

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 8-K**

**CURRENT REPORT**

**Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Date of report (Date of earliest event reported): **October 18, 2018**

**KINGSWAY FINANCIAL SERVICES INC.**

(Exact Name of Registrant as Specified in Its Charter)

**Ontario, Canada**  
(State or Other Jurisdiction of  
Incorporation)

**001-15204**  
(Commission File Number)

**Not Applicable**  
(IRS Employer Identification No.)

**45 St. Clair Ave. West, Suite 400, Toronto, Ontario, Canada M4V 1K9**

(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, Including Area Code: **(416) 848-1171**

**Not Applicable**

(Former Name or Former Address, if Changed Since Last Report)

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

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

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

## **ITEM 2.01 Completion of Acquisition or Disposition of Assets.**

On October 18, 2018, Kingsway Financial Services Inc. (the “Company”) completed the previously announced sale of Mendota Insurance Company (“Mendota”), Mendakota Casualty Company, MIC Insurance Agency, Inc., Mendakota Insurance Company, Congress General Agency, Inc., Mendota Insurance Agency, Inc., Advantage Auto, Inc. and Insurance Management Services, Inc. (the “Acquired Companies”) to Premier Holdings, LLC (“Premier”) and Advantage Auto MGA, LLC (“Advantage” and together with Premier, “Purchasers”), pursuant to a Stock Purchase Agreement (the “Agreement”) entered into on July 16, 2018.

The aggregate purchase price of \$28.6 million paid to the Company was redeployed primarily to acquire equity investments, limited liability investments, limited liability investment, at fair value and other investments, which were owned by the Acquired Companies at the time of the closing, and to fund \$5 million into an escrow account to be used to satisfy potential indemnity obligations under the Agreement.

The Agreement was filed as Exhibit 2.1 to the Current Report on 8-K filed by the Company on July 20, 2018 and incorporated herein by reference. The foregoing summary is not complete and is qualified in its entirety by reference to the text of the Agreement. The Agreement contains customary representations and warranties of Purchasers, Kingsway America Inc. (“Seller”), the Company and Mendota, including, among others, with respect to corporate organization, capitalization, corporate authority, financial statements, reserves for loss and loss adjustment expenses and compliance with applicable laws. The representations and warranties of each party set forth in the Agreement were made solely for the benefit of the other parties to the Agreement, and investors are not third-party beneficiaries of the Agreement. In addition, such representations and warranties (a) are subject to materiality and other qualifications contained in the Agreement, which may differ from what may be viewed as material by investors; (b) were made only as of the date of the Agreement or such other date as is specified in the Agreement; and (c) may have been included in the Agreement for the purpose of allocating risk between the parties rather than establishing matters as facts.

## **ITEM 7.01 Regulation FD Disclosure.**

On October 18, 2018, the Company issued a press release announcing the sale of the Acquired Companies pursuant to the Agreement. A copy of the press release is attached as Exhibit 99.1 to this Current Report on Form 8--K and incorporated herein by reference.

The information contained in Item 2.01, Item 7.01 and Exhibit 99.1 to this Current Report on Form 8-K shall not be deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liabilities of that section, nor shall such information be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended (the “Securities Act”), or the Exchange Act, except as expressly set forth by specific reference in such filing.

**ITEM 9.01 Financial Statements and Exhibits.**

(b) Pro forma financial information.

The pro forma financial information required pursuant to Article 11 of Regulation S-X is filed as Exhibit 99.2.

(d) Exhibits

Exhibit Number	Exhibits Description
<a href="#">99.1</a>	Press Release dated October 18, 2018.
<a href="#">99.2</a>	Unaudited Pro Forma Financial Information.

**SIGNATURE**

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 hereunto duly authorized.

**KINGSWAY FINANCIAL SERVICES INC.**

October 24, 2018

By: /s/ William A. Hickey, Jr.  
William A. Hickey, Jr.  
Executive Vice President and  
Chief Financial Officer

## EXHIBIT INDEX

Exhibit Number	Exhibits Description
<a href="#">99.1</a>	Press Release dated October 18, 2018.
<a href="#">99.2</a>	Unaudited Pro Forma Financial Information.



## **KINGSWAY ANNOUNCES COMPLETION OF SALE OF NON-STANDARD AUTO BUSINESS**

Toronto, Ontario (October 18, 2018) - (TSX: KFS, NYSE: KFS) Kingsway Financial Services Inc. (“Kingsway” or the “Company”) today announced that the sale of its non-standard automobile insurance companies Mendota Insurance Company, Mendakota Insurance Company and Mendakota Casualty Company (collectively “Mendota”) to Premier Holdings, LLC, previously announced on July 16, 2018, has been completed. The final aggregate purchase price of \$28.6 million has been redeployed primarily to acquire limited liability investments, equity investments and other investments, which were owned by Mendota at the time of the closing, having a carrying value of \$22.9 million and to fund \$5 million into an escrow account to be used to satisfy potential indemnity obligations under the definitive stock purchase agreement.

