

**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): July 29, 2022

KINGSWAY FINANCIAL SERVICES INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of Incorporation)

001-15204

(Commission File Number)

85-1792291

(IRS Employer Identification No.)

150 Pierce Rd., Itasca, IL 60143

(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, Including Area Code: **(847) 871-6408**

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))

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, par value \$0.01 per share	KFS	New York Stock Exchange

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 1.01 Entry into a Material Definitive Agreement.

The information set forth in Item 2.01 of this Current Report on Form 8-K regarding the Agreement (as defined below) is incorporated herein by reference.

The description of the Agreement does not purport to be complete, and is qualified in their entirety by reference to the text of the Agreement, which will be filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2022.

Item 2.01 Completion of Acquisition or Disposition of Assets.

On July 29, 2022, Professional Warranty Services LLC ("PWS Parent"), a subsidiary of Kingsway Financial Services Inc. (the "Company") entered into an Equity Purchase Agreement (the "Agreement") with Professional Warranty Service Corporation ("PWSC"), a majority-owned, indirect subsidiary of the Company, Tyler Gordy, the current president of PWSC ("Gordy") and PCF Insurance Services of the West, LLC ("Buyer"), pursuant to which PWS Parent and Gordy sold PWSC to Buyer.

The purchase price paid by Buyer to PWS Parent and Gordy consisted of \$51.2 million in base purchase price, subject to customary adjustments for net working capital and transaction expenses. In addition, Gordy elected to roll over a portion of his ownership in PWSC for equity interests in an affiliate of Buyer. To the extent the EBITDA of PWSC (as defined in the Agreement) for the one-year period following the sale transaction exceeds 103% of the EBITDA at the closing of the sale transaction (the "Closing EBITDA"), PWS Parent and Gordy will also be entitled to receive an earn out payment in an amount equal to 5 times the EBITDA in excess of 103% of Closing EBITDA.

The Agreement contains customary representations and warranties of PWS Parent, PWSC and Buyer, including, among others, with respect to corporate organization, capitalization, financial statements, title to assets, intellectual property, material agreements and compliance with 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.

The Agreement also provides for customary indemnification, including with respect to breaches of representations, warranties and covenants. Buyer has obtained a representation and warranty insurance policy which will be Buyer's sole recourse for losses related to breaches of representations and warranties by PWS Parent or PWSC in excess of the Indemnity Cap (as defined in the Agreement), subject to customary exceptions.

ITEM 2.02 Results of Operations and Financial Condition.

On August 4, 2022, the "Company" issued a press release regarding its financial results for the three and six-month period ended June 30, 2022. A copy of the press release is furnished as Exhibit 99.1 to this Current Report on Form 8-K.

The information in this Current Report on Form 8-K provided under this Item 2.02 and Exhibit 99.1 attached hereto 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 7.01 Regulation FD Disclosure.

On August 4, 2022, the Company issued a press release announcing the sale of PWSC 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 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 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, or the Exchange Act, except as expressly set forth by specific reference in such filing.

ITEM 9.01 Financial Statements and Exhibits.

(d) Exhibits.

Exhibit No. Exhibit Description

99.1	Kingsway Financial Service Inc. Press Release dated August 4, 2022
99.2	Unaudited Pro Forma Financial Information
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

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.

Date: August 4, 2022

By: /s/ Kent A. Hansen
Kent A. Hansen, Chief Financial Officer



**KINGSWAY REPORTS SECOND QUARTER 2022 RESULTS AND ANNOUNCES
SALE OF PWSC FOR \$51.2 MILLION,
ENTRANCE INTO AN OPTION AGREEMENT TO REPURCHASE A PORTION OF ITS DEBT**

Itasca, Illinois (August 4, 2022) - (NYSE: KFS) Kingsway Financial Services Inc. (“Kingsway” or the “Company”) today announced its operating results for the three and six months ended June 30, 2022; the sale of PWSC for \$51.2 million; entrance into an Option Agreement to repurchase a portion of its debt.

