

1347 Property Insurance Holdings, Inc.  
Form 10-Q  
May 11, 2017

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

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**FORM 10-Q**

(Mark  
One)

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

**For the Quarterly Period Ended March 31, 2017**

**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)

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**Delaware**

**46-1119100**

(State or other jurisdiction of (I.R.S. Employer Identification No.)

incorporation or organization)

**1511 N. Westshore Blvd., Suite 870, Tampa, FL 33607**

(Address of principal executive offices and zip code)

**813-579-6213**

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated	Accelerated	Non-accelerated filer	Smaller Reporting	Emerging Growth
filer	filer	(Do not check if a smaller reporting company)	Company	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.

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

The number of shares outstanding of the registrant's common stock as of May 10, 2017 was 5,956,766.



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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)**

	March 31, 2017 (unaudited)	December 31, 2016
<b>ASSETS</b>		
Investments:		
Fixed income securities, at fair value (amortized cost of \$32,872 and \$26,793, respectively)	\$ 32,706	\$ 26,559
Equity investments, at fair value (cost of \$1,000 for both periods)	1,151	1,136
Short-term investments, at cost	538	196
Other investments, at cost	805	505
Total investments	35,200	28,396
Cash and cash equivalents	37,141	43,045
Deferred policy acquisition costs, net	4,426	4,389
Premiums receivable, net of allowance for credit losses of \$33 and \$38, respectively	2,164	2,923
Ceded unearned premiums	5,377	4,847
Reinsurance recoverable on paid losses	1,136	444
Reinsurance recoverable on loss and loss adjustment expense reserves	4,469	3,652
Funds deposited with reinsured companies	—	500
Current income taxes recoverable	672	1,195
Deferred tax asset, net	268	420
Property and equipment, net	244	250
Other assets	732	788
Total assets	\$ 91,829	\$ 90,849
<b>LIABILITIES</b>		
Loss and loss adjustment expense reserves	\$ 7,813	\$ 6,971
Unearned premium reserves	25,138	25,821
Ceded reinsurance premiums payable	4,970	5,229
Agency commissions payable	669	497
Premiums collected in advance	1,916	1,128
Funds held under reinsurance treaties	63	73
Accounts payable and other accrued expenses	2,034	2,065
Series B Preferred Shares, \$25.00 par value, 1,000,000 shares authorized, 120,000 shares issued and outstanding for both periods	2,561	2,708
Total liabilities	\$ 45,164	\$ 44,492

Commitments and contingencies (Note 16)

SHAREHOLDERS' EQUITY

Common stock, \$0.001 par value; 10,000,000 shares authorized; 6,108,125 shares issued and 5,956,766 shares outstanding for both periods	\$ 6	\$ 6
Additional paid-in capital	46,816	46,809
Retained earnings	862	616
Accumulated other comprehensive loss	(10 )	(65 )
	47,674	47,366
Less: treasury stock at cost; 151,359 shares for both periods	(1,009 )	(1,009 )
Total shareholders' equity	46,665	46,357
Total liabilities and shareholders' equity	\$ 91,829	\$ 90,849

*See accompanying notes to consolidated financial statements*

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

	Three months ended March 31,	
	2017	2016
Revenue:		
Net premiums earned	\$8,172	\$8,221
Net investment income	168	115
Other income	377	263
Total revenue	8,717	8,599
Expenses:		
Net losses and loss adjustment expenses	3,631	6,636
Amortization of deferred policy acquisition costs	2,522	1,990
General and administrative expenses	2,091	1,578
Accretion of discount on Series B Preferred Shares	92	88
Total expenses	8,336	10,292
Income (Loss) before income tax expense (benefit)	381	(1,693 )
Income tax expense (benefit)	135	(578 )
Net income (loss)	\$246	\$(1,115 )
Net earnings (loss) per common share:		
Basic	\$0.04	\$(0.18 )
Diluted	\$0.04	\$(0.18 )
Weighted average common shares outstanding:		
Basic	5,956,766	6,111,079
Diluted	5,956,766	6,111,079
<b>Consolidated Statements of Comprehensive Income (Loss)</b>		
Net income (loss)	\$246	\$(1,115 )
Unrealized gains on investments available for sale, net of income taxes	55	228
Comprehensive income (loss)	\$301	\$(887 )

*See accompanying notes to consolidated financial statements.*

**1347 PROPERTY INSURANCE HOLDINGS, INC. AND SUBSIDIARIES****Consolidated Statement of Changes in Shareholders' Equity****(in thousands, except per share data)**

	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
Balance-January 1, 2016	6,134,274	\$6	223,851	\$(1,731)	\$48,688	\$605	\$(62)	\$47,506
Stock compensation expense	—	—	—	—	38	—	—	38
Purchase of treasury stock	(177,508)	—	177,508	(1,195)	—	—	—	(1,195)
Retirement of treasury shares	—	—	(250,000)	1,917	(1,917)	—	—	—
Net income	—	—	—	—	—	11	—	11
Other comprehensive loss	—	—	—	—	—	—	(3)	(3)
Balance - December 31, 2016	5,956,766	\$6	151,359	\$(1,009)	\$46,809	\$616	\$(65)	\$46,357
Stock compensation expense	—	—	—	—	7	—	—	7
Net income	—	—	—	—	—	246	—	246
Other comprehensive income	—	—	—	—	—	—	55	55
Balance – March 31, 2017 (unaudited)	5,956,766	\$6	151,359	\$(1,009)	\$46,816	\$862	\$(10)	\$46,665

*See accompanying notes to consolidated financial statements*



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

	Three months ended March 31,	
	2017	2016
Cash provided by (used in):		
Operating activities:		
Net income (loss)	\$246	\$(1,115)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Accretion of discount on Series B Preferred Shares	92	88
Net deferred income taxes	124	(54)
Stock compensation expense	7	10
Depreciation expense	18	15
Changes in operating assets and liabilities:		
Premiums receivable, net	759	351
Reinsurance recoverable on paid losses and loss reserves	(1,509)	(3,208)
Amounts held on deposit with reinsured companies	500	725
Ceded unearned premiums	(530)	(224)
Deferred policy acquisition costs, net	(37)	353
Loss and loss adjustment expense reserves	842	3,833
Premiums collected in advance	788	895
Unearned premium reserves	(683)	(1,524)
Ceded reinsurance premiums payable	(259)	(82)
Current income taxes recoverable	523	(701)
Other, net	188	(135)
Net cash provided (used) by operating activities	1,069	(773)
Investing activities:		
Purchases of furniture and equipment	(12)	(44)
Purchases of fixed income securities	(6,079)	(1,176)
Purchase of equity investments	—	(1,000)
Purchase of other investment	(300)	(50)
Net (purchases) sales of short-term investments	(342)	86
Net cash used in investing activities	(6,733)	(2,184)
Financing activities:		
Payment of dividends on preferred shares	(240)	(240)
Purchases of treasury stock	—	(186)
Net cash used by financing activities	(240)	(426)
Net decrease in cash and cash equivalents	(5,904)	(3,383)

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Cash and cash equivalents at beginning of period	43,045	47,957
Cash and cash equivalents at end of period	\$37,141	\$44,574
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income taxes	\$—	\$260

*See accompanying notes to consolidated financial statements.*

## 1347 PROPERTY INSURANCE HOLDINGS, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

(\$ amounts in thousands, except per share data)

#### 1. Nature of Business

Maison Insurance Holdings, Inc. was incorporated on October 2, 2012 in the State of Delaware. On November 19, 2013, its legal name was changed from Maison Insurance Holdings, Inc. to 1347 Property Insurance Holdings, Inc. (“PIH”). PIH is a holding company and is engaged, through its subsidiaries, in the property and casualty insurance business. Unless context denotes otherwise, the terms “Company,” “we,” “us,” and “our” refer to 1347 Property Insurance Holdings, Inc., and its subsidiaries.

Prior to March 31, 2014, PIH was a wholly owned subsidiary of Kingsway America Inc. (“KAI”). KAI, in turn, is a wholly owned subsidiary of Kingsway Financial Services Inc. (“KFSI”), a publicly owned holding company based in Toronto, Ontario, Canada. On March 31, 2014, PIH completed an initial public offering (“IPO”) of its common stock. On June 13, 2014, PIH completed a follow-on offering of its common stock to the public. Through the combination of the IPO and follow-on offering, PIH issued approximately five million shares of its common stock. As of March 31, 2017, KAI held approximately 975,000 shares of our common stock, which is equivalent to 16.4% of our outstanding shares.

PIH has three wholly-owned subsidiaries; Maison Insurance Company (“Maison”), a Louisiana-domiciled property and casualty insurance company, Maison Managers, Inc. (“MMI”), a managing general agent, incorporated in the State of Delaware, and ClaimCor, LLC (“ClaimCor”), a Florida based claims solutions company. Maison processes claims made by its policyholders through ClaimCor, and also through various third-party claims adjusting companies. MMI has ultimate authority over the claims handling process, while the agencies we appoint have no authority to settle our claims or otherwise exercise control over the claims process.

Maison began providing homeowners insurance, manufactured home insurance and dwelling fire insurance to individuals in Louisiana in December 2012. Maison writes both full peril property policies as well as wind/hail only exposures in Louisiana and distributes its policies through a network of independent insurance agencies. Maison began assuming wind/hail only insurance for commercial properties in Texas beginning in June 2015. In September 2015, Maison began writing manufactured home policies in the State of Texas on a direct basis, and in March 2016, Maison began writing homeowner policies in Texas.

In addition to the voluntary policies Maison writes, we have participated in the last five rounds of take-outs from Louisiana Citizens Property Insurance Company (“Citizens”), occurring on December<sup>st</sup> of each year as well as the inaugural depopulation of policies from the Texas Windstorm Insurance Association (“TWIA”) which occurred on December 1, 2016. Under these programs, state-approved insurance companies, such as Maison, have the opportunity to assume insurance policies written by both Citizens and TWIA.

