1347 Property Insurance Holdings, Inc.
Form 10-Q
November 13, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended September 30, 2018

Or

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

Commission File Number: 001-36366

1347 Property Insurance Holdings, Inc.

(Exact name of registrant as specified in its charter)

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

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)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes [X] No [ ]

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

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

filer [ ]	filer [ ]	Company [X]	Company [X]

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

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

The number of shares outstanding of the registrant's common stock as of November 9, 2018 was 5,992,432.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

1347 PROPERTY INSURANCE HOLDINGS INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(in thousands, except share and per share data)

	September 30, 2018 (unaudited)	December 31, 2017
ASSETS		
Investments:		
Fixed income securities, at fair value (amortized cost of $75,279 and $51,503, respectively)	$ 73,591	$ 51,122
Equity investments, at fair value (cost of $3,182 and $2,582, respectively)	3,335	2,707
Short-term investments, at cost	697	417
Other investments	3,295	945
Total investments	80,918	55,191
Cash and cash equivalents	30,024	23,575
Deferred policy acquisition costs, net	9,566	6,785
Premiums receivable, net of allowance for credit losses of $48 and $33, respectively	3,494	10,831
Ceded unearned premiums	5,955	3,655
Reinsurance recoverable on paid losses	4,903	1,952
Reinsurance recoverable on loss and loss adjustment expense reserves	5,695	8,971
Funds deposited with reinsured companies	524	2,250
Current income taxes recoverable	1,370	64
Deferred tax asset, net	540	70
Property and equipment, net	343	205
Other assets	1,135	888
Total assets	$ 144,468	$ 114,437
LIABILITIES		
Loss and loss adjustment expense reserves	$ 14,172	$ 13,488
Unearned premium reserves	49,464	39,523
Ceded reinsurance premiums payable	9,628	5,532
Agency commissions payable	965	695
Premiums collected in advance	2,599	1,078
Funds held under reinsurance treaties	158	206
Current income taxes payable	–	–
Accounts payable and other accrued expenses	5,801	4,273
Series B Preferred Shares, $25.00 par value, zero and 120,000 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	–	2,840

Total liabilities	$ 82,787	$ 67,635
Commitments and contingencies (Note 18)		
SHAREHOLDERS' EQUITY		
Series A Preferred Shares, $25.00 par value, 1,000,000 shares authorized, 700,000 and zero shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively	$ 17,500	$ –
Common stock, $0.001 par value; 10,000,000 shares authorized; 6,143,791 and 6,136,125 shares issued as of September 30, 2018 and December 31, 2017, respectively and; 5,992,432 and 5,984,766 shares outstanding as of September 30, 2018 and December 31, 2017, respectively	6	6
Additional paid-in capital	46,239	47,064
Retained earnings	157	910
Accumulated other comprehensive loss, net of tax	(1,212)	(169)
	62,690	47,811
Less: treasury stock at cost; 151,359 shares for both periods	(1,009)	(1,009)
Total shareholders' equity	61,681	46,802
Total liabilities and shareholders' equity	$ 144,468	$ 114,437

See accompanying notes to consolidated financial statements

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1347 PROPERTY INSURANCE HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Income and Comprehensive Income

(in thousands, except share and per share data)

(Unaudited)

	Three months ended September 30,		**Nine months ended September 30,**	
	2018	2017	2018	2017
Revenue:				
Net premiums earned	$13,461	$8,632	$39,401	$25,032
Net investment income	428	248	1,255	700
Other income	529	474	1,585	1,262
Total revenue	14,418	9,354	42,241	26,994
Expenses:				
Net losses and loss adjustment expenses	8,656	7,795	19,774	13,809
Amortization of deferred policy acquisition costs	3,929	2,755	10,841	7,867
General and administrative expenses	3,518	2,145	10,005	6,535
Accretion of discount on Series B Preferred Shares	–	93	33	276
Loss on repurchase of Series B Preferred Shares and Performance Shares	1,000	–	1,612	–
Total expenses	17,103	12,788	42,265	28,487
Loss before income tax (benefit) expense	(2,685)	(3,434)	(24)	(1,493)
Income tax (benefit) expense	(571)	(1,171)	4	(397)
Net loss	$(2,114)	$(2,263)	$(28)	$(1,096)
Net loss per common share:				
Basic and diluted	$(0.41)	$(0.38)	$(0.13)	$(0.18)
Weighted average common shares outstanding:				
Basic and diluted	5,991,856	5,961,636	5,987,644	5,958,407
Consolidated Statements of Comprehensive Income (Loss)				
Net loss	$(2,114)	$(2,263)	$(28)	$(1,096)
Unrealized (losses) gains on investments available for sale, net of income taxes	(133)	25	(1,010)	94
Comprehensive loss	$(2,247)	$(2,238)	$(1,038)	$(1,002)