### **Management Comments**

John T. Fitzgerald, President and Chief Executive Officer, stated, “We are pleased to announce the closing of the sale of our non-standard auto insurance business. The sale of Mendota represents the disposition of the last legacy operating business from the original Kingsway group of companies. The sale is bittersweet, as we have begun to see the emerging results of the turnaround efforts we have expended over the last 24 months. That said, we plan to redeploy the assets we have received as compensation for the sale towards higher returning, less volatile businesses like extended warranty. We wish Steve Harrison and the entire Mendota team best wishes for a bright future under new ownership.”

### **About the Company**

Kingsway is a holding company that owns or controls subsidiaries primarily in the extended warranty, asset management and real estate industries. The common shares of Kingsway are listed on the Toronto Stock Exchange and the New York Stock Exchange under the trading symbol “KFS.”

### **Forward-Looking Statements**

This press release includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 that are not historical facts, and involve risks and uncertainties that could cause actual results to differ materially from those expected and projected. Words such as “expects,” “believes,” “anticipates,” “intends,” “estimates,” “seeks” and variations and similar words and expressions are intended to identify such forward-looking statements. Such forward-looking statements relate to future events or future performance, but reflect Kingsway management’s current beliefs, based on information currently available. A number of factors could cause actual events, performance or results to differ materially from the events, performance and results discussed in the forward-looking statements. For information identifying important factors that could cause actual results to differ materially from those anticipated in the forward-looking statements, please refer to the section entitled “Risk Factors” in the Company’s 2017 Annual Report on Form 10-K. Except as expressly required by applicable securities law, the Company disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise.

### **Additional Information**

Additional information about Kingsway, including a copy of its 2017 Annual Report and filings on Forms 10-Q and 8-K, can be accessed on the Canadian Securities Administrators’ website at [www.sedar.com](http://www.sedar.com), on the EDGAR section of the U.S. Securities and Exchange Commission’s website at [www.sec.gov](http://www.sec.gov) or through the Company’s website at [www.kingsway-financial.com](http://www.kingsway-financial.com).

**Kingsway Financial Services Inc.**  
**Unaudited Pro Forma Consolidated Financial Statements**

On July 16, 2018, Kingsway America Inc. (the "Company" or "Kingsway") announced it had entered into a definitive agreement to sell its non-standard automobile insurance companies Mendota Insurance Company, Mendakota Insurance Company and Mendakota Casualty Company (collectively "Mendota") to Premier Holdings, LLC. As a result of this announcement, the Company determined Mendota met the held for sale criteria and, therefore, classified Mendota as a discontinued operation. The results of Mendota's operations were reported separately in the consolidated statements of operations for all periods presented as filed within the Form 10-Q filed with the SEC on August 8, 2018. The assets and liabilities of Mendota were presented as held for sale in the Company's consolidated balance sheet as of June 30, 2018, as filed within the Form 10-Q filed with the SEC on August 8, 2018.

On October 18, 2018, the Company completed the previously announced sale of Mendota. The final aggregate purchase price of \$28.6 million was redeployed primarily to acquire equity investments, limited liability investments, limited liability investment, at fair value and other investments, which were owned by Mendota at the time of the closing, and to fund \$5 million into an escrow account to be used to satisfy potential indemnity obligations under the definitive stock purchase agreement.

The accompanying pro forma consolidated financial statements are presented to show the effects of the disposition of Mendota, including the receipt of proceeds from the sale, on the Company's consolidated financial statements.

The following unaudited pro forma consolidated balance sheet of Kingsway as of June 30, 2018 is presented as if the disposition, as described in the notes to these unaudited pro forma consolidated financial statements, had occurred at June 30, 2018. The unaudited pro forma consolidated statements of operations for the year ended December 31, 2017 and for the six months ended June 30, 2018 are presented as if the disposition had occurred on January 1, 2017. The unaudited pro forma consolidated financial statements are based on the historical financial statements of Kingsway for each period presented and in the opinion of the Company's management, all adjustments and disclosures necessary for a fair presentation of the pro forma data have been made.

These unaudited pro forma consolidated financial statements are presented for illustrative purposes only and are not necessarily indicative of the results of operations or financial condition that would have been achieved had the disposition been completed as of the dates indicated or of the results that may be obtained in the future. These unaudited pro forma consolidated financial statements and the notes thereto should be read together with Kingsway's consolidated financial statements and the notes thereto as of and for the year ended December 31, 2017; Management's Discussion and Analysis included in Kingsway's Annual Report on Form 10-K for the year ended December 31, 2017; and Kingsway's Quarterly Report on Form 10-Q as of and for the six months ended June 30, 2018.