On March 1, 2017 Maison received a certificate of authority from the Florida Office of Insurance Regulation (“FL OIR”) which authorizes Maison to write personal lines insurance in the State of Florida. Pursuant to the Consent Order issued, Maison has agreed to comply with certain requirements as outlined by the FL OIR until Maison can demonstrate three consecutive years of net income following the Company’s admission into Florida as evidenced by its Annual Statement filed with the FL OIR via the National Association of Insurance Commissioners electronic filing system. Among other requirements, the FL OIR requires the following as conditions related to the issuance of Maison’s certificate of authority:

Although domiciled in the State of Louisiana, Maison agreed to comply with the Florida Insurance Code as if Maison were a domestic insurer within the State of Florida;

Maison agreed to maintain capital and surplus as to policyholders of no less than \$35,000;

Maison agreed to receive prior approval from the FL OIR prior to the payment of any dividends and;

Maison agreed to receive written approval from the FL OIR regarding any form of policy issued, or rate charged to its policyholders prior to utilizing any such form or rate for policies written in the State of Florida.

To comply with the Consent Order, on March 31, 2017, Maison received a capital contribution from PIH in the amount of \$16,000. As of March 31, 2017 Maison has not written any insurance policies covering risks in the State of Florida.

## **1347 PROPERTY INSURANCE HOLDINGS, INC. AND SUBSIDIARIES**

### **Notes to Consolidated Financial Statements**

**(\$ amounts in thousands, except per share data)**

MMI serves as the Company's 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 FL OIR.

### **2. 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:*

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. All 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, and the valuation of deferred policy acquisition costs.

*Investments:*

Investments in fixed income and equity securities are classified as available-for-sale and reported at estimated fair value. Unrealized gains and losses 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.

Other investments include investments in limited liability companies in which the Company's interests are deemed minor and therefor, are accounted for under the cost method of accounting which approximates their fair value and also an investment in a fixed rate certificate of deposit with an original maturity of 15 months.

Short-term investments, which consist of investments with maturities between three months and one year, are reported at cost, which approximates fair value due to their short-term nature.

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 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.



## 1347 PROPERTY INSURANCE HOLDINGS, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

(\$ amounts in thousands, except per share data)

#### *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, assessments 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, as opposed to being deferred and amortized as the corresponding premium is earned. The method followed in determining the deferred policy acquisition costs limits the deferral to its realizable value by giving



consideration to estimated future loss and loss adjustment expenses to be incurred as revenues are earned. Anticipated investment income is included in determining the realizable value of the deferred policy acquisition costs. Changes in estimates, if any, are recorded in the accounting period in which they are determined.

*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 carry-forwards. 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 life 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 leasehold improvements. Property and equipment is estimated to have no salvage value at its useful life-end.

Rent expense for the Company's office leases is recognized on a straight-line basis over the term of the lease. Rent expense was \$85 and \$98 for the three months ended March 31, 2017 and 2016, 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 as well as the impact of reinsurance on our loss reserves. 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.

## 1347 PROPERTY INSURANCE HOLDINGS, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

(\$ amounts in thousands, except per share data)

#### *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 two regional banks headquartered in the Southeastern United States. Such amounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250 per institution. At March 31, 2017, the Company held funds on deposit at these institutions 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, all 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 due to the fact that Maison exclusively underwrites policies in Louisiana and Texas. The Company insures personal property located in 63 of the 64 parishes in the State of Louisiana. As of March 31, 2017, these policies are concentrated within these parishes, presented as a percentage of our total policies in force in all states, as follows: Saint Tammany Parish 14.6%, Jefferson Parish 13.4%, East Baton Rouge Parish 7.6%, Livingston Parish 5.5%, Orleans Parish 5.3%, and Tangipahoa Parish 5.1%. No other parish individually has over 5.0% of the policies in force as of March 31, 2017. On a direct basis, Maison writes in 115 of the 254 counties that comprise the State of Texas, however no single county represents over 5.0% of our total policies in force as of March 31, 2017.

#### *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 other policy fees is deferred and recognized over the terms 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 (stock options and common stock purchase warrants). 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.

## 1347 PROPERTY INSURANCE HOLDINGS, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

**(\$ amounts in thousands, except per share data)**

The Company has also issued restricted stock units (“RSUs”) to certain of its employees 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 a Monte Carlo valuation model to estimate the fair value of these awards upon grant date as the vesting of these RSUs occurs solely upon market-based conditions. The fair value of each RSU is recorded as compensation expense over the derived service period, as determined by the valuation model. 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.

#### *Fair Value of Financial Instruments:*

The carrying values of certain financial instruments, including cash, short-term investments, premiums receivable and accounts payable 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.

#### *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, 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.

### 3. Recently Issued Accounting Standards

#### *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 (loss). ASU 2016-01 is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. ASU 2016-01 will be applied using a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. Adoption of ASU 2016-01 is not expected to have a material impact on the Company's financial position, cash flows, or total comprehensive income, but could impact the Company's results of operations and earnings (loss) per share as changes in fair value will be presented in net income (loss) rather than other comprehensive income (loss).

#### *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 current guidance for lessees, leases are only included on the balance sheet if certain criteria, classifying the agreement as a capital lease, are met. This update will require 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. For operating leases, the asset and liability will be expensed over the lease term on a straight-line basis, with all cash flows included in the operating section of the statement of cash flows. For finance leases, interest on the lease liability will be recognized separately from the amortization of the right-of-use asset in the statement of comprehensive income while the repayment of the principal portion of the lease liability will be classified as a financing activity and the interest component will be included in the operating section of the statement of cash flows. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2019, and interim periods within those fiscal years beginning after December 15, 2020. Early adoption is permitted. Upon adoption, leases will be recognized and measured at the beginning of the earliest period presented using a modified retrospective approach. The Company has reviewed its existing lessee obligations and has determined that ASU 2016-02 will apply should the Company renew its existing leases, or enter into any new lease agreements.

## 1347 PROPERTY INSURANCE HOLDINGS, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

(\$ amounts in thousands, except per share data)

#### *ASU 2016-09: Stock Compensation:*

In March 2016, the FASB issued ASU 2016-09: *Compensation – Stock Compensation: Improvement to Employee Share-Based Payment Accounting*. ASU 2016-09 was issued to simplify the accounting for share-based payment awards. The guidance requires that all tax effects related to share-based payment be made through the statement of operations at the time of settlement as opposed to the current guidance that requires excess tax benefits to be recognized in additional paid-in-capital. ASU 2016-09 also removes the requirement to delay recognition of a tax benefit until it reduces current taxes payable. The change is required to be applied on a modified retrospective basis, with a cumulative effect adjustment to opening accumulated deficit. Additionally, all tax related cash flows resulting from share-based payments are to be reported as operating activities on the statement of cash flows, a departure from the current requirement which presents tax benefits as an inflow from financing activities and an outflow from operating activities. ASU 2016-09 is effective for annual and interim reporting periods beginning after December 15, 2017 and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted with any adjustments reflected as of the beginning of the fiscal year of adoption. The Company does not believe the adoption of ASU 2016-09 will have a material impact on its consolidated financial statements.

#### *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 loss was probable of occurring. 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. The Company is currently evaluating the impact of the adoption of ASU 2016-02 on its consolidated financial statements.





**1347 PROPERTY INSURANCE HOLDINGS, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

(\$ amounts in thousands, except per share data)

**4. 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 March 31, 2017 and December 31, 2016 is as follows.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
As of March 31, 2017				
Fixed income securities:				
U.S. government	\$ 1,997	\$ 4	\$ (18 )	\$ 1,983
State municipalities and political subdivisions	3,168	10	(21 )	3,157
Asset-backed securities and collateralized mortgage obligations	12,655	10	(131 )	12,534
Corporate	15,052	45	(65 )	15,032
Total fixed income securities	32,872	69	(235 )	32,706
Equity securities:				
Common stock	1,000	151	—	1,151
Total equity securities	1,000	151	—	1,151
Total fixed income and equity securities	\$ 33,872	\$ 220	\$ (235 )	\$ 33,857
As of December 31, 2016				
Fixed income securities:				
U.S. government	\$ 1,623	\$ 1	\$ (20 )	\$ 1,604
State municipalities and political subdivisions	2,271	2	(27 )	2,246
Asset-backed securities and collateralized mortgage obligations	12,095	9	(136 )	11,968
Corporate	10,804	28	(91 )	10,741
Total fixed income securities	26,793	40	(274 )	26,559
Equity securities:				
Common stock	1,000	136	—	1,136
Total equity securities	1,000	136	—	1,136
Total fixed income and equity securities	\$ 27,793	\$ 176	\$ (274 )	\$ 27,695

The table below summarizes the Company's fixed income securities at March 31, 2017 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	\$ 1,817	\$ 1,818
More than one to five years	14,298	14,255
More than five to ten years	7,583	7,559
More than ten years	9,174	9,074
Total	\$ 32,872	\$ 32,706

The following table highlights, by loss position and security type, those fixed income and equity securities in unrealized loss positions as of March 31, 2017 and December 31, 2016. The tables segregate the holdings based on the period of time the investments have been continuously held in unrealized loss positions. There were 136 and 122 fixed income investments that were in unrealized loss positions as of March 31, 2017 and December 31, 2016, respectively. The Company held no equity securities in unrealized loss positions at either date.

	Less than 12 Months		Greater than 12 Months		Total	
	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
<b>As of March 31, 2017</b>						
Fixed income securities:						
U.S. government	\$1,304	\$ (18 )	\$—	\$ —	\$1,304	\$ (18 )
State municipalities and political subdivisions	1,466	(21 )	—	—	1,466	(21 )
Asset-backed securities and collateralized mortgage obligations	9,841	(128 )	487	(2 )	10,328	(131 )
Corporate	6,215	(65 )	40	—	6,255	(65 )
Total investments in fixed income securities	\$18,826	\$ (233 )	\$527	\$ (2 )	\$19,353	\$ (235 )
<b>As of December 31, 2016</b>						
Fixed income securities:						
U.S. government	\$1,303	\$ (20 )	\$—	\$ —	\$1,303	\$ (20 )
State municipalities and political subdivisions	1,537	(27 )	—	—	1,537	(27 )
Asset-backed securities and collateralized mortgage obligations	9,552	(133 )	460	(3 )	10,012	(136 )
Corporate	5,952	(91 )	—	—	5,952	(91 )
Total investments in fixed income securities	\$18,344	\$ (271 )	\$460	\$ (3 )	\$18,804	\$ (274 )

Under the terms of the certificate of authority granted to Maison by the Texas Department of Insurance, Maison is required to pledge securities totaling at least \$2,000 with the State of Texas. Maison deposited the required securities with the State of Texas on May 13, 2015. These securities consist of various fixed income securities listed in the preceding tables which have an amortized cost basis of \$2,002 and estimated fair value of \$1,998 as of March 31, 2017.