See accompanying notes to consolidated financial statements

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1347 PROPERTY INSURANCE HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Shareholders' Equity

($ in thousands, except share amounts)

	Preferred Stock		**Common Stock**		**Treasury Stock**		**Paid-in**	**Retained**	**Accumulated** Other Comprehensive	**Total Shareholders'**
	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Earnings	Loss	**Equity**
Balance, January 1, 2017	–	–	5,956,766	$ 6	151,359	$ (1,009)	$ 46,809	$ 616	$ (65)	$ 46,357
Stock compensation expense	–	–	–	–	–	–	31	–	–	31
Issuance of common stock	–	–	28,000	–	–	–	224	–	–	224
Net income	–	–	–	–	–	–	–	294	–	294
Other comprehensive loss	–	–	–	–	–	–	–	–	(104)	(104)
Balance, December 31, 2017	–	$ –	5,984,766	$ 6	151,359	$ (1,009)	$ 47,064	$ 910	$ (169)	$ 46,802
Stock compensation expense	–	–	7,666	–	–	–	236	–	–	236
Issuance of Series A Cumulative Preferred Stock	700,000	17,500	–	–	–	–	(1,007)	–	–	16,493
Repurchase of Performance Shares	–	–	–	–	–	–	(54)	–	–	(54)
Reclassification of certain tax effects from accumulated other comprehensive income at January 1, 2018	–	–	–	–	–	–	–	33	(33)	–
Dividends declared on	–	–	–	–	–	–	–	(758)	–	(758)

Series A Preferred Shares										
Net loss	–	–	–	–	–	–	–	(28)	–	(28)
Other comprehensive loss	–	–	–	–	–	–	–	–	(1,010)	(1,010)
Balance, September 30, 2018 (unaudited)	700,000	$17,500	5,992,432	$6	151,359	$(1,009)	$46,239	$157	$(1,212)	$61,681

See accompanying notes to consolidated financial statements

1347 PROPERTY INSURANCE HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Unaudited)

($ in thousands)

	Nine months ended September 30, 2018		2017	
Cash provided by (used in):				
Operating activities:				
Net loss	$	(28)	$	(1,096)
Adjustments to reconcile net income to net cash provided by operating activities:				
Accretion of discount on Series B Preferred Shares		33		276
Loss on repurchase of Series B Preferred Shares and Performance Shares		612		–
Net deferred income taxes		(202)		(483)
Stock compensation expense		236		19
Depreciation expense		91		55
Changes in operating assets and liabilities:				
Premiums receivable, net		7,337		703
Reinsurance recoverable on paid losses and loss reserves		324		(21,231)
Amounts held on deposit with reinsured companies		1,725		500
Ceded unearned premiums		(2,300)		1,011
		(2,781)		(1,803)

Deferred policy acquisition costs, net		
Loss and loss adjustment expense reserves	684	15,120
Premiums collected in advance	1,521	759
Unearned premium reserves	9,941	6,349
Ceded reinsurance premiums payable	4,096	557
Current income taxes recoverable	(1,306)	563
Other, net	1,513	2,533
Net cash provided by operating activities	21,496	3,832
Investing activities:		
Net purchases of furniture and equipment	(46)	(18)
Purchases of fixed income securities	(28,938)	(21,888)
Proceeds from the sale or maturity of fixed income securities	5,024	3,429
Purchase of equity investments	(1,100)	(1,662)
Proceeds from the sale of equity securities	500	980
Purchases of other investments	(2,349)	(440)
Net purchases of short-term investments	(278)	(1,583)
Net cash used by investing activities	(27,187)	(21,182)
Financing activities:		
Net proceeds from the issuance of Series A Preferred Stock	16,493	–
Proceeds from the sale of common stock	–	224
Repurchase of Series B Preferred Shares and Performance Shares	(3,300)	–
	(998)	(240)

Payment of dividends on preferred shares						
Payments under capital lease obligations		(55	)		–	
Net cash provided (used) by financing activities		12,140			(16	)
Net increase (decrease) in cash and cash equivalents		6,449			(17,366	)
Cash and cash equivalents at beginning of period		23,575			43,045	
Cash and cash equivalents at end of period	$	30,024		$	25,679	
Supplemental disclosure of cash flow information:						
Cash paid during the period for income taxes	$	1,510			35	
Non-cash financing activities:						
Obligation for the acquisition of vehicles under lease agreements	$	128		$	–	