Second Quarter Operating Results

Financial highlights for the three and six months ended June 30, 2022 and 2021 include:

- Cash provided by operating activities improved by \$17.7 million to \$6.2 million for the six months ended June 30, 2022, from cash used in operating activities of (\$11.5) million in the same period a year ago;
- Net loss was (\$2.4) million for the three months ended June 30, 2022, compared to net loss of (\$0.3) million for the 2021 period; for the six months ended June 30, 2022, net loss was (\$4.9) million, compared to net income of \$0.6 million for the 2021 period;
- Non-GAAP adjusted income was \$2.1 million for the three months ended June 30, 2022, compared to non-GAAP adjusted income of \$1.0 million for the 2021 period; for the six months ended June 30, 2022, non-GAAP adjusted income was \$3.6 million, compared to \$2.8 million for the 2021 period;
- Extended Warranty segment and Kingsway Search Xcelerator (“KSX”) segment operating income was a total of \$3.8 million for the three months ended June 30, 2022, compared to a total of \$2.6 million for the three months ended June 30, 2021; for the six months ended June 30, 2022, total Extended Warranty segment and KXSX segment operating income was \$6.4 million, compared to \$7.9 million for the 2021 period;
- Non-GAAP adjusted EBITDA for the Extended Warranty segment and KXSX segment was a total of \$4.1 million for the three months ended June 30, 2022, compared to a total of \$2.7 million for the three months ended June 30, 2021; for the six months ended June 30, 2022, total Extended Warranty segment and KXSX segment non-GAAP adjusted EBITDA was a total of \$6.8 million, compared to \$5.9 million for the 2021 period; and
- The Company has paid down \$3.6 million of the debt related to borrowings secured by certain warranty companies since December 31, 2021. For the six months ended June 30, 2022, the Company paid down \$0.4 million (net) in debt related to its acquisition of Ravix.

“The company posted another strong operating quarter with non-GAAP adjusted income significantly exceeding the prior year quarter. We are pleased with the performance of the Extended Warranty segment, and our performance at Ravix continues to exceed our initial expectations,” said John T. Fitzgerald, President and Chief Executive Officer of Kingsway Financial Services.

Reconciliations of GAAP to non-GAAP metrics are presented in the attached schedules. The Company today also filed its second quarter 2022 Quarterly Report on Form 10-Q.

Sale of PWSC

The Company today announced the sale of Professional Warranty Service Corporation (“PWSC”), to PCF Insurance Services of the West, LLC (“PCF Insurance Services”), for \$51.2 million in base purchase price, subject to customary adjustments for net working capital and transaction expenses. The sale was effective on July 29, 2022. Kingsway received \$37.2 million in net cash proceeds in connection with the sale. Additionally, Kingsway is entitled to earn additional consideration based upon a one year earnout as part of the sale.

“While we are sad to be parting ways with Tyler Gordy and the entire PWSC team, we are excited by the opportunities this presents for Kingsway and its shareholders. This was the first business acquisition we made after I joined Kingsway. It is a validation of our strategy of backing talented young managers in acquisitions of great businesses and one we hope to continue to replicate within our Search Xcelerator segment. The sale also freed up capital to improve our balance sheet and make new investments in our Search Xcelerator segment.” said John T. Fitzgerald, President and Chief Executive Officer of Kingsway. “The sale of PWSC, combined with distributions received from PWSC over the years, represents an approximate 10x return on our initial investment of \$5 million over roughly 4.5 years,” continued Mr. Fitzgerald. “We believe we found a great partner for PWSC in PCF Insurance Services, and we wish both teams all the best in years to come.”

Option Agreement to Repurchase a Portion of Debt

The Company today also announced that on August 2, 2022, it entered into an agreement with a holder of four of its trust preferred debt instruments (“TruPs”), representing approximately 64% of the total outstanding principal and accrued interest of its TruPs, that gives the Company the option to repurchase up to 100% of the holder’s principal and deferred interest for 63% of the outstanding principal and deferred interest thereunder. Refer to Note 11, Debt, of our second quarter 2022 Quarterly Report on Form 10-Q, which was filed today, for further details.

