement of operations.

	Three months ended September 30,				Nine months ended September 30,			
	2019		2018		2019		2018	
	Losses ($)	Loss Ratio (%)	Losses ($)	Loss Ratio (%)	Losses ($)	Loss Ratio (%)	Losses ($)	Loss Ratio (%)
Catastrophe losses[(1)]	$ 6,899	52.3%	$ 1,800	13.4%	$ 10,929	26.7%	$ 6,800	17.3%
Weather-related non-catastrophe losses	2,157	16.3%	1,322	9.8%	13,622	33.3%	5,209	13.2%
Non-weather-related losses	3,054	23.1%	5,657	42.0%	9,008	22.1%	9,687	24.6%
Total current accident year losses	12,110	91.7%	8,779	65.2%	33,559	82.1%	21,696	55.1%
Prior period development (redundancy) [(2)]	141	1.1%	(123)	(0.9%)	(582)	(1.4)	(1,922)	(4.9%)
Total net losses and LAE incurred	$ 12,251	92.8%	$ 8,656	64.3%	$ 32,977	80.7%	$ 19,774	50.2%

(1) Property Claims Services (PCS) defines a catastrophic event as an event where the insurance industry is estimated to incur over $25,000 of insured property damage that also impacts a significant number of insureds. For purposes of the above table, we have defined a Catastrophe loss as a PCS event where our estimated gross incurred loss exceeds $2,500.

(2) Prior period redundancy represents the ultimate actual loss settlement value which is less than the estimated and determined reserves recorded for a particular liability or loss.

Our net loss ratio for the quarter ended September 30, 2019 and 2018 was 92.8% and 64.3%, respectively. Catastrophe losses were the largest driver of the increase when comparing quarters. For the nine-month period ended September 30, 2019 net catastrophe losses were $10,929 and were comprised of the following events:

- Hailstorms affecting our Texas policyholders between March 8 – March 13, 2019, in which the Company expects incurred losses to be $3,200 on both a gross and net (of reinsurance) basis;
- Hailstorms affecting our Texas policyholders between March 22 – March 27, 2019, in which the Company expects incurred losses to be $22,000 gross and $0 net of reinsurance;
- Tornados/Hailstorms affecting our Louisiana policyholders between May 7 – May 12, 2019, in which the Company expects incurred losses to be $4,800 gross and $1,500 net of reinsurance;
- Hailstorms affecting our Texas policyholders between May 18 – May 23, 2019, in which the Company expects incurred losses to be $2,800 on both a gross and net basis; and
- Hurricane Barry, which affected our Louisiana policyholders between July 10 – July 18, 2019, in which the Company expects incurred losses to be $3,500 on both a gross and net basis.

In comparison, the Company's catastrophe losses for the nine-month period ended September 30, 2018 was comprised of one event, hailstorms affecting our Texas policyholder between June 3 – June 8, 2018, in which the Company has estimated incurred losses to be $6,800 on both a gross and net basis. The Company has increased rates by approximately 30% throughout the state of Texas in response to these loss ratios. The rate increase took effect for new business effective June 1, 2019 and for renewal business effective August 1, 2019. Furthermore, we have discontinued writing new business in areas of Texas which we have determined to be less profitable.

We have also released reserves from prior accident years for both the nine months ended September 30, 2019 and 2018, resulting in a benefit to our net loss ratios of approximately 1.4% and 4.9%, respectively.