See accompanying notes to consolidated financial statements

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1347 PROPERTY INSURANCE HOLDINGS, INC. AND SUBSIDIARIES

$ amounts in thousands, except per share data

1. Nature of Business

1347 Property Insurance Holdings, Inc. ("PIH", the "Company", "we", or "us") is an insurance holding company specialized in providing personal property insurance in coastal markets including those in Louisiana, Texas and Florida. We were incorporated on October 2, 2012 in the State of Delaware under the name Maison Insurance Holdings, Inc., and changed our legal name to 1347 Property Insurance Holdings, Inc. on November 19, 2013. On March 31, 2014, we completed an initial public offering of our common stock. Prior to March 31, 2014, we were a wholly owned subsidiary of Kingsway America Inc., which, in turn, is a wholly owned subsidiary of Kingsway Financial Services Inc., or KFSI, a publicly owned holding company based in Canada. As of September 30, 2018, KFSI and its affiliates no longer held any of our outstanding shares of common stock but did hold warrants that, if exercised, would cause KFSI and its affiliates to hold an approximate 20.0% ownership interest in our common stock. In addition, as of September 30, 2018, Fundamental Global Investors, LLC and its affiliates, or FGI, beneficially owned approximately 45.4% of our outstanding shares of common stock. D. Kyle Cerminara, Chairman of our Board of Directors, serves as Chief Executive Officer, Co-Founder and Partner of FGI, and Lewis M. Johnson, Co-Chairman of our Board of Directors, serves as President, Co-Founder and Partner of FGI.

We have three wholly-owned subsidiaries: Maison Insurance Company, or "Maison", Maison Managers Inc., or "MMI", and ClaimCor, LLC, or "ClaimCor".

Through Maison, we began providing property and casualty insurance to individuals in Louisiana in December 2012. In September 2015, Maison began writing manufactured home policies in the State of Texas on a direct basis, and in December 2017, Maison began writing wind/hail only policies in Florida via the assumption of policies from Florida Citizens Property Insurance Corporation ("FL Citizens"). Our current insurance offerings in Louisiana, Texas, and Florida include homeowners insurance, manufactured home insurance and dwelling fire insurance. We write both full peril property policies as well as wind/hail only exposures and we produce new policies through a network of independent insurance agencies. We refer to the policies we write through independent agencies as voluntary policies versus those policies we have assumed through state-run insurers such as FL Citizens, which we refer to as take-out policies. We also wrote commercial business in Texas through a quota share agreement with Brotherhood Mutual Insurance Company ("Brotherhood"). Through this agreement, we had assumed wind/hail only exposures on certain churches and related structures that Brotherhood insures throughout the State of Texas. We discontinued this business effective January 1, 2018.

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

On May 3, 2018, the Louisiana State Legislature sent House Bill No. 333 (“HB 333”) to the Louisiana Governor for executive approval, which was signed by the Governor on May 11, 2018 and became effective as Act No. 131 on August 1, 2018. HB 333 amends the law with respect to the depopulation of policies from LA Citizens. Prior to the adoption of HB 333, LA Citizens was required to offer all of its in-force policies for removal to the voluntary market at least once per year and was further required to offer for depopulation policies with all available geographic and risk characteristics that served to reduce the exposure of LA Citizens. The amendments under HB 333 allow LA Citizens, with approval of its board of directors, to choose which of its in-force policies to depopulate and not necessarily offer all, or any of its policies for removal to the voluntary market. In July 2018, the Company was notified by LA Citizens of the number of policies which would be available for assumption by all insurers electing to participate in the December 1, 2018 depopulation under the new law. Due to the significant reduction of policies available when compared to those available for assumption in prior years, the Company will not participate in the December 1, 2018 assumption of policies from LA Citizens.

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, or "FOIR", which authorized Maison to write personal lines insurance in Florida. Pursuant to the consent order issued, Maison has agreed to comply with certain requirements as outlined by the FOIR until Maison can demonstrate three consecutive years of statutory net income following our admission into Florida as evidenced by its Annual Statement filed with the National Association of Insurance Commissioners. To comply with a requirement of the consent order that Maison have at least $35,000 in capital and surplus, and maintain an RBC ratio of 300% or more, on March 31, 2017, Maison received a capital contribution from PIH in the amount of $16,000.

On September 29, 2017, Maison received authorization from the FOIR to assume personal lines policies from FL Citizens pursuant to a proposal of depopulation which Maison filed with FL Citizens on August 18, 2017. Accordingly, on December 19, 2017, Maison entered the Florida market via the assumption of approximately 3,500 policies from FL Citizens covering the perils of wind and hail only. As of September 30, 2018, approximately 2,181 of these policies had renewed, becoming direct business for Maison, while approximately 867 policies remained under the assumption agreement with FL Citizens. On September 27, 2018, Maison was once again approved to take-out up to 9,563 personal, residential, wind-only policies from FL Citizens on the depopulation to occur on December 19, 2018.