**Unaudited Pro Forma Consolidated Balance Sheet**  
(in thousands, except share data)

	June 30, 2018 (a)	Pro Forma Adjustments	Pro Forma
<b>Assets</b>			
Investments:			
Fixed maturities, at fair value	\$ 11,361	\$ —	\$ 11,361
Equity investments, at fair value	2,189	284 (b)	2,473
Limited liability investments	5,217	18,427 (b)	23,644
Limited liability investment, at fair value	4,869	3,629 (b)	8,498
Other investments, at cost which approximates fair value	1,916	1,400 (b)	3,316
Short-term investments, at cost which approximates fair value	151	—	151
Total investments	25,703	23,740	49,443
Cash and cash equivalents	24,713	2,546 (c)	27,259
Investment in investee	4,947	—	4,947
Accrued investment income	161	—	161
Service fee receivable, net of allowance for doubtful accounts	5,173	—	5,173
Other receivables, net of allowance for doubtful accounts	7,907	—	7,907
Deferred acquisition costs, net	6,662	—	6,662
Property and equipment, net of accumulated depreciation	105,246	—	105,246
Goodwill	80,112	—	80,112
Intangible assets, net of accumulated amortization	79,519	—	79,519
Other assets	3,592	—	3,592
Assets held for sale	138,804	(138,804) (d)	—
<b>Total Assets</b>	<b>\$ 482,539</b>	<b>\$ (112,518)</b>	<b>\$ 370,021</b>
<b>Liabilities and Shareholders' Equity</b>			
Liabilities:			
Unpaid loss and loss adjustment expenses:			
Property and casualty	\$ 2,594	\$ —	\$ 2,594
Vehicle service agreements	2,615	—	2,615
Total unpaid loss and loss adjustment expenses	5,209	—	5,209
Note payable	184,567	—	184,567
Bank loan	4,417	—	4,417
Subordinated debt, at fair value	52,822	—	52,822
Net deferred income tax liabilities	28,796	—	28,796
Deferred service fees	41,221	—	41,221
Income taxes payable	2,801	—	2,801
Accrued expenses and other liabilities	10,946	—	10,946
Liabilities held for sale	112,866	(112,866) (d)	—
Total Liabilities	443,645	(112,866)	330,779
Class A preferred stock, no par value; unlimited number authorized; 222,876 issued and outstanding at June 30, 2018; redemption amount of \$5,572	5,477	—	5,477
Shareholders' Equity:			
Common stock, no par value; unlimited number authorized; 21,708,190 issued and outstanding at June 30, 2018	—	—	—
Additional paid-in capital	356,609	—	356,609
Accumulated deficit	(364,917)	(297) (e)	(365,214)
Accumulated other comprehensive income	36,322	645 (d)	36,967
Shareholders' equity attributable to common shareholders	28,014	348	28,362
Noncontrolling interests in consolidated subsidiaries	5,403	—	5,403
Total Shareholders' Equity	33,417	348	33,765
<b>Total Liabilities, Class A preferred stock and Shareholders' Equity</b>	<b>\$ 482,539</b>	<b>\$ (112,518)</b>	<b>\$ 370,021</b>

*See accompanying notes to unaudited pro forma consolidated financial statements.*



**Unaudited Pro Forma Consolidated Statement of Operations**  
**(in thousands, except per share data)**

	Year Ended June 30, 2018 (a)	Pro Forma Adjustments	Pro Forma
<b>Revenues:</b>			
Service fee and commission income	\$ 19,670	—	19,670
Rental income	6,682	—	6,682
Net investment loss	(613)	—	(613)
Net realized gains	9	—	9
Gain on change in fair value of equity investments	614	—	614
Other income	1,308	—	1,308
<b>Total revenues</b>	<b>27,670</b>	<b>—</b>	<b>27,670</b>
<b>Operating expenses:</b>			
Loss and loss adjustment expenses	4,247	—	4,247
Commissions	1,817	—	1,817
Cost of services sold	3,716	—	3,716
General and administrative expenses	14,702	—	14,702
Leased real estate segment interest expense	3,098	—	3,098
<b>Total operating expenses</b>	<b>27,580</b>	<b>—</b>	<b>27,580</b>
<b>Operating income</b>	<b>90</b>	<b>—</b>	<b>90</b>
<b>Other expenses, net:</b>			
Interest expense not allocated to segments	2,905	—	2,905
Amortization of intangible assets	543	—	543
Loss on change in fair value of debt	1,061	—	1,061
Equity in net loss of investee	284	—	284
<b>Total other expenses, net</b>	<b>4,793</b>	<b>—</b>	<b>4,793</b>
<b>Loss from continuing operations before income tax expense</b>	<b>(4,703)</b>	<b>—</b>	<b>(4,703)</b>
Income tax expense	438	—	438
<b>Loss from continuing operations</b>	<b>(5,141)</b>	<b>—</b>	<b>(5,141)</b>
<b>Loss per share - continuing operations:</b>			
Basic:	\$ (0.26)		\$ (0.26)
Diluted:	\$ (0.26)		\$ (0.26)
<b>Weighted-average shares outstanding (in '000s):</b>			
Basic:	21,708		21,708
Diluted:	21,708		21,708