## 1347 PROPERTY INSURANCE HOLDINGS, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

**(\$ amounts in thousands, except per share data)**

The Company's other investments are comprised of investments in two limited partnerships which seek to provide equity and asset-backed debt investment in a variety of privately-owned companies. The Company has committed to a total investment of \$1,000, of which the limited partnerships have drawn down approximately \$505 through March 31, 2017. One of these limited partnerships is managed by Argo Management Group, LLC, an entity which, as of April 21, 2016 is wholly owned by KFSI (see Note 12 – Related Party Transactions). The Company has accounted for its investments under the cost method as the instruments do not have readily determinable fair values and the Company does not exercise significant influence over the operations of the limited partnerships or the underlying privately-owned companies.

Also included in other investments is 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 FL 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;

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.

The Company has reviewed currently available information regarding the investments it holds which have estimated fair values that are less than their carrying amounts and believes that these unrealized losses are primarily due to temporary market and sector-related factors rather than to issuer-specific factors. The Company does not intend to sell these investments in the short term, and it is not likely that it will be required to sell these investments before the recovery of their amortized cost.

**1347 PROPERTY INSURANCE HOLDINGS, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

**(\$ amounts in thousands, except per share data)**

Accordingly, all of the Company's investments were in good standing and there were no write-downs for other-than-temporary impairments on the Company's investments for the three months ended March 31, 2017 and 2016.

The Company does not have any exposure to subprime mortgage-backed investments. Net investment income for the three months ended March 31, 2017 and 2016 was as follows:

	Three Months Ended March 31,	
	2017	2016
Investment income:		
Interest on fixed income securities	\$ 132	\$ 100
Interest on cash and cash equivalents	47	27
Gross investment income	179	127
Investment expenses	(11 )	(12 )
Net investment income	\$ 168	\$ 115

**5. Reinsurance**

The Company reinsures, or cedes, a portion of its written premiums on a per risk and 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 fails 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 \$1,750 in excess of a retention of \$250 for each risk. The Company ceded \$114 and \$109 in written premiums under its per-risk treaties for the three months ended March 31, 2017 and 2016, respectively.

The Company's excess of loss treaties are based upon a treaty year beginning on June 1<sup>st</sup> of each year and expiring on May 31<sup>st</sup> of the following year. Thus, the financial statements for the three month periods ending March 31, 2017 and 2016 contain premiums ceded under two separate excess of loss treaties. Under the Company's 2015/2016 excess of loss treaty which expired on May 31, 2016, for each catastrophic event occurring within a 144-hour period, the Company receives reinsurance recoveries of up to \$121,000 in excess of a retention of \$4,000 per event. The Company had also procured a "top, drop and aggregate" layer of reinsurance protection that may be used for any event above \$125,000, up to a maximum recovery of \$15,000. This \$15,000 second layer of coverage applied in total to all events occurring during the treaty year of June 1, 2015 through May 31, 2016.

On June 1, 2016 the Company entered into a new excess of loss treaty whereby for each catastrophic event occurring within a 144-hour period, the Company receives reinsurance recoveries of up to \$170,000 in excess of a \$5,000 retention per event. For any event above \$175,000, the Company again 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 the June 1, 2016 to May 31, 2017 treaty year.

The Company ceded \$5,762 and \$3,462 in written premiums under its excess of loss treaties for the three months ended March 31, 2017 and 2016, respectively.

In June 2015, we began writing business through a quota-share agreement with Brotherhood Mutual Insurance Company ("Brotherhood"). Through this agreement, we act as a reinsurer, and have assumed wind/hail only exposures on certain churches and related structures Brotherhood insures throughout the State of Texas. Our quota-share percentage varies from 25%-100% of the wind/hail premium written by Brotherhood, dependent upon the geographic location (coastal areas versus non-coastal areas) within the State of Texas. For the three months ended March 31, 2017, we have written \$429 in assumed premiums through our agreement with Brotherhood, compared to \$398 in assumed premiums for the same period in 2016.

On December 1, 2016 we participated TWIA's inaugural depopulation program whereby Maison assumed personal lines policies for wind and hail only exposures along the Gulf Coast area of Texas. The depopulation program was structured such that Maison reinsures TWIA under a 100% quota share agreement. For the three months ended March 31, 2017, we have written \$419 in assumed premiums through the TWIA earned quota share agreement.

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**(\$ amounts in thousands, except per share data)**

The impact of reinsurance treaties on the Company's financial statements is as follows:

	<b>Three months ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
Premium written:		
Direct	\$11,987	\$10,406
Assumed	847	398
Ceded	5,876	3,571
Net premium written	\$6,958	\$7,233
Premium earned:		
Direct	\$12,671	\$11,170
Assumed	847	398
Ceded	5,346	3,347
Net premium earned	\$8,172	\$8,221
Losses and LAE incurred:		
Direct	\$4,831	\$9,712
Assumed	754	152
Ceded	1,954	3,228
Net losses and LAE incurred	\$3,631	\$6,636

**6. 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 months ended March 31, 2017 and 2016, is as follows:

	<b>Three months ended March 31,</b>	
	2017	2016
Balance, January 1, net	\$4,389	\$4,030
Additions	2,559	1,637
Amortization	(2,522)	(1,990)
Balance, March 31, net	\$4,426	\$3,677

## **7. 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, including the opinions of the Company’s independent actuaries.

**1347 PROPERTY INSURANCE HOLDINGS, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

(\$ amounts in thousands, except per share data)

The Company's evaluation of the adequacy of loss and loss adjustment expense 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 months ended March 31, 2017 and 2016 were as follows:

	Three months ended March 31, 2017    2016	
Balance, January 1, gross of reinsurance	\$6,971	\$2,123
Less reinsurance recoverable on loss and LAE expense reserves	(3,652)	(120 )
Balance, beginning of period, net of reinsurance	3,319	2,003
Incurred related to:		
Current year	3,960	6,803
Prior years	(329 )	(167 )
Paid related to:		
Current year	(2,685)	(4,444)
Prior years	(921 )	(266 )
Balance, March 31, net of reinsurance	3,344	3,929
Plus reinsurance recoverable related to loss and LAE expense reserves	4,469	2,028
Balance, March 31, gross of reinsurance	\$7,813	\$5,957

**8. Income Taxes**

Actual income tax expense (benefit) for the three months ended March 31, 2017 and 2016 varies from the amount that would result by applying the applicable statutory federal income tax rate of 34% to income before income taxes as summarized in the following table:

As of March  
31,  
2017    2016

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Income tax benefit at statutory income tax rate	130	\$(576)
State income tax (net of federal tax benefit)	2	(5 )
Other	3	3
Income tax benefit	\$135	\$(578)

The Company carries a net deferred income tax asset of \$268 and \$420 at March 31, 2017 and December 31, 2016, 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:

	March 31, 2017	December 31, 2016
Deferred income tax assets:		
Loss and loss adjustment expense reserves	\$36	\$ 35
Unearned premium reserves	1,474	1,503
Net operating loss carryforwards	187	235
Share-based compensation	268	316
Other	263	270
Deferred income tax assets	\$2,228	\$ 2,359
Deferred income tax liabilities:		
Deferred policy acquisition costs	\$1,505	\$ 1,492
State deferred taxes	392	397
Other	63	50
Deferred income tax liabilities	\$1,960	\$ 1,939
Net deferred income tax assets	\$268	\$ 420

As of March 31, 2017, 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 (benefit).

**1347 PROPERTY INSURANCE HOLDINGS, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

(\$ amounts in thousands, except per share data)

**9. Net Earnings (Loss) Per Share**

Net earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares and common share equivalents outstanding during the periods presented. In calculating diluted earnings (loss) 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 (loss) per share for the three months ended March 31, 2017 and 2016.

	<b>Three months ended</b>	
	<b>March 31,</b>	
	2017	2016
Basic and Diluted:		
Net income (loss)	\$246	\$(1,115 )
Weighted average common shares outstanding	5,956,766	6,111,079
Earnings (Loss) per common share	\$0.04	\$(0.18 )

The following potentially dilutive securities outstanding as of March 31, 2017 and 2016 have been excluded from the computation of diluted weighted-average shares outstanding as their effect would be anti-dilutive.

	As of March 31,	
	2017	2016
Options to purchase common stock	177,456	210,489
Warrants to purchase common stock	1,906,875	1,906,875
Restricted stock units	20,500	20,500
Performance shares	475,000	475,000
	2,579,831	2,612,864

**10. Options, Warrants, and Restricted Stock Units**

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

In April 2015, the Company’s shareholders approved an amendment to the Plan to allow for the issuance of additional award types under the Plan. In addition to non-qualified stock options issuable under the Plan, the amendment provides for the issuance of restricted stock, restricted stock units (“RSUs”), performance shares, performance cash awards, and other stock-based awards. The Plan provides for the issuance of 354,912 shares of common stock. As of March 31, 2017, both stock options and RSUs had been issued to the Company’s employees under the Plan resulting in 156,956 shares available for future issuance under the Plan.

There were no grants, exercises, or cancellations of the Company’s stock options for the three months ended March 31, 2017. The following table summarizes the Company’s stock options outstanding as of March 31, 2017.