MMI serves as our management services subsidiary, known as a managing general agency, and provides underwriting, policy administration, claims administration, marketing, accounting and other management services to Maison. MMI contracts primarily with independent agencies for policy sales and services, and also contracts with an independent third-party for policy administration services. As a managing general agency, MMI is licensed by, and subject to, the regulatory oversight of the LDI, TDI and FOIR. MMI earns commissions on a portion of the premiums Maison writes, as well as a per policy fee which ranges from $0-$75.

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

The Company has also received approval from its state regulators to form a captive reinsurance vehicle, which will provide Maison with $5,000 of coverage excess of $5,000 retention per event with an annual limit of $5,000. We have engaged Horseshoe Re Limited, a Bermuda-based insurance services firm, to facilitate the formation and administration of this vehicle.

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 deferred policy acquisition costs and stock-based compensation expense.

1347 PROPERTY INSURANCE HOLDINGS, INC. AND SUBSIDIARIES

$ amounts in thousands, except per share data

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 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 income.

Other investments include investments in a limited partnership and a limited liability company in which the Company's interests are deemed minor and therefore, are accounted for under the cost method of accounting which approximates their fair value. Also included in other investments, is an additional investment where the Company is a limited partner in a limited partnership, which we have determined to be a variable interest entity (VIE), in which the Company is not the primary beneficiary. The Company does not have a controlling financial interest in the limited partnership, but exerts significant influence over the entity's operating and financial policies as it owns an economic interest of approximately 49.5%. Accordingly, the Company has accounted for this investment under the equity method of accounting. See Note 15 for additional information on the Company's investment in the VIE.

Other investments also include 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 income if the fair value of the instrument falls below its amortized cost and the decline is considered other-than-temporary. Factors considered in determining whether a loss is other-than-temporary include the length of time and extent to which fair value has been below cost, the financial condition and near-term prospects of the issuer, and the Company's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery.

Cash and Cash Equivalents:

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

Premiums Receivable:

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

Reinsurance:

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

Deferred Policy Acquisition Costs:

The Company defers commissions, premium taxes, 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.

1347 PROPERTY INSURANCE HOLDINGS, INC. AND SUBSIDIARIES

$ amounts in thousands, except per share data

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 leased property and leasehold improvements. Property and equipment is estimated to have no salvage value at its useful life-end with the exception of leased property where we have guaranteed a residual value at the end of the lease. Accordingly, leased property is estimated to have a salvage value equal to the guaranteed residual value at the termination of the lease.

Rent expense for the Company’s office leases is recognized on a straight-line basis over the term of the lease. Rent expense was $324 and $255 for the nine months ended September 30, 2018 and 2017, 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.

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 Eastern U.S. Such amounts are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to $250 per institution. At September 30, 2018, 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.

1347 PROPERTY INSURANCE HOLDINGS, INC. AND SUBSIDIARIES

$ amounts in thousands, except per share data

The Company also has risk associated with the lack of geographic diversification due to the fact that Maison exclusively underwrites policies in Louisiana, Texas and Florida. Maison insures personal property located in 63 of the 64 parishes in the State of Louisiana. As of September 30, 2018, these policies are concentrated within these parishes, presented as a percentage of our direct and assumed policies in all states, as follows: Saint Tammany Parish, LA 7.2%, Jefferson Parish, LA 6.5%, Collin County, TX 5.4% and Tarrant County, TX 5.2%. No other parish in Louisiana, or county in Texas or Florida, individually has over 5.0% of our policies in force as of September 30, 2018. As of September 30, 2018, Maison writes in 197 of the 254 counties that comprise the State of Texas, and in 29 of the 67 counties that comprise the State of Florida.

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 periods, 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 (e.g., 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.

The Company has also issued restricted stock units ("RSUs") to certain of its employees and directors which have been accounted for as equity based awards since, upon vesting, they are required to be settled in the Company's common shares. The Company used the fair value of the Company's common stock on the date the RSUs were issued to estimate the grant date fair value of those RSUs which vest solely based upon the passage of time, as well as a Monte Carlo valuation model to estimate the fair value of those RSUs which vest solely upon market-based conditions. The fair value of each RSU is recorded as compensation expense over the requisite service period, which is generally the expected period over which the awards will vest. In the case of those RSUs which vest upon market-based conditions, should the market-based condition be achieved prior to the expiration of the derived service period, any unrecognized cost will be recorded as compensation expense in the period in which the RSUs actually vest. See Note 10 for additional information on the Company's stock-based compensation.

Fair Value of Financial Instruments:

The carrying values of certain financial instruments, including cash, short-term investments, premiums receivable, accounts payable, and other accrued expenses, approximate fair value due to their short-term nature. The Company measures the fair value of financial instruments in accordance with GAAP, which defines fair value as the exchange price that would be received for an asset (or paid to transfer a liability) in the principal or most advantageous market for the asset (or liability) in an orderly transaction between market participants on the measurement date. GAAP also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. See Note 14 for additional information on the fair value of the Company's financial instruments.