“The option to repurchase a meaningful portion of our outstanding TruPs at such a significant discount is very accretive for Kingsway and its shareholders” said Mr. Fitzgerald. “We intend to fund the repurchases with a portion of the PWSC sale proceeds, as well as potential proceeds from the continued sales of our non-strategic commercial real estate investments.”

About the Company

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

Non U.S. GAAP Financial Measure

The Company believes that non-GAAP adjusted net income (loss) and non-GAAP adjusted EBITDA, when presented in conjunction with comparable GAAP

measures, provide useful information about the Company's operating results and enhances the overall ability to assess the Company's financial performance. The Company uses non-GAAP adjusted net income (loss) and non-GAAP adjusted EBITDA, together with other measures of performance under GAAP, to compare the relative performance of operations in planning, budgeting and reviewing the performance of its business. Non-GAAP adjusted net income (loss) and non-GAAP adjusted EBITDA allow investors to make a more meaningful comparison between the Company's core business operating results over different periods of time. The Company believes that non-GAAP adjusted net income (loss) and non-GAAP adjusted EBITDA, when viewed with the Company's results under GAAP and the accompanying reconciliations, provide useful information about the Company's business without regard to potential distortions. By eliminating potential differences in results of operations between periods caused by the factors listed in the attached schedules, the Company believes that non-GAAP adjusted net income (loss) and non-GAAP adjusted EBITDA can provide useful additional basis for comparing the current performance of the underlying operations being evaluated. Investors should consider these non-GAAP measures in addition to, not as a substitute for or as superior to, financial reporting measures prepared in accordance with GAAP. Investors are encouraged to review the Company's financial results prepared in accordance with GAAP to understand the Company's performance taking into account all relevant factors.

Forward-Looking Statements

This press release and/or Shareholder Letter may include "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; however, the absence of any such words does not mean that a statement is a not a forward-looking statement. 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, including as a result of the COVID 19 pandemic. 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 2021 Annual Report on Form 10-K and subsequent Form 10-Qs and Form 8-Ks filed with the Securities and Exchange Commission. 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 Annual Reports can be accessed on the EDGAR section of the U.S. Securities and Exchange Commission's website at www.sec.gov, on the Canadian Securities Administrators' website at www.sedar.com, or through the Company's website at www.kingsway-financial.com.



Kingsway Financial Services Inc.
 Reconciliation of GAAP Net (Loss) Income to Non-GAAP Adjusted Income (Loss)
 (in thousands)
 (UNAUDITED)

	Twelve Months Ended		For the Three Months Ended		
	6/30/2022	6/30/2022	3/31/2022	12/31/2021	9/30/2021
GAAP Net (Loss) Income	\$ (3,652)	\$ (2,365)	\$ (2,504)	\$ 1,443	\$ (226)
Non-GAAP Adjustments:					
Realized (Gains) Losses (1)	(399)	(36)	(26)	(240)	(97)
Change in fair value (2)	4,347	2,395	2,060	652	(760)
Other items (3)	2,857	593	490	992	782
Amortization expense	6,896	1,494	1,494	1,476	2,432
Total Non-GAAP Adjustments	13,701	4,446	4,018	2,880	2,357
Non-GAAP Adjusted Income	\$ 10,049	\$ 2,081	\$ 1,514	\$ 4,323	\$ 2,131
<i>Includes reduction due to IWS change in estimate (4)</i>	\$ 944	\$ -	\$ 944	\$ -	\$ -
<i>Includes reduction due to PWI final purchase accounting (4)</i>	\$ 1,857	\$ -	\$ -	\$ -	\$ 1,857