**Stock Options Outstanding as of March 31, 2017**

Date of Grant	Exercise Price (\$)	Expiration Date	Remaining Contractual Life (Years)	Number Outstanding	Number Exercisable
03/31/2014	8.00	03/31/2019	2.00	163,301	143,704
04/04/2014	8.69	04/04/2019	2.01	14,155	10,757
			Total	177,456	154,461

**1347 PROPERTY INSURANCE HOLDINGS, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

**(\$ amounts in thousands, except per share data)**

On May 29, 2015, the Company's Board of Directors granted RSUs to certain of its executive officers under the 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. The following table summarizes RSU activity for the three months ended March 31, 2017.

Restricted Stock Units	Number of Units	Weighted Average Grant Date Fair Value
Non-vested units, December 31, 2016	20,500	\$ 1.34
Granted	—	—
Vested	—	—
Forfeited	—	—
Non-vested units, March 31, 2017	20,500	\$ 1.34

Total stock based compensation expense for the three months ended March 31, 2017 and 2016 was \$7 and \$10, respectively. As of March 31, 2017, total unrecognized stock compensation expense of \$23 remained, which will be recognized through March 31, 2018.

There were no grants, exercises, or cancellations of the Company's common stock warrants for the three months ended March 31, 2017. The following table summarizes the Company's warrants outstanding as of March 31, 2017.

Date of Grant	Exercise Price (\$)	Expiration Date	Remaining Contractual Life (Years)	Number Outstanding and Exercisable
03/31/2014	9.60	03/31/2019	2.00	312,500
03/31/2014	10.00	03/31/2019	2.00	94,375

02/24/2015	15.00	02/24/2022	4.91	1,500,000
			Total	1,906,875

## 11. Shareholders' Equity

### *Treasury Shares*

On December 1, 2014, the Company's Board of Directors authorized a share repurchase program for up to 500,000 shares of the Company's common stock which expired on December 31, 2016. Through December 31, 2016, the Company has repurchased an aggregate 401,359 shares at an aggregate purchase price of \$2,927, or \$7.29 per share, including all fees and commissions.

On January 29, 2016, the Company retired 250,000 of its treasury shares, resulting in a reclassification of the purchase price of \$1,917 to additional paid in capital.

## 12. 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.

### *Performance Share Grant Agreement*

On March 26, 2014, the Company entered into a Performance Share Grant Agreement ("PSGA") with KAI, whereby KAI will be entitled to receive up to an aggregate of 375,000 shares of PIH common stock upon achievement of certain milestones regarding the Company's stock price. Pursuant to the terms of the PSGA, if at any time the last sales price of the Company's common stock equals or exceeds: (i) \$12.00 per share (as adjusted for stock splits, stock dividends, reorganizations, recapitalizations and the like) for any 20 trading days within any 30-trading day period, KAI will receive 125,000 shares of the Company's common stock; (ii) \$15.00 per share (as adjusted for stock splits, stock dividends, reorganizations, recapitalizations and the like) for any 20 trading days within any 30-trading day period, KAI will receive 125,000 shares of the Company's common stock (in addition to the 125,000 shares of common stock earned pursuant to clause (i) herein); and (iii) \$18.00 per share (as adjusted for stock splits, stock dividends, reorganizations, recapitalizations and the like) for any 20 trading days within any 30-trading day period, KAI will receive 125,000 shares of the Company's common stock (in addition to the 250,000 shares of common stock earned pursuant to clauses (i) and (ii) herein). The shares of common stock granted to KAI will have a valuation equal

to the last sales price of PIH common stock on the day prior to such grant. As of March 31, 2017, the Company has not issued any shares under the PSGA.



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(\$ amounts in thousands, except per share data)

#### *Termination of Management Services Agreement*

As a result of the termination of the Management Services Agreement (“MSA”), which occurred on February 24, 2015, the Company has issued the following securities to 1347 Advisors, LLC (“Advisors”), a wholly owned subsidiary of KFSI.

The Performance Shares Grant Agreement dated February 24, 2015.

120,000 shares of Series B Preferred Stock of the Company (the “Preferred Shares”)

A warrant (the “Warrant”) to purchase 1,500,000 shares of the Company’s common stock at an exercise price of fifteen dollars per share. The Warrant expires seven years from date of issuance.

The Performance Shares Grant Agreement grants Advisors 100,000 shares of the Company’s common stock issuable upon the date that the last sales price of the Company’s common stock equals or exceeds ten dollars per share for any twenty trading days within any 30-day trading period (the “Milestone Event”). Advisors will not be entitled to any dividends declared or paid on the Company’s stock prior to the Milestone Event having been achieved.

The Preferred Shares have a par value of twenty five dollars and pay annual cumulative dividends at a rate of eight percent per annum. Cumulative dividends shall accrue, whether or not declared by the Board and irrespective of whether there are funds legally available for the payment of dividends. Accrued dividends shall be paid in cash only when, as, and if declared by the Board out of funds legally available therefor or upon a liquidation or redemption of the Preferred Shares. In the event of any voluntary or involuntary liquidation, dissolution, or winding up of the Company, the holders of the Preferred Shares then outstanding shall be entitled to be paid out of the assets of the Company available for distributions to its shareholders, before any payment shall be made to holders of securities junior in preference to the Preferred Shares. The Preferred Shares rank senior to the Company’s common stock, and the Company is not permitted to issue any other series of preferred stock that ranks equal or senior to the Preferred Shares while the Preferred Shares are outstanding. On both February 24, 2017 and 2016, the Company issued a cash payment of \$240 to Advisors representing annual dividend payments due on the Preferred Shares.

Unless redeemed earlier by the Company as discussed below, with the written consent of the holders of the majority of the Preferred Shares then outstanding, the Company will be required to redeem the Preferred Shares then outstanding on February 24, 2020 (the “Mandatory Redemption Date”), for a redemption amount equal to twenty five dollars per share plus all accrued and unpaid dividends on such shares. The Company has the option to redeem the Preferred Shares prior to the Mandatory Redemption Date immediately prior to the consummation of any change in control of the Company that may occur.

Since the Preferred Shares have a mandatory redemption provision requiring redemption on February 24, 2020, the Company was required to classify the Preferred Shares as a liability on the balance sheet instead of recording the value of these shares in equity. The resulting liability was recorded at a discount to the ultimate redemption amount of the Preferred Shares based upon an analysis of the cash payments expected to occur under the terms of the Preferred Shares discounted for the Company’s estimated cost of equity (13.9%). As a result, amortization in the amount of \$1,889 will be charged to operations during the period the Preferred Shares are outstanding using the effective interest method. For the three months ended March 31, 2017 and 2016, amortization of the discount on the Preferred Shares totaled \$92 and \$88, respectively.

#### *Investment in 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 \$145 as of March 31, 2017. The managing member of Argo, Mr. John T. Fitzgerald, was also appointed to KFSI’s board of directors on April 21, 2016.

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(\$ amounts in thousands, except per share data)

**13. 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 months ended March 31, 2017 and 2016.

	Three months March 31, 2017 2016	
Unrealized gains (losses) on available-for-sale securities:		
Balance, January 1	\$(65)	\$(62 )
Other comprehensive income before reclassifications	83	345
Amounts reclassified from accumulated other comprehensive income	—	—
Income taxes	28	(117)
Net current-period other comprehensive income	55	228
Balance, March 31	\$(10)	\$166

**14. 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.

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 which 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 which are unobservable and significant to the measurement of fair value.

**1347 PROPERTY INSURANCE HOLDINGS, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

(\$ amounts in thousands, except per share data)

Financial instruments measured at fair value as of March 31, 2017 and December 31, 2016 in accordance with this guidance are as follows.

<b><u>March 31, 2017</u></b>	Level 1	Level 2	Level 3	Total
Fixed income securities:				
U.S. government	\$—	\$1,983	\$ —	\$1,983
State municipalities and political subdivisions	—	3,157	—	3,157
Asset-backed securities and collateralized mortgage obligations	—	12,534	—	12,534
Corporate	—	15,032	—	15,032
Total fixed income securities	—	32,706	—	32,706
Equity securities:				
Common stock	1,151	—	—	1,151
Total equity securities	1,151	—	—	1,151
Total fixed income and equity securities	\$1,151	\$32,706	\$ —	\$33,857
<b>December 31, 2016</b>				
Fixed income securities:				
U.S. government	\$—	\$1,604	\$ —	\$1,604
State municipalities and political subdivisions	—	2,246	—	2,246
Asset-backed securities and collateralized mortgage obligations	—	11,968	—	11,968
Corporate	—	10,741	—	10,741
Total fixed income securities	\$—	\$26,559	\$ —	\$26,559
Equity securities:				
Common stock	1,136	—	—	1,136
Total equity securities	1,136	—	—	1,136
Total fixed income and equity securities	\$1,136	\$26,559	\$ —	\$27,695

**15. 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, 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.

#### *Statutory Surplus and Capital Requirements*

In order to retain its certificate of authority in the States of Louisiana and Florida, Maison is required to maintain a minimum capital surplus of \$5,000 and \$35,000, respectively. As of March 31, 2017, Maison's capital surplus was \$35,915.

The LDI employs 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 the State of Texas, Maison is required to maintain an RBC ratio of 300% or more. As of March 31, 2017, Maison's RBC ratio was above 300%.

States routinely require deposits of assets for the protection of policyholders. As of March 31, 2017, Maison held certificates of deposit with fair value of approximately \$100 and \$300 as a deposit with the LDI and FL OIR, respectively. Maison also held investment securities with a fair value of approximately \$1,998 as a deposit with the TDI.

**1347 PROPERTY INSURANCE HOLDINGS, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

**(\$ amounts in thousands, except per share data)**

*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. Maison's capital is comprised of five surplus notes issued to PIH for the total principal amount of \$6,050, all of which have been approved by the LDI prior to their issuance. Notes accrue interest at 10% per annum. 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 December 31, 2016, are as follows.