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Earnings Per Common Share:

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

Diluted earnings 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 per share if their effect is anti-dilutive.

Operating Segments:

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

3. Recently Adopted and Issued Accounting Standards

<u>Recently Adopted Accounting Standards</u>

ASU 2014-09: Revenue from Contracts with Customers:

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

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

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

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. For public business entities, ASU 2016-01 is effective for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018; however, the Company has elected to delay the adoption of the guidance until its fiscal year beginning January 1, 2019, under its exemption as an emerging growth company under the JOBS Act. 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 will impact the Company's results of operations and earnings per share as changes in fair value will be presented in net income rather than other comprehensive income (loss).

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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. In July 2018, the FASB issued ASU No. 2018-10, *Codification Improvements to Topic 842, Leases* and ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*. ASU No. 2018-10 clarifies ambiguous or potentially conflicting guidance in ASU No. 2016-02, but is not expected to have a material impact on the Company. ASU No. 2018-11 provides entities with an additional transition method to adopt Topic 842. Under the new transition method, an entity initially applies the new lease standard at the adoption date, rather than at the beginning of the earliest period presented, and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company expects to elect this transition method at the adoption date of January 1, 2019. The amendments are effective for annual reporting periods beginning after December 15, 2018, and interim periods within those fiscal years; however, the Company intends to delay the adoption of the guidance until its fiscal year beginning January 1, 2019, under its exemption as an emerging growth company under the JOBS Act. We are currently evaluating the impact of our pending adoption of these amendments on our consolidated financial position, results of operations and cash flows. Upon adoption, we expect to recognize right of use assets and liabilities on the consolidated statement of financial position for leases currently classified as operating leases.

ASU 2016-13: Financial Instruments – Credit Losses:

In June 2016, the FASB issued ASU 2016-13: *Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments.* ASU 2016-13 was issued to provide financial statement users with more useful information regarding the expected credit losses on financial instruments held as assets. Under current GAAP, financial statement recognition for credit losses on financial instruments was generally delayed until the occurrence of the loss was probable. The amendments of ASU 2016-13 eliminate this probable initial recognition threshold and instead reflect an entity's current estimate of all expected credit losses. The amendments also broaden the information that an entity must consider in developing its expected credit loss estimates for those assets measured at amortized cost by using forecasted information instead of the current methodology which only considered past events and current conditions. Under ASU 2016-13, credit losses on available-for-sale debt securities will be measured in a manner similar to current

GAAP; however, the amendments require that credit losses be presented as an allowance against the investment, rather than as a write-down. The amendments also allow the entity to record reversals of credit losses in current period net income, which is prohibited under current GAAP. The amendments in this update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the impact of the adoption of ASU 2016-13 on its consolidated financial statements.

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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 September 30, 2018 and December 31, 2017 is as follows.

As of September 30, 2018	Amortized Cost	**Gross Unrealized Gains**	Gross Unrealized Losses	Estimated **Fair Value**
Fixed income securities:				
U.S. government	$ 7,967	$ 1	$ (134)	$ 7,834
State municipalities and political subdivisions	6,514	-	(162)	6,352
Asset-backed securities and collateralized mortgage obligations	32,195	8	(714)	31,489
Corporate	28,603	1	(688)	27,916
Total fixed income securities	75,279	10	(1,698)	73,591
Equity securities:				
Common stock	3,000	114	(93)	3,021
Warrants to purchase common stock	115	109	(4)	220
Rights to purchase common stock	67	27	-	94
Total equity securities	3,182	250	(97)	3,335
Total fixed income and equity securities	$ 78,461	$ 260	$ (1,795)	$ 76,926
As of December 31, 2017				
Fixed income securities:				
U.S. government	$ 2,735	$ –	$ (37)	$ 2,698
State municipalities and political subdivisions	5,959	3	(55)	5,907
Asset-backed securities and collateralized mortgage obligations	20,084	10	(227)	19,867
Corporate	22,725	44	(119)	22,650
Total fixed income securities	51,503	57	(438)	51,122
Equity securities:				
Common stock	2,448	71	(59)	2,460
Warrants to purchase common stock	66	88	–	154
Rights to purchase common stock	68	26	(1)	93
Total equity securities	2,582	185	(60)	2,707
Total fixed income and equity securities	$ 54,085	$ 242	$ (498)	$ 53,829

The table below summarizes the Company's fixed income securities at September 30, 2018 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	$ 3,738	$ 3,723
More than one to five years	34,144	33,397
More than five to ten years	13,452	13,060
More than ten years	23,945	23,411
Total	$ 75,279	$ 73,591

The following table highlights, by loss position and security type, those fixed income and equity securities in unrealized loss positions as of September 30, 2018 and December 31, 2017. The tables segregate the holdings based on the period of time the investments have been continuously held in unrealized loss positions. There were 323 and 235 fixed income investments that were in unrealized loss positions as of September 30, 2018 and December 31, 2017, respectively. The Company held 3 and 12 equity securities in unrealized loss positions as of September 30, 2018 and December 31, 2017, respectively.