	Twelve Months Ended		For the Three Months Ended		
	6/30/2021	6/30/2021	3/31/2021	12/31/2020	9/30/2020
GAAP Net (Loss) Income	\$ (2,959)	\$ (256)	\$ 899	\$ (2,478)	\$ (1,124)
Non-GAAP Adjustments:					
Realized (Gain) Loss (1)	830	(71)	-	800	101
Change in fair value (2)	(877)	51	1,372	(1,426)	(874)
Other items (3)	7,126	736	1,558	3,944	888
PPP forgiveness (5)	(2,877)	-	(2,494)	(383)	-
Amortization expense	2,137	496	497	572	572
Total Non-GAAP Adjustments	6,339	1,212	933	3,507	687
Non-GAAP Adjusted Income (Loss)	\$ 3,380	\$ 956	\$ 1,832	\$ 1,029	\$ (437)



- (1) Includes realized gains and losses on the Company's non-core investments and loss on the extinguishment of debt.
- (2) Includes unrealized gains and losses on non-core investments; change in the fair value of subordinated debt (net of the portion of the change attributable to instrument-specific credit risk); and change in the fair value of the Ravix earn-out (changes in fair value recorded as other income or expense).
- (3) Other items includes: legal expenses associated with the Company's defense against significant litigation matters; acquisition-related expenses; charges relating to severance and consulting agreements pertaining to former key employees; non-cash expense arising from the grant and modification of stock-based awards to employees; expense relating to the settlement of all remaining Amigo claims; extraordinary audit and audit-related expenses incurred as a result of the delayed filing of the 2018 and 2019 Kingsway audited financial statements and related quarterly filings; and net expense incurred as a result of legal settlement reached with DGI in Q1 2021.
- (4) The three months ended 3/31/2022, include a non-cash net charge of \$0.9 million relating to change in estimate in accounting for IWS deferred revenue and deferred contract costs associated with vehicle service contract administration fees. The three months ended 9/30/2021 includes a \$1.9 million non-cash, current period cumulative reduction to service fee and commission revenue relating to the finalization of the PWI purchase accounting.
- (5) Given the non-recurring nature of the PPP forgiveness benefit, the Company has concluded this should be excluded from non-GAAP adjusted net income (loss).



Kingsway Financial Services Inc.
Reconciliation of Extended Warranty Segment Operating Income to Non-GAAP Adjusted EBITDA
and Pro Forma Non-GAAP Adjusted EBITDA
(in thousands)
(UNAUDITED)

	Twelve Months Ended		For the Three Months Ended		
	6/30/2022	6/30/2022	3/31/2022	12/31/2021	9/30/2021
GAAP Operating Income for Extended Warranty segment	\$ 9,385	\$ 2,936	\$ 1,723	\$ 3,326	\$ 1,400
Non-GAAP Adjustments:					
Investment income (1)	290	96	76	52	66
Gain (loss) on sale of core investments (2)	(19)	(16)	(4)	19	(18)
Depreciation	311	87	74	95	55
Total Non-GAAP Adjustments	582	167	146	166	103
Non-GAAP adjusted EBITDA for Extended Warranty segment	\$ 9,967	\$ 3,103	\$ 1,869	\$ 3,492	\$ 1,503
<i>Includes reduction due to IWS change in estimate (3)</i>	\$ 944	\$ -	\$ 944	\$ -	\$ -
<i>Includes reduction due to PWI final purchase accounting (3)</i>	\$ 1,857	\$ -	\$ -	\$ -	\$ 1,857

	Twelve Months Ended		For the Three Months Ended		
	6/30/2021	6/30/2021	3/31/2021	12/31/2020	9/30/2020
GAAP Operating Income for Extended Warranty segment	\$ 12,379	\$ 2,600	\$ 5,310	\$ 3,264	\$ 1,205
Non-GAAP Adjustments:					
Investment income (1)	236	42	43	51	100
Gain (loss) on sale of core investments (2)	39	1	12	(3)	29
PPP forgiveness (4)	(2,566)	-	(2,183)	(383)	-
Depreciation	235	53	12	112	58
Total Non-GAAP Adjustments	(2,056)	96	(2,116)	(223)	187
Non-GAAP adjusted EBITDA for Extended Warranty segment	\$ 10,323	\$ 2,696	\$ 3,194	\$ 3,041	\$ 1,392
PWI operating income (5)	2,010	-	-	914	1,096
PWI depreciation (5)	43	-	-	30	13
Pro forma Non-GAAP adjusted EBITDA for Extended Warranty segment	\$ 12,376	\$ 2,696	\$ 3,194	\$ 3,985	\$ 2,501