Date of Issuance	Maturity Date	Principal Amount
October 22, 2013	October 22, 2017	\$ 650
December 21, 2015	December 21, 2017	850
March 31, 2016	March 31, 2018	550
September 29, 2016	September 29, 2018	3,450
November 14, 2016	November 14, 2018	550
		\$ 6,050

*Dividend Restrictions*

As a Louisiana domiciled insurer, the payment of dividends from our insurance subsidiary is restricted by the Louisiana Insurance Code. Dividends can only be paid if an insurer's paid-in capital and surplus exceed the minimum required by the Louisiana Insurance Code. Any dividend or distribution that when aggregated with any other dividends or distributions made within the preceding twelve months exceeds the lesser of (a) ten percent of the insurer's surplus as regards policyholders as of the thirty-first day of December next preceding; or (b) the net income of the insurer, not including realized capital gains, for the twelve month period ending the thirty-first day of December next preceding; is considered to be extra-ordinary and shall not be paid until thirty days after the LDI has received notice of the declaration thereof and has not within that period disapproved the payment, or until the LDI has approved the payment within the thirty-day period. In determining whether a dividend or distribution is extra-ordinary, an insurer may carry forward net income from the previous two calendar years that has not already been paid out in dividends.

Furthermore, pursuant to the consent order issued to Maison by the FL OIR, Maison is restricted from paying dividends which have not been approved in advance by the FL OIR.

As of March 31, 2017, Maison had not paid any dividends to its sole shareholder, PIH.

## 16. 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 income statement charges that could be material to the Company's results of operations in future periods.

### *Operating Lease Commitments:*

As of March 31, 2017, the Company had the following amounts due under its operating leases for facilities leased in Baton Rouge, Louisiana, and Tampa, Florida.

Year ending March 31,	
2018	\$331
2019	293
2020	175
2021	—
2022 and thereafter	—
	\$799



## **1347 PROPERTY INSURANCE HOLDINGS, INC. AND SUBSIDIARIES**

**\$ amounts in thousands, except per share data**

### **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 notes thereto included in this Quarterly Report on form 10-Q and in our Annual Report for the year ended December 31, 2016 on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on March 16, 2017.

Unless context denotes otherwise, the terms “Company,” “we,” “us,” and “our,” refer to 1347 Property Insurance Holdings, Inc., and its subsidiaries.

#### **Cautionary Note about Forward-Looking Statements**

This section of this quarterly report contains forward-looking statements that involve risks and uncertainties, such as statements of our plans, objectives, expectations, and intentions. We use words such as “anticipate,” “estimate,” “plan,” “project,” “continuing,” “ongoing,” “expect,” “believe,” “intend,” “may,” “will,” “should,” “could,” and similar expressions to forward-looking statements. Such forward-looking statements related to future events or future performance, but reflect management’s current beliefs, based on information currently available. A number of factors could cause actual events to differ materially from those anticipated, including the matters discussed under Item 1A. Risk Factors on the Company’s Form 10-K for the year ended December 31, 2016. We disclaim any obligation to update or revise any forward-looking statements as a result of new information, future events, or for any other reason.

#### **Overview**

Maison Insurance Holdings, Inc. was incorporated on October 2, 2012 in the State of Delaware. On November 19, 2013, the Company changed its legal name from Maison Insurance Holdings, Inc. to 1347 Property Insurance Holdings, Inc. (“PIH”). PIH is a holding company and is engaged, through its subsidiaries, in the property and casualty insurance business.

Prior to March 31, 2014, the Company operated as a wholly owned subsidiary of Kingsway America, Inc. (“KAI”). KAI, in turn, is a wholly owned subsidiary of Kingsway Financial Services, Inc. (“KFSI”), a publicly owned holding company based in Toronto, Ontario, Canada. On March 31, 2014, the Company completed an initial public offering of its common stock and then on June 13, 2014, the Company completed a follow-on offering. Through the combination of the IPO and follow-on offering, the Company issued approximately five million shares of its common stock. As of March 31, 2017, KAI and companies affiliated with KAI held approximately 975,000 shares of our common stock, equivalent to 16.4% of our outstanding shares.

PIH has three wholly-owned subsidiaries; Maison Insurance Company (“Maison”), a Louisiana-domiciled property and casualty insurance company, Maison Managers, Inc. (“MMI”), a managing general agent, incorporated in the State of Delaware on October 2, 2012, and ClaimCor, LLC (“ClaimCor”), a Florida based claims adjusting company.

Maison writes personal property and casualty insurance in Louisiana and both personal and commercial property and casualty insurance in Texas. Maison provides dwelling policies for wind and hail only, and dwelling, homeowner and mobile home/manufactured home policies for multi-peril property risks.

Maison distributes its insurance policies through a network of independent agencies in Louisiana and Texas. These agencies typically represent several insurance companies in order to provide various insurance product lines to their clients. The Company refers to these policies as voluntary policies.

In addition to the voluntary policies Maison writes, we have participated in the last five rounds of take-outs from Louisiana Citizens Property Insurance Company (“Citizens”), occurring on December<sup>1</sup> of each year as well as the inaugural depopulation of policies from the Texas Windstorm Insurance Association (“TWIA”) which occurred on December 1, 2016. Under these programs, state-approved insurance companies, such as Maison, have the opportunity to assume insurance policies written by both Citizens and TWIA.

**1347 PROPERTY INSURANCE HOLDINGS, INC. AND SUBSIDIARIES****\$ amounts in thousands, except per share data**

On March 1, 2017 Maison received a certificate of authority from the Florida Office of Insurance Regulation (“FL OIR”) which authorizes Maison to write personal lines insurance in the State of Florida. Pursuant to the Consent Order issued, Maison has agreed to comply with certain requirements as outlined by the FL OIR until Maison can demonstrate three consecutive years of net income following the Company’s admission into Florida as evidenced by its Annual Statement filed with the FL OIR via the National Association of Insurance Commissioners electronic filing system. Among other requirements, the FL OIR requires the following as conditions related to the issuance of Maison’s certificate of authority:

Although domiciled in the State of Louisiana, Maison agreed to comply with the Florida Insurance Code as if Maison were a domestic insurer within the State of Florida;

Maison agreed to maintain capital and surplus as to policyholders of no less than \$35,000;

Maison agreed to receive prior approval from the FL OIR prior to the payment of any dividends and;

Maison agreed to receive written approval from the FL OIR regarding any form of policy issued, or rate charged to its policyholders prior to utilizing any such form or rate for policies written in the State of Florida.

To comply with the Consent Order, on March 31, 2017 Maison received a capital contribution from PIH in the amount of \$16,000. As of March 31, 2017 Maison has not written any insurance policies covering risks in the State of Florida, nor does the Company anticipate writing a significant number of Florida policies in 2017.

Our direct in-force policy counts as well as assumed policies as of March 31, 2017 and December 31, 2016 were as follows:

Source of Policies	Policies in-force as of	
	March 31, 2017	December 31, 2016
Total Citizens Takeout Policies in Force	8,690	8,892
Homeowners	18,733	17,685

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Manufactured Homes	4,604	4,694
Other Dwellings	3,175	2,568
Total Voluntary Policies in Force	26,512	24,947
Total Direct Policies in Force	35,202	33,839
Assumed through Brotherhood Quota-Share Agreement	577	522
Assumed through TWIA Quota-Share Agreement	987	1,251
Total Assumed Policies	1,564	1,773

MMI serves as the Company’s management services subsidiary and provides underwriting, policy administration, claims administration, marketing, accounting and other management services to Maison. MMI contracts 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 and Texas Departments of Insurance (“LDI” and “TDI”, respectively) as well as the Florida Office of Insurance Regulation (“FL OIR”).

ClaimCor serves as the Company’s claims and underwriting technical solutions company. Maison processing claims made by our policyholders through ClaimCor, and also through various third-party claims adjusting companies. We have the ultimate authority over the claims handling process, while the agencies we appoint have no authority to settle our claims or otherwise exercise control over the claims process.

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

**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.

## 1347 PROPERTY INSURANCE HOLDINGS, INC. AND SUBSIDIARIES

**\$ amounts in thousands, except per share data**

### *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 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 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, and the valuation of deferred policy acquisition costs.

### *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 departments' 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") 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 operations and comprehensive income (loss) 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.

## 1347 PROPERTY INSURANCE HOLDINGS, INC. AND SUBSIDIARIES

**\$ amounts in thousands, except per share data**

### *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. The Company does not have any fixed income or equity investments in its portfolio which require the Company to use unobservable 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 and other comprehensive loss on its consolidated balance sheets and statements of comprehensive income (loss).

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 statements of operations and comprehensive income (loss). 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 4 - 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 operations and comprehensive income (loss).

*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 Preferred Shares, Warrants, and entered into a Performance Share Grant Agreement with Advisors on February 24, 2015.

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

The Company estimated the fair value of the Warrants on 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.



**1347 PROPERTY INSURANCE HOLDINGS, INC. AND SUBSIDIARIES****\$ amounts in thousands, except per share data****New Accounting Pronouncements**

See Note 3 – “Recently Issued Accounting Standards” in the Notes to our consolidated financial statements included in Item 1 of the Quarterly Report on Form 10-Q for a discussion of the recent accounting pronouncements and their effect, if any, on the Company.

**Analysis of Financial Condition****As of March 31, 2017 compared to December 31, 2016****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 investment portfolio comprised primarily of fixed income securities issued by the U.S. Government, government agencies and high quality corporate issuers. The portfolio is managed by a third-party investment management firm in accordance with the investment policies and guidelines approved by 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 table below summarizes, by type, the Company’s investments as of March 31, 2017 and December 31, 2016.

Type of Investment	March 31, 2017		December 31, 2016	
	Carrying Amount	Percent of Total	Carrying Amount	Percent of Total
Fixed income securities:				
U.S. government	\$1,983	5.6 %	\$1,604	5.6 %

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State municipalities and political subdivisions	3,157	9.0	%	2,246	7.9	%
Asset-backed securities and collateralized mortgage obligations	12,534	35.6	%	11,968	42.2	%
Corporate	15,032	42.7	%	10,741	37.8	%
Total fixed income securities	32,706	92.9	%	26,559	93.5	%
Equity securities	1,151	3.3	%	1,136	4.0	%
Short-term investments	538	1.5	%	196	0.7	%
Other investments	805	2.3	%	505	1.8	%
Total investments	\$35,200	100.0	%	\$28,396	100.0	%

Pursuant to the certificate of authority we received from the TDI, we are required to deposit securities with the State of Texas. These securities consist of fixed income securities listed in the table above having an amortized cost basis of \$2,002 and an estimated fair value of \$1,998 as of March 31, 2017.