Amortization of Deferred Policy Acquisition Costs

Amortization of deferred policy acquisition costs for the quarter ended September 30, 2019 was $4,375, compared to $3,929 for the quarter ended September 30, 2018. For the nine-month periods ended September 30, 2019 and 2018, amortization was $13,048 and $10,841, respectively. Deferred policy acquisition costs include items such as commissions earned by our agencies, premium taxes, assessments, and policy processing fees and have been presented as part of total profit or loss from discontinued operations in the Company's consolidated statement of operations. Expressed as a percentage of gross premiums earned, amortization was 17.7% for the current quarter, compared to 18.0% for the third quarter 2018. This slight decrease in percentage, is due, in part, to the fact that the Company did not participate in a depopulation of policies from LA Citizens in December 2018, whereas the Company assumed approximately $3,600 in premium from LA Citizens in December 2017. LA Citizens charges a ceding commission of 16% of the premium assumed, which is amortized to deferred policy acquisition cost over the term of the policies assumed. On a year-to-date basis, this percentage showed the same trend, as it was 17.6% and 17.9% for the nine months ended September 30, 2019 and 2018, respectively.

General and Administrative Expenses

General and administrative expenses have been presented as part of both continuing operations as well as discontinued operations in the Company's consolidated statement of operations as shown in the following table.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
General & administrative expenses – continuing operations	$ 595	$ 487	$ 2,236	$ 1,097
General & administrative expenses – discontinued operations	2,344	3,031	7,649	8,908
Total	$ 2,939	$ 3,518	$ 9,885	$ 10,005

General and administrative expenses from continuing operations increased by $108 and $1,139 comparing the three- and nine-month periods ended September 30, 2019 and 2018, respectively. This increase is primarily due to expenses related to the potential Asset Sale to FedNat of $166 and $1,000 for the three and nine months ended September 30, 2019, respectively.

Series B Preferred Shares

As previously discussed under the heading Related Party Transactions, we recorded amortization charges of $33, as well as a charge of $612, for the nine months ended September 30, 2018, which were related to the issuance and repurchase of our Series B Preferred Shares.

Income Tax Expense

Income tax expense for the three and nine months ended September 30, 2019 and 2018 varies from the amount that would result by applying the applicable statutory federal income tax rate to income before income taxes as summarized in the following table:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Income tax expense at statutory income tax rate of 21%	$ (920)	$ (564)	$ (2,075)	$ (5)
State income tax (net of federal tax benefit)	72	(10)	115	(6)
Share-based compensation	3	–	43	15
Other	1	3	6	–
Income tax expense (benefit)	(844)	$ (571)	$ (1,911)	$ 4
Income tax expense (benefit)–from continuing operations	$ (12)	$ (250)	$ (162)	$ (397)
Income tax expense (benefit)–from discontinued operations	$ (832)	$ (321)	$ (1,749)	$ 401

Net Income (Loss)

Net income (loss) for the three- and nine-month periods ended September 30, 2019 and 2018 is as shown in the following table.

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Net loss from continuing operations	$ (60)	$ (938)	$ (817)	$ (1,489)
Income (loss) from discontinued operations, net of income taxes	(3,475)	(1,176)	(7,152)	1,461
Net loss	$ (3,535)	$ (2,114)	$ (7,969)	$ (28)
Diluted earnings (loss) per common share				
Continuing operations	$ (0.07)	$ (0.21)	$ (0.31)	$ (0.37)
Discontinued operations	(0.58)	(0.20)	(1.19)	0.24
Attributable to common shareholders	$ (0.65)	$ (0.41)	$ (1.50)	$ (0.13)

Liquidity and Capital Resources

Dollar amounts included in the Liquidity and Capital Resources section are presented in thousands, except as otherwise specified.

The purpose of liquidity management is to ensure sufficient cash to meet all financial commitments and obligations as they fall due. The liquidity requirements of the Company and its subsidiaries have been met primarily by funds generated from operations, and from the proceeds from the sales of our common and preferred stock. Cash provided from these sources is used primarily for loss and loss adjustment expense payments as well as other operating expenses. The timing and amount of payments for net losses and loss adjustment expenses may differ materially from the Company's provisions for loss and loss adjustment expense reserves, which may create increased liquidity requirements.