- (1) Investment income arising as part of Extended Warranty segment's minimum holding requirements
- (2) Realized Gains (losses) resulting from investments held in trust as part of Extended Warranty segment's minimum holding requirements
- (3) The three months ended 3/31/2022 include a non-cash net charge of \$0.9 million relating to change in estimate in accounting for IWS deferred revenue and deferred contract costs associated with vehicle service contract administration fees. The three months ended 9/30/2021 includes a \$1.9 million non-cash, current period cumulative reduction to service fee and commission revenue relating to the finalization of the PWI purchase accounting.
- (4) Given the non-recurring nature of the PPP forgiveness benefit, the Company has concluded this should be excluded from non-GAAP adjusted EBITDA and pro forma non-GAAP EBITDA.
- (5) Includes amounts related to PWI prior to acquisition (July 2020 through November 2020).

Kingsway Financial Services Inc.
Reconciliation of KSX Segment Operating Income to Non-GAAP Adjusted EBITDA
(in thousands)
(UNAUDITED)

	<u>Twelve Months Ended</u>		<u>For the Three Months Ended</u>	
	<u>6/30/2022</u>		<u>6/30/2022</u>	<u>3/31/2022</u>
GAAP Operating Income for KSX segment	\$ 1,699		\$ 893	\$ 806
Non-GAAP Adjustments:				
Employee costs (1)	110		55	55
Total Non-GAAP Adjustments	110		55	55
Non-GAAP adjusted EBITDA for KSX segment	\$ 1,809		\$ 948	\$ 861

(1) Costs associated with employees assisting during a transition period and are not expected to be replaced once transition period has ended (approximately one year from acquisition date).

Kingsway Financial Services Inc.
Unaudited Pro Forma Consolidated Financial Statements

On July 29, 2022, Kingsway Financial Services Inc. (“Kingsway” or the “Company”) completed the sale of Professional Warranty Services Corporation (“PWSC”) to PCF Insurance Services of the West, LLC for cash and certain additional consideration. PWSC had been included in the Extended Warranty segment. The Company is evaluating whether PWSC will be accounted for as a discontinued operation.

The accompanying pro forma consolidated financial statements are presented to show the effects of the disposition of PWSC, 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, 2022 is presented as if the disposition, as described in the notes to these unaudited pro forma consolidated financial statements, had occurred at June 30, 2022. The unaudited pro forma consolidated statements of operations for the year ended December 31, 2021 and for the six months ended June 30, 2022 are presented as if the disposition had occurred on January 1, 2021. 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, 2021; Management’s Discussion and Analysis included in Kingsway’s Annual Report on Form 10-K for the year ended December 31, 2021; and Kingsway’s Quarterly Report on Form 10-Q as of and for the six months ended June 30, 2022.

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, 2022, as presented in the Company's Quarterly Report on Form 10-Q, as filed with the SEC on August 4, 2022.
- b. Reflects the net cash proceeds of \$36.5 million received by the Company from the sale of PWSC less cash on hand at PWSC of \$1.4 million as of June 30, 2022. The base selling price of PWSC was \$51.2 million. After the payment of expenses and the 20% paid to the noncontrolling interest holder, the Company received net cash proceeds of \$36.5 million. The cash proceeds received reflects the Company's 80% ownership of PWSC and does not reflect any potential contingent earnout payment to be received by the Company. To the extent the EBITDA of PWSC (as defined in the Equity Purchase Agreement) for the one-year period following the sale transaction exceeds 103% of the EBITDA at the closing of the sale transaction (the "Closing EBITDA"), the earn out payment would be an amount equal to five times the EBITDA in excess of 103% of Closing EBITDA, of which the Company would receive a portion.
- c. Reflects the Company's disposition of PWSC. Amounts represent the adjustments necessary to remove the assets, liabilities, additional paid-in capital and noncontrolling interest associated with PWSC.
- d. Reflects the adjustments related to the disposition of PWSC and the estimated gain on sale of approximately \$33.3 million.
- e. Reflects the Company's disposition of PWSC. Amounts represent the adjustments necessary to remove the historical revenues, expenses and noncontrolling interest of PWSC. Such adjustments exclude the effect of the gain on sale, as this represents a non-recurring transaction.
- f. Reflects the Company's historical consolidated statement of operations for the year ended December 31, 2021, as presented in the Company's Annual Report on Form 10-K, as filed with the SEC on February 28, 2022.