The Company's other investments are comprised of investments in two limited partnerships which seek to provide equity and asset-backed debt investment in a variety of privately-owned companies. The Company has committed to a total investment of \$1,000, of which the limited partnerships have drawn down approximately \$505 through March 31, 2017. One of these limited partnerships 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 its investments under the cost method as the instruments do not have readily determinable fair values and the Company does not exercise significant influence over the operations of the limited partnerships or the underlying privately-owned companies.

Also included in other investments is 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 FL OIR.

**1347 PROPERTY INSURANCE HOLDINGS, INC. AND SUBSIDIARIES****\$ amounts in thousands, except per share data***Liquidity and Cash Flow Risk*

The table below summarizes the fair value of the Company's fixed income securities by contractual maturity as of March 31, 2017 and December 31, 2016. 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:	March 31, 2017			December 31, 2016		
	Carrying Amount	Percent of Total		Carrying Amount	Percent of Total	
One year or less	\$1,818	5.6 %		\$1,828	6.9 %	
More than one to five years	14,255	43.6 %		12,678	47.7 %	
More than five to ten years	7,559	23.1 %		3,918	14.8 %	
More than ten years	9,074	27.7 %		8,135	30.6 %	
Total	\$32,706	100.0 %		\$26,559	100.0 %	

The Company holds cash and high-grade short-term assets which, along with fixed income and equity securities, management believes are sufficient in amount 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 only invest in U.S. dollar denominated instruments and maintains 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 and government agency bonds.

At March 31, 2017 and December 31, 2016, 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").

Rating (S&P/Moody's)	March 31, 2017		December 31, 2016	
	Carrying Amount	Percent of Total	Carrying Amount	Percent of Total
AAA/Aaa	\$16,440	50.3 %	\$14,995	56.4 %
Aa/Aa	4,009	12.2 %	2,627	9.9 %
A/A	8,324	25.5 %	5,516	20.8 %
BBB	3,933	12.0 %	3,421	12.9 %
Total fixed income securities	\$32,706	100.0 %	\$26,559	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 where the investment manager determines that there is little or no risk of default prior to maturity, 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 the investment 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 4 - "Investments," to the consolidated financial statements in Item 1 of this report.

## **1347 PROPERTY INSURANCE HOLDINGS, INC. AND SUBSIDIARIES**

### **\$ amounts in thousands, except per share data**

As a result of the analysis performed by the Company, there were no write-downs for other-than-temporary impairments related to investments for the three months ended March 31, 2017 and 2016.

As of March 31, 2017, the gross unrealized losses for fixed income securities amounted to \$235, and there were no unrealized losses attributable to non-investment grade fixed income securities or equity securities. At both March 31, 2017 and December 31, 2016, all unrealized losses on individual investments were considered temporary. 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 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 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 increased \$37, to \$4,426 as of March 31, 2017 from \$4,389 as of December 31, 2016. DPAC expressed as a percentage of unearned premium reserves was 17.6% as of March 31, 2017, compared to 17.0% as of December 31, 2016. This increase results from an increase in the effective rate on premium taxes we pay in Louisiana and Texas.

### **Premiums Receivable, Net of Allowance for Doubtful Accounts**

Premiums receivable, net of allowances for credit losses, decreased by \$759 to \$2,164 as of March 31, 2017 from \$2,923 as of December 31, 2016. Due to our participation in the Citizens take-out program on December 1, 2016, we had a balance due from Citizens for approximately \$800 as of December 31, 2016, most of which had been collected as of March 31, 2017.

### **Ceded Unearned Premiums**

Ceded unearned premiums represents the unexpired portion of premiums which have been paid to the Company's reinsurers. Ceded unearned premiums are charged to income over the terms of the respective reinsurance treaties. Ceded unearned premiums increased \$530 to \$5,377 as of March 31, 2017 from \$4,847 as of December 31, 2016 due predominantly to the amount and timing of installment payments due under our excess of loss catastrophe treaties.

### **Reinsurance Recoverables**

Reinsurance recoverable on both paid losses and loss and LAE reserves represents amounts due to the Company, or expected to be due to the Company from its reinsurers, based upon claims paid as well as claims reserves which have exceeded the retention amount under our reinsurance treaties. As of March 31, 2017, we have recorded expected recoveries from our reinsurers of \$1,136 on paid losses and \$4,469 on loss and LAE reserves, resulting primarily from a series of severe storms which produced multiple tornadoes and flooding in the state of Louisiana in late February 2016, a wind and hail event occurring in both Texas and Louisiana in early March 2016, a wind and flooding event which occurred in Louisiana in mid-August 2016, and also a wind and hail event occurring in both Texas and Louisiana in early February 2017. See "Loss and Loss Adjustment Expense Reserves" in Item 2 of this report for further discussion on the Company's claims reserves and expected recoveries.

### **Funds Deposited with Reinsured Companies**

Funds deposited with reinsured companies represents collateral we had placed on deposit with Brotherhood based upon our quota-share agreement to reinsure a portion of Brotherhood's business for wind/hail coverage only. Pursuant to the agreement, we were required to fund our pro-rata portion of reserves Brotherhood had established for losses and loss adjustments expenses, and any other amounts for which Brotherhood had not been able to take credit for on its annual statutory financial statements. As of December 31, 2016, we had funded this obligation via a deposit of \$500 made to Brotherhood under a trust agreement. This collateral was returned to the Company in March 2017.

### **Current Income Taxes Recoverable/Payable**

Current income taxes recoverable were \$672 as of March 31, 2017 compared to \$1,195 as of December 31, 2016 which represent the estimate of both the Company's state and federal income taxes to be recovered as of March 31, 2017 and December 31, 2016 respectively.

**1347 PROPERTY INSURANCE HOLDINGS, INC. AND SUBSIDIARIES****\$ amounts in thousands, except per share data****Net Deferred Income Taxes**

Net deferred income taxes decreased \$152 to \$268 as of March 31, 2017 compared to \$420 as of December 31, 2016. Net deferred income taxes are comprised of approximately \$2,228 and \$2,359 of deferred tax assets, net of approximately \$1,960 and \$1,939 of deferred tax liabilities as of March 31, 2017 and December 31, 2016, respectively. The change in the net deferred tax asset is primarily due to a decrease in our deferred tax asset associated with our unearned premium reserves.

**Property and Equipment**

Property and equipment was \$244 and \$250 as of March 31, 2017 and December 31, 2016, respectively, and consists of computers, office equipment, and improvements at our leased facilities in Tampa, Florida and Baton Rouge, Louisiana, shown net of accumulated depreciation. Also included in these balances are vehicles we have purchased for the use of our sales representatives in Texas and Louisiana. Our policy for the capitalization and depreciation of these assets can be found in Note 2 – Significant Accounting Policies in Item 1 of this report.

**Other Assets**

Other assets decreased \$56, to \$732 as of March 31, 2017 from \$788 as of December 31, 2016. The major components of other assets, and the change therein, are shown below.

Other Assets	March 31, 2017	December 31, 2016	Change
Accrued interest on investments	\$ 147	\$ 117	\$ 30
Security deposits for facility leases	38	38	—
Prepaid expenses	540	616	(76 )
Other	7	17	(10 )
Total	\$ 732	\$ 788	\$ (56 )



**Loss and Loss Adjustment Expense Reserves**

Loss and loss adjustment expense reserves represent the estimated liabilities for reported loss events, incurred and but not reported (“IBNR”) loss events, as well as the related estimated loss adjustment expenses (“LAE”). The table below separates our loss reserves and LAE between IBNR and case specific estimates as of March 31, 2017 and December 31, 2016, and also 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
March 31, 2017						
Homeowners <sup>(1)</sup>	\$ 2,143	\$ 548	\$ 2,691	\$ 3,192	\$ 5,883	\$ 2,767
Special Property <sup>(2)</sup>	776	36	812	1,118	1,930	1,702
Total	\$ 2,919	\$ 584	\$ 3,503	\$ 4,310	\$ 7,813	\$ 4,469
December 31, 2016						
Homeowners	\$ 1,523	\$ 463	\$ 1,986	\$ 3,302	\$ 5,288	\$ 2,565
Special Property	697	88	785	898	1,683	1,087
Total	\$ 2,220	\$ 551	\$ 2,771	\$ 4,200	\$ 6,971	\$ 3,652

(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 have assumed through our agreement with Brotherhood and our personal lines wind/hail only business we have assumed through our quota-share agreement with TWIA.

Gross reserves as of March 31, 2017 were \$7,813, an increase of \$842 from December 31, 2016. A significant portion of this increase relates to reserves established for a wind and hail event that occurred in both Louisiana and Texas in early February 2017 identified by Property Claims Services as CAT 1714. As of March 31, 2017, we anticipate our ultimate incurred gross losses for this storm to be approximately \$1,800. Because of this event, we met the retention on our aggregate reinsurance treaty which runs from June 1, 2016 through May 31, 2017. This has allowed us not only to record a ceded recovery for CAT 1714, but also to record recoveries from other of our weather-related claims from the 3<sup>rd</sup> and 4<sup>th</sup> quarter of 2016 and the 1<sup>st</sup> quarter of 2017. Due, in part, to these recoveries, the Company reported \$329 of favorable development (redundancy) for the three months ended March 31, 2017. For the three months ended March 31, 2016, the Company reported \$167 in redundancy. See ‘Net Losses and Loss Adjustment Expenses’ in Item 2 of this report for further information.

**1347 PROPERTY INSURANCE HOLDINGS, INC. AND SUBSIDIARIES****\$ amounts in thousands, except per share data**

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 decreased \$683 to \$25,138 as of March 31, 2017 compared to \$25,821 as of December 31, 2016.