On February 28, 2018, we completed the underwritten public offering of preferred shares designated as 8.00% Cumulative Preferred Stock, Series A, par value $25.00 per share (the "Preferred Stock"), as previously discussed under the heading Shareholders Equity. In addition, on March 26, 2018, we issued an additional 60,000 shares of Preferred Stock in connection with the underwriters' exercise of their over-allotment option. Net proceeds received by the Company were approximately $16,400. The Company used $1,500 of the net proceeds to repurchase 60,000 shares of its Series B Preferred Stock from IWS Acquisition Corporation, as previously discussed under the heading Related Party Transactions.

In order to retain its certificates of authority in Louisiana and Florida, Maison is required to maintain a minimum capital surplus of $5,000 and $35,000, respectively. Accordingly, on September 30, 2019, the Company made a capital contribution in the amount of $7,000 to Maison, resulting in Maison having a capital surplus of $40,436 as of September 30, 2019.

On April 19, 2019, the Commercial Business Loan Agreement and related Promissory Note between the Company and Hancock Bank, a trade name for Whitney Bank (n/k/a Hancock Whitney Bank) (the "Lender") expired by its terms. The agreements provided for a revolving line of credit of $5,000. The Company did not draw down funds under the agreements during the period outstanding.

On August 20, 2019, the Company entered into a $7,000 Loan Agreement and a related Commercial Note (collectively, the "Loan Agreement") with the Lender. The Loan Agreement provides for a non-revolving line of credit of $7,000. The line of credit will expire on the earlier of (i) January 20, 2020, or (ii) the closing of the transactions contemplated by the Asset Sale. Proceeds of borrowings under the Loan Agreement may be used for providing short-term working capital to the Company's subsidiaries and other general corporate purposes. The line of credit is secured by a collateral assignment of the Company's right to receive cash proceeds under the Purchase Agreement for the Asset Sale.

Borrowings under the Loan Agreement will bear interest at a rate per annum equal to one-month ICE LIBOR (rounded up to the nearest one-eighth (1/8th) of one percent or rounded up to one-eighth (1/8th) of one percent if the reported one-month ICE LIBOR is less than zero) plus a margin of 3.00%. The initial interest rate is 5.25% per annum, to be adjusted on the first day of each calendar month. The line of credit is to be repaid in monthly payments of interest only, payable in arrears, commencing on the first day of the month following the initial borrowing under the Loan Agreement. All principal and remaining interest will be payable in full at maturity. As of November 14, 2019, the Company had not drawn on the Loan Agreement.

The Loan Agreement contains certain restrictive covenants customary for transactions of this type, including restrictions on liens, indebtedness, loans and guarantees, acquisitions and mergers, sales of assets, and stock repurchases. As of September 30, 2019, the Company is in compliance with all of the covenants in the Loan Agreement.]

The Loan Agreement also provides for customary events of default with corresponding grace periods, including: (1) failure to make payments under the Loan Agreement when due; (2) failure to comply with other covenants and agreements contained in the Loan Agreement; (3) breach of or default under the collateral assignment; (4) making of false or materially inaccurate representations and warranties; (5) certain defaults under other debt obligations of the Company; (6) money judgments, material adverse changes or events regarding the validity of the Loan Agreement or other loan documents; and (7) certain events of bankruptcy or insolvency affecting the Company. Upon the occurrence of an event of default, the Lender may declare the entire unpaid principal balance and accrued unpaid interest immediately due and payable and/or exercise any and all remedial and other rights under the Loan Agreement. The default interest rate is 18%, subject to the maximum rate permitted by law.

Cash Flows

The following table summarizes the Company's consolidated cash flows for the nine months ended September 30, 2019 and 2018.