	Less than 12 Months		Greater than 12 Months		Total	
As of September 30, 2018	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
Fixed income securities:						
U.S. government	$5,380	$ (68)	$1,983	$ (67)	$7,363	$ (135)
State municipalities and political subdivisions	4,543	(96)	1,810	(65)	6,353	(161)
Asset-backed securities and collateralized mortgage obligations	20,059	(336)	9,506	(378)	29,565	(714)
Corporate	23,732	(568)	3,292	(120)	27,024	(688)
Total fixed income securities	53,714	(1,068)	16,591	(630)	70,305	(1,698)
Equity securities:						
Common stock	95	(50)	74	(43)	169	(93)
Warrants to purchase common stock	8	(4)	-	-	8	(4)
Rights to purchase common stock	-	-	-	-	-	-
Total equity securities	103	(54)	74	(43)	177	(97)
Total fixed income and equity securities	$53,817	$ (1,122)	$16,665	$ (673)	$70,482	$ (1,795)
As of December 31, 2017						
Fixed income securities:						
U.S. government	$1,547	$ (22)	$771	$ (15)	$2,318	$ (37)
State municipalities and political subdivisions	4,267	(35)	732	(20)	4,999	(55)

Asset-backed securities and collateralized mortgage obligations	13,530	(123)	4,503	(104)	18,033	(227)
Corporate	14,690	(92)	1,158	(27)	15,848	(119)
Total fixed income securities	34,034	(272)	7,164	(166)	41,198	(438)
Equity securities:						
Common stock	453	(59)	–	–	453	(59)
Warrants to purchase common stock	15	–	–	–	15	–
Rights to purchase common stock	15	(1)	–	–	15	(1)
Total equity securities	483	(60)	–	–	483	(60)
Total fixed income and equity securities	$34,517	$ (332)	$7,164	$ (166)	$41,681	$ (498)

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Under the terms of the certificate of authority granted to Maison by the Texas Department of Insurance, Maison is required to pledge securities totaling approximately $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 $2,001 and estimated fair value of $1,961 as of September 30, 2018.

The Company's other investments are comprised of investments in a limited partnership and a limited liability company which seek to provide equity and asset-backed debt investment in a variety of privately-owned companies. The Company has committed to a total investment of $1,000, of which the two entities have drawn down approximately $776 through September 30, 2018. One of these two entities is managed by Argo Management Group, LLC, an entity which, as of April 21, 2016 is wholly owned by KFSI. The Company has accounted for these two investments under the cost method, as the investments do not have readily determinable fair values and the Company does not exercise significant influence over the operations of the investments or the underlying privately-owned companies.

Additionally, on June 18, 2018 the Company invested $2,219 in FGI Metrolina Property Income Fund, LP (the "Fund"), which intends to invest in real estate through a real estate investment trust which is wholly owned by the Fund. The general partner of the Fund, FGI Metrolina GP, LLC, is managed, in part, by Messrs. Cerminara and Johnson, the Chairman and Co-Chairman of the Board of Directors of the Company, respectively. The Company, a limited partner of the Fund, does not have a controlling financial interest in the Fund, but exerts significant influence over the entity's operating and financial policies as it owns an economic interest of approximately 49.5%. Accordingly, the Company has accounted for this investment under the equity method of accounting.

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 FOIR.

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 payments due from the investee; and
assessing the Company’s ability and intent to hold these investments until the impairment may be recovered.

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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.

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 nine months ended September 30, 2018 and 2017.

The Company does not have any exposure to subprime mortgage-backed investments. Net investment income for the three and nine months ended September 30, 2018 and 2017 was as follows:

	Three Months Ended		**Nine Months Ended**	
	September 30,		**September 30,**	
	2018	2017	2018	2017
Investment income:				
Interest on fixed income securities	$469	$231	$1,205	$548
Interest on cash and cash equivalents	34	30	95	126

Realized gains upon sale of securities	–	4	80	68
Gross investment income	503	265	1,380	742
Investment expenses	(75)	(17)	(125)	(42)
Net investment income	$428	$248	$1,255	$700

5. Reinsurance

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

Under the Company's per-risk treaties, reinsurance recoveries are received for up to $1,600 in excess of a retention of $400 for each loss occurring during the treaty year that began on June 1, 2017 and ended on May 31, 2018. Effective June 1, 2018, the Company amended its per-risk treaty such that recoveries are received for up to $1,400 in excess of a retention of $600 for each loss occurring on June 1, 2018 or thereafter. On September 1, 2018, the Company added another layer of coverage to its per-risk treaty such that recoveries are now received for up to $2,400 in excess of a retention of $600 for each loss occurring on September 1, 2018 or thereafter. The Company estimates that the total cost of its per-risk treaty will be approximately $375 for the 2018-2019 treaty-year, an increase of $75 from the cost of the prior treaty-year due to the additional $1,000 coverage purchased effective September 1, 2018.