The following table outlines the change in unearned premium reserves by line of business.

	March 31, 2017	December 31, 2016	Change
Homeowners	\$17,128	\$ 17,466	\$ (338 )
Special Property	8,010	8,355	(345 )
Total	\$25,138	\$ 25,821	\$ (683 )

**Ceded Reinsurance Premiums Payable**

Ceded reinsurance premiums payable decreased \$259 to \$4,970 as of March 31, 2017 compared to \$5,229 as of December 31, 2016. The bulk of the balance payable as of March 31, 2017 represents a quarterly payment due under our catastrophe reinsurance program, which was paid in April 2017.

**Agency Commissions Payable**

Agency commissions payable increased \$172 to \$669 as of March 31, 2017 versus \$497 as of December 31, 2016. 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 March 31, 2017 and, December 31, 2016 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 in the month.

### Premiums Collected in Advance

Premium deposits were \$1,916 and \$1,128 and represent cash the Company has received for policies which were not yet in-force as of March 31, 2017 and December 31, 2016, respectively. Upon the effective date of coverage, advance premiums are reclassified to the unearned premium reserve account.

### Funds held under Reinsurance Treaties

Funds held under reinsurance treaties represents collateral we have received on deposit from our reinsurers under our catastrophe excess of loss treaties and is intended to fund those reinsurers pro-rata portion of reserves we have established for losses and loss adjustment expenses. As of December 31, 2016, we had received cash deposits of \$73 from our reinsurers. This balance was reduced to \$63 as of March 31, 2017 as a portion of the balance was applied to reinsurance recoveries due to us on paid losses during the quarter ended March 31, 2017.

### Accounts Payable and Other Accrued Expenses

Accounts payable and other accrued expenses decreased \$31, to \$2,034 as of March 31, 2017 from \$2,065 as of December 31, 2016. The major components of accrued expenses and other liabilities, as well as the change therein, are shown below.

	March 31, 2017	December 31, 2016	Change
Accrued employee compensation	\$50	\$ 95	\$(45 )
Accrued professional fees	399	509	(110 )
Unearned policy fees	233	204	29
Accrued premium taxes and assessments	1,270	1,193	77
Other accounts payable	82	64	18
Total	\$2,034	\$ 2,065	\$(31 )



## 1347 PROPERTY INSURANCE HOLDINGS, INC. AND SUBSIDIARIES

**\$ amounts in thousands, except per share data**

### **Related Party Transactions**

As a result of the termination of the Management Services Agreement (“MSA”), which occurred on February 24, 2015, the Company has issued the following securities to 1347 Advisors, LLC (“Advisors”), a wholly owned subsidiary of KFSI.

The Performance Shares Grant Agreement dated February 24, 2015.

120,000 shares of Series B Preferred Stock of the Company (the “Preferred Shares”)

A warrant (the “Warrant”) to purchase 1,500,000 shares of the Company’s common stock at an exercise price of fifteen dollars per share. The Warrant expires seven years from date of issuance.

The Performance Shares Grant Agreement grants Advisors 100,000 shares of the Company’s common stock issuable upon the date that the last sales price of the Company’s common stock equals or exceeds ten dollars per share for any twenty trading days within any 30-day trading period (the “Milestone Event”). Advisors will not be entitled to any dividends declared or paid on the Company’s stock prior to the Milestone Event having been achieved.

The Preferred Shares have a par value of twenty five dollars and pay annual cumulative dividends at a rate of eight percent per annum. Cumulative dividends shall accrue, whether or not declared by the Board and irrespective of whether there are funds legally available for the payment of dividends. Accrued dividends shall be paid in cash only when, as, and if declared by the Board out of funds legally available therefor or upon a liquidation or redemption of the Preferred Shares. In the event of any voluntary or involuntary liquidation, dissolution, or winding up of the Company, the holders of the Preferred Shares then outstanding shall be entitled to be paid out of the assets of the Company available for distributions to its shareholders, before any payment shall be made to holders of securities junior in preference to the Preferred Shares. The Preferred Shares rank senior to the Company’s common stock, and the Company is not permitted to issue any other series of preferred stock that ranks equal or senior to the Preferred Shares while the Preferred Shares are outstanding. On both February 24, 2017 and 2016, the Company issued a cash payment of \$240 to Advisors representing annual dividend payments due on the Preferred Shares.

Unless redeemed earlier by the Company as discussed below, with the written consent of the holders of the majority of the Preferred Shares then outstanding, the Company will be required to redeem the Preferred Shares then

outstanding on February 24, 2020 (the “Mandatory Redemption Date”), for a redemption amount equal to twenty five dollars per share outstanding plus all accrued and unpaid dividends on such shares. The Company has the option to redeem the Preferred Shares prior to the Mandatory Redemption Date immediately prior to the consummation of any change in control of the Company that may occur.

Since the Preferred Shares have a mandatory redemption provision requiring redemption on February 24, 2020, the Company was required to classify the Preferred Shares as a liability on the balance sheet instead of recording the value of these shares in equity. The resulting liability was recorded at a discount to the ultimate redemption amount of the Preferred Shares based upon an analysis of the cash payments expected to occur under the terms of the Preferred Shares discounted for the Company’s estimated cost of equity (13.9%). As a result, amortization in the amount of \$1,889 will be charged to operations during the period the Preferred Shares are outstanding using the effective interest method. For the three months ended March 31, 2017 and 2016, amortization of the discount on the Preferred Shares totaled \$92 and \$88, respectively.

*Investment in 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 \$145 as of March 31, 2017. The managing member of Argo, Mr. John T. Fitzgerald, was also appointed to KFSI’s board of directors on April 21, 2016.

**Contractual Obligations**

As of March 31, 2017, the Company had the following amounts due under its operating leases for facilities leased in Baton Rouge, Louisiana, and Tampa, Florida.

Year ending March 31,	
2018	\$331
2019	293
2020	175
2021 and thereafter	—
Total	\$799

**1347 PROPERTY INSURANCE HOLDINGS, INC. AND SUBSIDIARIES****\$ amounts in thousands, except per share data****Shareholders' Equity**

The primary drivers behind the changes to total shareholders' equity for the three months ended March 31, 2017 were the Company's net income as well as net unrealized gains on its investment portfolio as shown below.

	Common Shares Outstanding	Treasury Shares	<b>Total Shareholders' Equity</b>
Balance, January 1, 2017	6,108,125	151,359	\$ 46,357
Stock compensation expense	—	—	7
Net income	—	—	246
Unrealized gains on investment portfolio (net of income taxes)	—	—	55
Balance, March 31, 2017	6,358,125	223,851	46,665

**Results of Operations****Three Months Ended March 31, 2017 Compared with Three Months Ended March 31, 2016***Gross Premiums Written*

Gross premiums written increased \$2,030 for the three months ended March 31, 2017, when compared to the same period in 2016. The following table shows our direct premiums written by line of business.

Line of Business	Three months ended March 31,		
	2017	2016	Change
Homeowners	\$8,113	\$7,116	\$997
Special Property	4,721	3,688	1,033

Gross Premium Written \$12,834 \$10,804 \$2,030

*Ceded Premiums Written*

Ceded premiums written increased to \$5,876 for the three months ended March 31, 2017, compared to \$3,571 for the same period 2016. The increase in ceded premiums written is primarily due to an increase in limits purchased under our catastrophe excess of loss reinsurance (“CAT XOL”) program. As our treaty years run from June<sup>1</sup> through May 31<sup>st</sup> of each year, the three month period ending March 31, 2017 covers ceded premiums written under our 2016/2017 CAT XOL treaty, while the first quarter of 2016 covers ceded premiums written under our 2015/2016 CAT XOL treaty. The following table is a summary of the key provisions under each of our CAT XOL treaties.

	<b>2015/2016 CAT XOL Treaty</b>	<b>2016/2017 CAT XOL Treaty</b>
	<b>06/01/15 – 05/31/16</b>	<b>06/01/16 – 05/31/17</b>
Wind/Hail loss occurrence clause <sup>(1)</sup>	144 hours	144 hours
Retention on first occurrence	\$4,000	\$5,000
Retention on second occurrence	\$1,000	\$2,000
Limit of coverage including first event retention	\$140,000	\$200,000

Specifies the time period during which our losses from the same occurrence may be aggregated and applied to our (1) retention and limits. We may pick the date and time when the period of consecutive hours begin in order to maximize our recovery.

(2) Our 2016/2017 CAT XOL Treaty also includes a franchise deductible of \$125 per occurrence for the claims we cede to our reinsurers under the aggregate portion of our treaty.

The total cost of our CAT XOL coverage is estimated to be approximately \$21,000 for the 2016/2017 treaty year and was \$13,000 for the 2015/2016 treaty year.

*Net Premium Earned*

The following table shows our net premiums earned by line of business.



Line of Business	Three months ended		
	March 31,		
	2017	2016	Change
Homeowners	\$5,284	\$5,607	\$ (323 )
Special Property	2,888	2,614	274
Net premium earned	\$8,172	\$8,221	\$ (49 )

**1347 PROPERTY INSURANCE HOLDINGS, INC. AND SUBSIDIARIES****\$ amounts in thousands, except per share data**

Premium earned on a gross and ceded basis is as shown in the following table.

	Three months ended March 31,		
	2017	2016	Change
Gross premium earned	\$13,518	\$11,568	\$1,950
Ceded premium earned	5,346	3,347	1,999
Net premium earned	\$8,172	\$8,221	\$(49 )

*Other Income*

Other income increased \$114 to \$377 for the quarter ended March 31, 2017, compared to \$263 for the same period in 2016. Other income is comprised of policy fee income charged to our policyholders for inspections, premium financing fees for those policyholders which elect to pay their premiums on an installment basis, and also commission revenue resulting from a brokerage sharing agreement between our insurance subsidiary, Maison, and the intermediary Maison uses to place its CAT XOL reinsurance program.

*Net losses and loss adjustment expenses*

Net 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 losses and loss ratios for the periods presented.