*See accompanying notes to unaudited pro forma consolidated financial statements.*

**Unaudited Pro Forma Consolidated Statement of Operations**  
(in thousands, except per share data)

	Year Ended December 31, 2017 (f)	Pro Forma Adjustments (g)	Pro Forma
<b>Revenues:</b>			
Net premiums earned	\$ 130,443	\$ (130,443)	\$ —
Service fee and commission income	31,909	—	31,909
Rental income	13,384	—	13,384
Net investment income	2,669	(1,701)	968
Net realized gains	3,771	(3,465)	306
Other-than-temporary impairment loss	(316)	316	—
Other income	11,334	(9,938)	1,396
<b>Total revenues</b>	<b>193,194</b>	<b>(145,231)</b>	<b>47,963</b>
<b>Operating expenses:</b>			
Loss and loss adjustment expenses	125,982	(120,387)	5,595
Commissions and premium taxes	25,006	(20,682)	4,324
Cost of services sold	6,535	—	6,535
General and administrative expenses	46,269	(19,231)	27,038
Leased real estate segment interest expense	6,264	—	6,264
Amortization of intangible assets	1,152	—	1,152
Contingent consideration benefit	(212)	—	(212)
Impairment of intangible assets	250	(250)	—
<b>Total operating expenses</b>	<b>211,246</b>	<b>(160,550)</b>	<b>50,696</b>
<b>Operating loss</b>	<b>(18,052)</b>	<b>15,319</b>	<b>(2,733)</b>
<b>Other expenses (revenues), net:</b>			
Interest expense not allocated to segments	4,977	—	4,977
Foreign exchange losses, net	15	—	15
Loss on change in fair value of debt	8,487	—	8,487
Equity in net income of investees	(2,115)	—	(2,115)
<b>Total other expenses, net</b>	<b>11,364</b>	<b>—</b>	<b>11,364</b>
<b>Loss from continuing operations before income tax benefit</b>	<b>(29,416)</b>	<b>15,319</b>	<b>(14,097)</b>
<b>Income tax benefit</b>	<b>(17,761)</b>	<b>1,067</b>	<b>(16,694)</b>
<b>(Loss) income from continuing operations</b>	<b>(11,655)</b>	<b>14,252</b>	<b>2,597</b>
<b>Loss per share - continuing operations:</b>			
Basic:	\$ (0.76)		\$ (0.10)
Diluted:	\$ (0.76)		\$ (0.10)
<b>Weighted average shares outstanding (in '000s):</b>			
Basic:	21,547		21,547
Diluted:	21,547		21,547

*See accompanying notes to unaudited pro forma consolidated financial statements.*

**Kingsway Financial Services Inc.**  
**Unaudited Notes to Pro Forma Consolidated Financial Statements**

The following is a summary of the pro forma adjustments reflected in the unaudited pro forma consolidated financial statements based on preliminary estimates, which may change as additional information is obtained.

- a. Reflects the Company's historical consolidated balance sheet and statement of operations as of and for the six months ended June 30, 2018, as presented in the Company's Quarterly Report on Form 10-Q, as filed with the SEC on August 8, 2018.
- b. Reflects the equity investments, limited liability investments, limited liability investment, at fair value and other investments acquired from Mendota at the time of the closing.
- c. Reflects the estimated net pro forma effect on cash and cash equivalents of the disposition of Mendota.
- d. Reflects the adjustments necessary to remove the assets, liabilities and accumulated other comprehensive loss associated with Mendota.
- e. Reflects the estimated incremental loss on disposal based upon the actual closing date gross sales proceeds.
- f. Reflects the Company's historical consolidated statement of operations for the year ended December 31, 2017, as presented in the Company's Annual Report on Form 10-K, as filed with the SEC on March 16, 2018.
- g. Reflects the adjustments necessary to remove the historical revenues and expenses of Mendota. Such adjustments exclude the effect of the loss on sale, as this represents a non-recurring transaction.