	Nine months ended September 30,	
Summary of Cash Flows	**2019**	**2018**
Net cash provided (used) by operating activities	$ (6,231)	$ 21,496
Net cash provided (used) by investing activities	12,977	(27,187)
Net cash provided (used) by financing activities	(1,082)	12,140
Net increase in cash and cash equivalents	$ 5,664	$ 6,449

Nine months ended September 30, 2019

For the nine months ended September 30, 2019, net cash used by operating activities as reported on our consolidated statement of cash flows was $6,231, resulting from our collection of approximately $47,000 in premiums (net of the amounts we have ceded to our reinsurers), less the payment of approximately $33,500 in loss and LAE expenses (net of ceded recoveries collected from our reinsurers). We also paid approximately $8,900 in commissions to our agencies, and $3,200 in salaries and benefits to our employees. Cash payments in the approximate amount of $5,300 were made for premium taxes, income taxes, and assessments, while payments for all other general and administrative expenses were approximately $2,300.

The net cash provided by investing activities as reported on our consolidated statement of cash flows was $12,977, resulting primarily from the net sale of fixed income equity securities from our investment portfolio, some of which we disposed of during the nine months ended September 30, 2019 pursuant to the terms of the Asset Sale. Net cash used by financing activities was $1,082, primarily due to dividends paid on our Series A Preferred Shares.

As a result of the foregoing, cash and cash equivalents increased from $30,902 as of December 31, 2018 to $36,566 as of September 30, 2019.

Nine Months ended September 30, 2018

For the nine months ended September 30, 2018, net cash provided by operating activities as reported on our consolidated statement of cash flows was $21,496, resulting from our collection of approximately $59,996 in premiums for the period (net of the amounts we have ceded to our reinsurers), less the payment of approximately $15,814 in loss and LAE expenses (net of ceded recoveries collected from our reinsurers). We also paid approximately $9,450 in commissions to our agencies, as well as to LA Citizens as ceding commissions on the premium we have assumed from them, and $3,362 in salaries and benefits paid to our employees. Lastly, cash payments in the approximate amount of $5,995 were made for taxes and assessments as well as $3,879 for all other general and administrative expenses.

The net cash used by investing activities as reported on our consolidated statement of cash flows was $27,187, resulting primarily from the net purchases of fixed income and other investments for our investment portfolio. Net cash provided by financing activities was $12,140, primarily as a result of net proceeds from our Series A Preferred Stock offering of approximately $16,500, less amounts paid to repurchase our Series B Preferred Shares in the amount of $3,300, less dividends on both our Series A and Series B Preferred Shares in the amount of $998.

As a result of the foregoing, cash and cash equivalents increased from $23,575 as of December 31, 2017 to $30,024 as of September 30, 2018.

Regulatory Capital

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. Most states, including Louisiana, Texas and Florida, have adopted the NAIC RBC requirements. In general, insurers reporting surplus with respect to policyholders below 200% of the authorized control level, as defined by the NAIC, on December 31st of the previous year are subject to varying levels of regulatory action, which may include discontinuation of operations. As of December 31, 2018, Maison's reported surplus was considered to be in the "no action" level by the LDI and TDI, as well as the FOIR. Furthermore, pursuant to the consent order approving Maison's admission into the State of Texas, Maison has agreed to maintain a RBC ratio of 300% or more, and provide the calculation of such ratio to the TDI on a periodic basis. As of December 31, 2018, Maison's RBC ratio was 345%.