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

	As of June 30, 2022 (a)	Pro Forma Adjustments	Pro Forma
Assets			
Investments:			
Fixed maturities, at fair value	\$ 37,013	\$ —	\$ 37,013
Equity investments, at fair value	131	—	131
Limited liability investments	1,215	—	1,215
Limited liability investments, at fair value	18,986	—	18,986
Investments in private companies, at adjusted cost	790	—	790
Real estate investments, at fair value	10,662	—	10,662
Other investments, at cost which approximates fair value	222	—	222
Short-term investments, at cost which approximates fair value	157	—	157
Total investments	69,176	—	69,176
Cash and cash equivalents	11,704	35,166 (b)	46,870
Restricted cash	14,492	(39) (c)	14,453
Accrued investment income	1,031	—	1,031
Service fee receivable, net of allowance for doubtful accounts	8,484	(1,427) (c)	7,057
Other receivables, net of allowance for doubtful accounts	12,520	(64) (c)	12,456
Deferred contract costs	12,617	—	12,617
Income taxes recoverable	35	227 (c)	262
Property and equipment, net of accumulated depreciation	107,079	(418) (c)	106,661
Right-of-use asset	1,801	(942) (c)	859
Goodwill	110,247	(9,474) (c)	100,773
Intangible assets, net of accumulated amortization	105,214	(2,344) (c)	102,870
Other assets	15,228	(63) (c)	15,165
Total Assets	\$ 469,628	\$ 20,622	\$ 490,250
Liabilities and Shareholders' Equity			
Liabilities:			
Accrued expenses and other liabilities	\$ 51,977	\$ (3,928) (c)	\$ 48,049
Deferred service fees	91,321	(7,547) (c)	83,774
Bank loans	22,818	—	22,818
Notes payable	201,413	—	201,413
Subordinated debt, at fair value	57,282	—	57,282
Lease liability	2,019	(1,039) (c)	980
Net deferred income tax liabilities	27,860	370 (c)	28,230
Total Liabilities	454,690	(12,144)	442,546
Redeemable Class A preferred stock, no par value; 1,000,000 authorized at June 30, 2022; 169,733 issued and outstanding at June 30, 2022; redemption amount of \$6,655 at June 30, 2022	6,655	—	6,655
Shareholders' Equity:			
Common stock, no par value; 50,000,000 authorized; 23,130,064 issued and 22,882,614 outstanding at June 30, 2022	—	—	—
Additional paid-in capital	359,536	(1,056) (c)	358,480
Treasury stock, at cost; 247,450 outstanding at June 30, 2022	(492)	—	(492)
Accumulated deficit	(400,470)	33,257 (d)	(367,213)
Accumulated other comprehensive income	36,017	—	36,017
Shareholders' equity attributable to common shareholders	(5,409)	32,201	26,792
Noncontrolling interests in consolidated subsidiaries	13,692	565 (c)	14,257
Total Shareholders' Equity	8,283	32,766	41,049
Total Liabilities, Class A preferred stock and Shareholders' Equity	\$ 469,628	\$ 20,622	\$ 490,250

See accompanying notes to unaudited pro forma consolidated financial statements.