The Company's excess of loss treaties are based upon a treaty year beginning on June 1st of each year and expiring on May 31st of the following year. For both the treaty years beginning June 1, 2016 and June 1, 2017, the Company's excess of loss treaties cover losses of up to $170,000 in excess of a retention of $5,000 per event. For any event above $175,000, the Company purchased top, drop and aggregate coverage, with an additional limit of $25,000. The $25,000 aggregate coverage applies in total to all events occurring during each of the treaty years.

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For the treaty year beginning June 1, 2018, the Company's excess of loss treaty covers losses of up to $252,000 in excess of a retention of $10,000 per occurrence. Each layer of the traditional catastrophe excess of loss contracts includes one reinstatement. We have purchased reinstatement premium protection contracts to fully indemnify us against the potential cost of reinstatement premiums. We have also obtained coverage that reduces our retention in multiple event scenarios through the purchase of three subsequent event contracts. The first subsequent event contract has an occurrence limit of $6,000, an occurrence retention of $4,000, and is subject to an otherwise recoverable amount of $6,000. The second subsequent event contract has an occurrence limit of $3,000, an occurrence retention of $1,000, and is subject to an otherwise recoverable amount of $6,000. Both of these subsequent event contracts include one prepaid reinstatement. The third subsequent event contract provides $10,000 of additional reinstatement limit for first layer of the catastrophe program and attaches after the first reinstatement has been completely exhausted. Furthermore, for the Florida Hurricane Catastrophe Fund Reimbursement Contracts effective June 1, 2018, the Company has elected 45% coverage on its Florida exposures.

The Company estimates that the total cost of its excess of loss reinsurance program, inclusive of brokerage fees, will be approximately $33,900 for the 2018-2019 treaty-year. Comparatively, the total cost for the Company's 2017-2018 treaty-year reinsurance program, which expired on May 31, 2018 was approximately $24,800.

In June 2015, we began writing business through a quota-share agreement with Brotherhood Mutual Insurance Company ("Brotherhood"). Through this agreement, we acted as a reinsurer and had assumed wind/hail only exposures on certain churches and related structures that Brotherhood insures throughout the State of Texas. Our quota-share percentage varied 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 nine months ended September 30, 2017, we had written $1,428 in assumed premiums through our agreement with Brotherhood. Effective January 1, 2018, we terminated our quota-share agreement with Brotherhood, as a result of our evaluation of the risk-adjusted returns on this portion of our business.

On December 1, 2016, we participated in 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 nine months ended September 30, 2017, we had written $1,401 in assumed premiums through the TWIA quota share agreement compared to $(3) for the nine months ended September 30, 2018, as we did not participate in the December 1, 2017 TWIA depopulation.

On September 29, 2017, Maison received authorization from the FOIR to assume personal lines policies from Florida Citizens Property Insurance Corporation ("FL Citizens") pursuant to a proposal of depopulation which Maison filed with FL Citizens on August 18, 2017. Accordingly, on December 19, 2017, Maison entered the Florida market via the assumption of approximately 3,500 policies from FL Citizens covering the perils of wind and hail only. Pursuant to the assumption agreement, policies having an expiration date of March 31, 2018 or earlier would renew to FL Citizens, and would remain a policy assumed by Maison and subject to the assumption agreement, whereas those policies expiring after March 31, 2018 would renew to Maison on a direct basis. As of September 30, 2018, approximately 2,181 of these policies had renewed, becoming direct business for Maison, while approximately 867 policies remained under the assumption agreement with FL Citizens.