	Three months ended March 31,			
	2017		2016	
	Losses	Loss Ratio	Losses	Loss Ratio
	(\$)	(%)	(\$)	(%)
Weather-related non-catastrophe losses	\$451	5.5 %	\$1,651	20.1 %
Non-weather related losses	1,812	22.2 %	1,173	14.3 %

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Core loss <sup>(1)</sup>	2,263	27.7 %	2,824	34.4 %
Catastrophe loss <sup>(2)</sup>	1,697	20.7 %	3,979	48.4 %
Prior period (redundancy) development <sup>(3)</sup>	(329 )	(4.0 )%	(167 )	(2.0 )%
Total net losses and LAE incurred	\$3,631	44.4 %	\$6,636	80.8 %

(1) We define Core Loss as net losses and LAE less the sum of catastrophe losses and prior period redundancy.

Property Claims Services (PCS) defines a catastrophic event as an event where the insurance industry is estimated (2) 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 as a PCS event where our estimated cost exceeds \$1,500.

Prior period development is the amount of ultimate actual loss settlement value which is more than the estimated (3) reserves recorded for a particular liability or loss, while 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 (net losses and LAE divided by net premiums earned) for the three months ended March 31, 2017 was 44.4%, compared to a net loss ratio of 80.8% for the three months ended March 31, 2016. The primary drivers for the reduction in net loss ratio was a reduction in catastrophe losses and weather-related non-catastrophe losses when comparing periods. The first quarter 2016 was marked by severe storms which produced multiple tornadoes throughout Louisiana and Texas in February and March 2016. Our total gross incurred losses from these two separate events exceeded \$1,500 each (PCS events 1616 and 1617). Our catastrophe reinsurance program was structured so that our retention was set at \$4,000 for a single event. Our net incurred losses were slightly less than our retention, or approximately \$3,979 through March 31, 2016, since we had recoveries under both our catastrophe and per-risk reinsurance treaties, accounting for over half of the March 2016 quarter's loss ratio.

During the quarter ended March 31, 2017 we experienced one catastrophe event - PCS event 1714 which effected our policyholders in Louisiana during early February with hail, tornado and other wind damage. We anticipate our ultimate net losses from this storm to be approximately \$1,697, as any further development on this storm will be covered by our aggregate treaty under our 2016/2017 CAT XOL reinsurance program. Since we met the retention under our aggregate treaty in the 1<sup>st</sup> quarter 2017, the treaty will also cover weather-related non-catastrophe losses which exceed our franchise deductible of \$125 and have a date of loss between June 1, 2016 and May 31, 2017. This was the biggest driver in the redundancy of \$329 we experienced in the current quarter, as well as the reduction in weather-related non-catastrophe loss ratio (from 20.1% in 2016 to 5.5% in 2017).

*Amortization of Deferred Policy Acquisition Costs*

Amortization of deferred acquisition costs for the first quarter 2017 was \$2,522 compared to \$1,990 for the first quarter of 2016, and includes items such as commissions earned by our agencies, premium taxes, assessments, and policy processing fees. Expressed as a percentage of gross earned premiums, amortization was 18.7% in the current quarter, compared to 17.2% in the same quarter last year. The increase in amortization of deferred acquisition costs as a percentage of gross earned premiums can be attributed to an increase in the effective rate of the premium taxes we pay due to the loss of an investment credit received on our taxes in previous years. Effective January 1, 2017, the State of Louisiana amended this credit such that certain assets such as cash and money market funds held in the state of

Louisiana would no longer qualify.

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### **\$ amounts in thousands, except per share data**

#### *General and Administrative Expenses*

General and administrative expenses were \$2,091 for the quarter ended March 31, 2017, compared to \$1,578 for the quarter ended March 31, 2016. Expressed as a percentage of gross premium earned, general and administrative expenses were 15.5% and 13.6%, respectively. The increase in general and administrative expense was driven primarily by our increased staffing to support our growth in Texas and Florida as we have grown from 23 employees as of March 31, 2016 to 26 employees as of March 31, 2017. Also driving the increase in general and administrative expense is an increase in professional fees incurred when comparing quarters as we have initiated a review of the rates we charge on our risks in Louisiana.

#### *Income Tax Expense (Benefit)*

Income tax benefit (expense) for the three months ended March 31, 2017 was \$135, on pretax income of \$381 compared to a benefit of \$578 on pretax losses of \$1,693 for the three months ended March 31, 2016 resulting in an effective tax rate of 35.4% and 34.1%, respectively.

#### *Net (Loss) Income*

As a result of the foregoing, the Company's net income for the first quarter 2017 was \$246, or \$0.04 per diluted share, compared to a net loss of \$1,115, or \$(0.18) per diluted share for the first quarter of 2016.

### **Liquidity and Capital Resources**

The purpose of liquidity management is to ensure that there is sufficient cash to meet all financial commitments and obligations as they fall due. The liquidity requirements for 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 LAE 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.

**Cash Flows**

The following table summarizes the Company's consolidated cash flows for the three months ended March 31, 2017 and 2016.

Summary of Cash Flows	Three months ended	
	March 31,	
	2017	2016
Net cash provided (used ) by operating activities	\$1,069	\$(773 )
Net cash used by investing activities	(6,733)	(2,184)
Net cash used by financing activities	(240 )	(426 )
Net decrease in cash and cash equivalents	\$(5,904)	\$(3,383)

*Three months ended March 31, 2017*

For the three months ended March 31, 2017, the net cash provided by operating activities as reported on our consolidated statement of cash flows was \$1,069, driven, in large by our collection of approximately \$8,247 in premiums for the quarter (net of the amounts we have ceded to our reinsurers), less the payment of approximately \$4,298 in loss and LAE expenses (net of ceded recoveries collected from our reinsurers). We also paid approximately \$1,473 in commissions to our agencies, as well as cash payments in the approximate amount of \$1,407 for taxes, assessments and general and administrative expenses.

The net cash used by investing activities as reported on our consolidated statement of cash flows was \$6,733, driven primarily by the net purchases of fixed income securities and short term investments for our investment portfolio. Net cash used by financing activities was \$240, as a result of a dividend payment of \$240 made to Advisors as holders of the Preferred Shares issued in the MSA termination transaction.

As a result of the foregoing, cash and cash equivalents decreased from \$43,045 as of December 31, 2016 to \$37,141 as of March 31, 2017.

## **1347 PROPERTY INSURANCE HOLDINGS, INC. AND SUBSIDIARIES**

### **\$ amounts in thousands, except per share data**

*Three months ended March 31, 2016*

For the quarter ended March 31, 2016, the net cash used by operating activities as reported on our consolidated statement of cash flows was \$773, driven, in large by our payment of approximately \$4,700 in loss and loss adjustment expenses in the quarter, after reinsurance recoveries.

The net cash used by investing activities as reported on our consolidated statement of cash flows was \$2,184, resulting from the net purchases of fixed income and equity securities for investment portfolio. Net cash used by financing activities was \$426, which results from a dividend payment of \$240 to Advisors as holders of the Preferred Shares issued in the MSA termination transaction, as well as the payment of \$186 for the repurchase of 26,149 shares of our common stock pursuant to our share buyback program.

As a result of the foregoing, our net decrease in cash and cash equivalents for the first quarter 2016 was \$3,383.

### **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, the domiciliary state of our insurance subsidiary, Maison, as well as Texas, where Maison began writing business in June 2015, 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 31<sup>st</sup> of the previous year are subject to varying levels of regulatory action, which may include discontinuation of operations. As of March 31, 2017, Maison’s reported surplus was considered to be in the “no action” level by the Louisiana Department of Insurance.

Furthermore, pursuant to the consent order approving Maison’s admission into the State of Texas, Maison has agreed to:

Establish a deposit of \$2,000 for the benefit of Texas policyholders. The Company has fulfilled this obligation by depositing fixed income securities, having an estimated fair value of \$1,998 as of March 31, 2017, with the State of Texas.

Maintain a Risk-Based-Capital (“RBC”) ratio of 300% or more, and provide calculation of such ratio to the TDI on a periodic basis.

Similarly, although Maison has not yet written any insurance policies in the State of Florida, pursuant to the consent order approving Maison’s admission into the State of Florida, Maison has agreed to:

Maintain a Risk-Based-Capital (“RBC”) ratio of 300% or more.

Maintain capital and surplus as to policyholders of \$35,000.

Restrict the payment of dividends to only those which have been approved in advance by the FL OIR

As of March 31, 2017, Maison’s RBC ratio exceeded 300% and Maison’s capital surplus was \$35,915.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable.

### **ITEM 4. 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 the principal financial officer, and completed an evaluation of the effectiveness of the design and operation of the Company’s disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e), as adopted by the Securities and Exchange Commission (“SEC”) under the Securities Exchange Act of 1934, as amended (“the Exchange Act”) as of March 31, 2017. Disclosure controls and procedures are the controls and other procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is accumulated and communicated to management, including the principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosures.



## **1347 PROPERTY INSURANCE HOLDINGS, INC. AND SUBSIDIARIES**

### **\$ amounts in thousands, except per share data**

Based on that evaluation, the Company's principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures are effective.

During the quarter ended March 31, 2017, there were no changes in internal control over financial reporting that materially affected, or are reasonably likely to materially affect the Company's 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 income statement charges that could be material to the Company's results of operations 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, 2016 filed with the SEC on March 16, 2017.

### **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.

**1347 PROPERTY INSURANCE HOLDINGS, INC. AND SUBSIDIARIES**

**ITEM 6. EXHIBITS**

**Exhibit Description**

31.1	<u>Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
31.2	<u>Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
32.1	<u>Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
32.2	<u>Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
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

**1347 PROPERTY INSURANCE HOLDINGS, INC. AND SUBSIDIARIES**

**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: May 11, 2017 By: */s/ Douglas N. Raucy*  
Douglas N. Raucy, President, Chief Executive Officer and Director  
(principal executive officer)

Date: May 11, 2017 By: */s/ John S. Hill*  
John S. Hill, Vice President and Chief Financial Officer  
(principal financial and accounting officer)