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

	Six Months Ended June 30, 2022 (a)	Pro Forma Adjustments (e)	Pro Forma
Revenues:			
Service fee and commission revenue	\$ 46,046	\$ (4,175)	\$ 41,871
Rental revenue	7,300	—	7,300
Total revenues	53,346	(4,175)	49,171
Operating expenses:			
Claims authorized on vehicle service agreements	10,528	—	10,528
Commissions	3,260	(42)	3,218
Cost of services sold	8,818	—	8,818
General and administrative expenses	24,210	(4,153)	20,057
Leased real estate segment interest expense	3,354	—	3,354
Total operating expenses	50,170	(4,195)	45,975
Operating income	3,176	20	3,196
Other revenues (expenses), net:			
Net investment income	1,084	—	1,084
Net realized gains	238	—	238
Loss on change in fair value of equity investments	(48)	—	(48)
Gain on change in fair value of limited liability investments, at fair value	173	—	173
Non-operating other expenses	(653)	—	(653)
Interest expense not allocated to segments	(3,068)	—	(3,068)
Amortization of intangible assets	(2,988)	252	(2,736)
Loss on change in fair value of debt	(3,198)	—	(3,198)
Total other expenses, net	(8,460)	252	(8,208)
Loss before income tax benefit	(5,284)	272	(5,012)
Income tax benefit	(415)	(27)	(442)
Net loss	(4,869)	299	(4,570)
Less: net income attributable to noncontrolling interests in consolidated subsidiaries	452	48	500
Less: dividends on preferred stock	157	—	157
Net loss attributable to common shareholders	\$ (5,478)	\$ 251	\$ (5,227)
Loss per share – net loss attributable to common shareholders:			
Basic:	\$ (0.24)		\$ (0.23)
Diluted:	\$ (0.24)		\$ (0.23)
Weighted-average shares outstanding (in '000s):			
Basic:	22,883		22,883
Diluted:	22,883		22,883

See accompanying notes to unaudited pro forma consolidated financial statements.

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

	Year Ended December 31, 2021 (f)	Pro Forma Adjustments (e)	Pro Forma
Revenues:			
Service fee and commission revenue	\$ 78,401	\$ (7,975)	\$ 70,426
Rental revenue	13,365	-	13,365
Total revenues	91,766	(7,975)	83,791
Operating expenses:			
Claims authorized on vehicle service agreements	19,536	-	19,536
Commissions	7,042	(126)	6,916
Cost of services sold	7,052	-	7,052
General and administrative expenses	48,733	(7,173)	41,560
Leased real estate segment interest expense	6,164	-	6,164
Total operating expenses	88,527	(7,299)	81,228
Operating income	3,239	(676)	2,563
Other revenues (expenses), net:			
Net investment income	1,575	-	1,575
Net realized gains	1,809	-	1,809
Loss on change in fair value of equity investments	(242)	-	(242)
Gain on change in fair value of limited liability investments, at fair value	2,391	-	2,391
Non-operating other expense	(2,788)	-	(2,788)
Interest expense not allocated to segments	(6,161)	-	(6,161)
Amortization of intangible assets	(4,900)	629	(4,271)
Loss on change in fair value of debt	(3,201)	-	(3,201)
Gain on extinguishment of debt	2,494	(598)	1,896
Total other expenses, net	(9,023)	31	(8,992)
Loss before income tax benefit	(5,784)	(645)	(6,429)
Income tax benefit	(7,644)	(87)	(7,731)
Net income	\$ 1,860	\$ (558)	\$ 1,302
Less: Net income attributable to the noncontrolling interests in consolidated subsidiaries	2,202	(28)	2,174
Less: Dividends on preferred stock	494	-	494
Net loss attributable to the common shareholders	\$ (836)	\$ (530)	\$ (1,366)
Loss per share – net loss attributable to common shareholders:			
Basic:	\$ (0.04)		\$ (0.06)
Diluted:	\$ (0.04)		\$ (0.06)
Weighted-average shares outstanding (in '000s):			
Basic:	22,537		22,537
Diluted:	22,537		22,537

See accompanying notes to unaudited pro forma consolidated financial statements.