State Deposits

States routinely require deposits of assets for the protection of policyholders. As of September 30, 2019, Maison held certificates of deposit with an estimated fair value of approximately $100 and $300 as a deposit with the LDI and FOIR, respectively. Maison also held cash and investment securities with an estimated fair value of approximately $2,015 as of September 30, 2019 as a deposit with the TDI.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company's management performed an evaluation under the supervision and with the participation of the Company's principal executive officer and principal financial officer of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as such term is defined in Rules 13a-15(e) or 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of September 30, 2019. Based upon this evaluation, the Company's principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms; and (ii) accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with this evaluation that occurred during the quarter ended September 30, 2019 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we are involved in legal proceedings and litigation arising in the ordinary course of business. Currently, it is not possible to predict legal outcomes and their impact on the future development of claims. Any such development will be affected by future court decisions and interpretations. Because of these uncertainties, additional liabilities may arise for amounts in excess of the Company's current reserves. In addition, the Company's estimate of ultimate loss and loss adjustment expenses may change. These additional liabilities, or increases in estimates, or a range of either, cannot be reasonably estimated, and could result in charges to the statement of operations that could be material to the Company's results in future periods.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors previously disclosed in Part I, Item 1A. Risk Factors to our annual report on Form 10-K for the year ended December 31, 2018 filed with the SEC on March 20, 2019.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit	Description
3.1	Third Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.2 of Registrant's Registration Statement on Form S-1/A filed with the Commission on January 30, 2014).
3.2	Second Amended and Restated Bylaws (incorporated by reference to Exhibit 3.3 of Registrant's Registration Statement on Form S-1/A filed with the Commission on January 30, 2014).
3.3	Certificate of Designations of Series B Preferred Shares of 1347 Property Insurance Holdings, Inc. (incorporated by reference to Exhibit 3.1 of Registrant's Current Report on Form 8-K filed with the Commission on February 27, 2015).
3.4	Certificate of Elimination of Certificate of Designations of Series B Preferred Shares of 1347 Property Insurance Holdings, Inc. (incorporated by reference to Exhibit 3.1 of Registrant's Current Report on Form 8-K filed with the Commission on February 28, 2018).
3.5	Certificate of Designations of Cumulative Preferred Stock, Series A, of 1347 Property Insurance Holdings, Inc. (incorporated by reference to Exhibit 3.1 of Registrant's Current Report on Form 8-K filed with the Commission on February 26, 2018).
10.1	Loan Agreement, executed August 20, 2019, by and between Hancock Whitney Bank, as Lender, and 1347 Property Insurance Holdings, Inc., as Borrower (incorporated by reference to Exhibit 10.1 of Registrant's Current Report on Form 8-K filed with the Commission on August 23, 2019).
10.2	Commercial Note, executed August 20, 2019, by and between Hancock Whitney Bank, as Lender, and 1347 Property Insurance Holdings, Inc., as Borrower (incorporated by reference to Exhibit 10.2 of Registrant's Current Report on Form 8-K filed with the Commission on August 23, 2019).
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.
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.

* Filed herewith.
** Furnished herewith.

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.

1347 PROPERTY INSURANCE HOLDINGS, INC.

Date: November 14, 2019	By: */s/ Douglas N. Raucy* Douglas N. Raucy, President and Chief Executive Officer (principal executive officer)
Date: November 14, 2019	By: */s/ John S. Hill* John S. Hill, Vice President, Secretary and Chief Financial Officer (principal financial and accounting officer)

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Section 2: EX-31.1

EXHIBIT 31.1

Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Douglas N. Raucy, certify that:

1. I have reviewed this quarterly report on Form 10-Q of 1347 Property Insurance Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2019

By: */s/ Douglas N. Raucy*

Douglas N. Raucy, President and Chief Executive Officer
(Principal Executive Officer)

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Section 3: EX-31.2

EXHIBIT 31.2

Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, John S. Hill, certify that:

1. I have reviewed this quarterly report on Form 10-Q of 1347 Property Insurance Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2019
By: */s/ John S. Hill*
John S. Hill, Vice President, Secretary, and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

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Section 4: EX-32.1

EXHIBIT 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q (the "Report") of 1347 Property Insurance Holdings, Inc. (the "Company") for the period ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof, I, Douglas N. Raucy, the Chief Executive Officer and Principal Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best my knowledge and belief:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2019

By: */s/ Douglas N. Raucy*
Douglas N. Raucy, President and Chief Executive Officer
(Principal Executive Officer)

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Section 5: EX-32.2

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q (the “Report”) of 1347 Property Insurance Holdings, Inc. (the “Company”) for the period ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof, I, John S. Hill, the Chief Financial Officer and Principal Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best my knowledge and belief:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2019

By: */s/ John S. Hill*
John S. Hill, Vice President, Secretary, and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

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