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

	Three months ended		**Nine months ended**	
	September 30,		**September 30,**	
	2018	**2017**	**2018**	**2017**
Premium written:				
Direct	$26,324	$16,533	$70,848	$45,989
Assumed*	(36)	630	(264)	2,828
Ceded	(8,023)	(6,051)	(23,541)	(16,426)
Net premium written	$18,265	$11,112	$47,043	$32,391
Premium earned:				
Direct	$20,818	$14,056	$55,663	$40,015
Assumed	991	851	4,979	2,454
Ceded	(8,348)	(6,275)	(21,241)	(17,437)
Net premium earned	$13,461	$8,632	$39,401	$25,032
Losses and LAE incurred:				
Direct	$10,417	$20,451	$29,107	$31,297
Assumed	12	5,734	(119)	8,937
Ceded	(1,773)	(18,390)	(9,214)	(26,425)
Net losses and LAE incurred	$8,656	$7,795	$19,774	$13,809

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*Assumed premium written consists of premiums written through our depopulation of policies through FL Citizens, TWIA, and our former quota share agreement with Brotherhood. Although we also assume premium through the depopulation of policies from LA Citizens, this premium has been included in direct premium and losses in the table above pursuant to guidance issued by the LDI, requiring that insurance companies report premium written and earned, as well as losses incurred, through the depopulation of policies from LA Citizens as direct premium and losses for statutory accounting purposes. Assumed premiums written for the three and nine months ended September 30, 2018 were negative due to the net cancellation of policies we assumed from FL Citizens on December 19, 2017, as policyholders may opt-out of the assumption process, combined with the fact that we cancelled our quota-share agreement with Brotherhood effective January 1, 2018.

On May 3, 2018 the Louisiana State Legislature sent House Bill No. 333 (“HB 333”) to the Louisiana Governor for executive approval, which was signed by the Governor on May 11, 2018 and became effective as Act No. 131 on August 1, 2018. HB 333 amends the law with respect to the depopulation of policies from LA Citizens. Prior to the adoption of HB 333, LA Citizens was required to offer all of its in-force policies for removal to the voluntary market at least once per year and was further required to offer for depopulation policies with all available geographic and risk characteristics that served to reduce the exposure of LA Citizens. The amendments under HB 333 allow LA Citizens, with approval of its board of directors, to choose which of its in-force policies to depopulate and not necessarily offer all, or any of its policies for removal to the voluntary market. In July 2018, the Company was notified by LA Citizens of the number of policies which would be available for assumption by all insurers electing to participate in the December 1, 2018 depopulation under the new law. Due to the significant reduction of policies available when compared to those available for assumption in prior years, the Company will not participate in the December 1, 2018 assumption of policies from LA Citizens.

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 and nine months ended September 30, 2018 and 2017, is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Balance, beginning of period, net	$8,675	$5,545	$6,785	$4,389
Additions	4,820	3,402	13,622	9,670
Amortization	(3,929)	(2,755)	(10,841)	(7,867)
Balance, September 30, net	$9,566	$6,192	$9,566	$6,192

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 within the Company.

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The Company's evaluation of the adequacy of loss and LAE reserves includes a re-estimation of the liability for loss and LAE reserves relating to each preceding financial year compared to the liability that was previously established. The results of this comparison and the changes in the provision, net of amounts recoverable from reinsurers, for the three and nine months ended September 30, 2018 and 2017 were as follows:

	Three months ended September 30,		**Nine months ended September 30,**	
	2018	2017	2018	2017
Balance, beginning of period, gross of reinsurance	13,817	$9,583	$13,488	$6,971
Less reinsurance recoverable on loss and LAE expense reserves	(6,867)	(6,012)	(8,971)	(3,652)
Balance, beginning of period, net of reinsurance	6,950	3,571	4,517	3,319
Incurred related to:				
Current year	8,779	8,717	21,696	15,953
Prior years	(123)	(922)	(1,922)	(2,144)
Paid related to:				
Current year	(6,997)	(7,246)	(14,332)	(12,060)
Prior years	(132)	411	(1,482)	(537)
Balance, September 30, net of reinsurance	8,477	4,531	8,477	4,531
Plus reinsurance recoverable related to loss and LAE expense reserves	5,695	17,560	5,695	17,560
Balance, September 30, gross of reinsurance	$14,172	$22,091	$14,172	$22,091

8. Income Taxes

Actual income tax expense for the three and nine months ended September 30, 2018 and 2017 varies from the amount that would result by applying the applicable statutory federal income tax rate to income before income taxes as summarized in the following table:

Three months ended	**Nine months ended**
September 30,	

			September 30,	
	2018	2017	2018	2017
Income tax expense at statutory income tax rate	$(564)	$(1,168)	$(5)	$(508)
State income tax (net of federal tax benefit)	(10)	(5)	(6)	104
Other	3	2	15	7
Income tax expense	$(571)	$(1,171)	$4	$(397)

The Company carries a net deferred income tax asset of $540 and $70 at September 30, 2018 and December 31, 2017, respectively, all of which the Company believes is more likely than not to be fully realized based upon management's assessment of future taxable income. Significant components of the Company's net deferred tax assets are as follows:

	September 30, 2018	December 31, 2017
Deferred income tax assets:		
Loss and loss adjustment expense reserves	$ 52	$ 28
Unearned premium reserves	1,937	1,576
Investments	307	38
Share-based compensation	290	229
Other	444	202
Deferred income tax assets	$ 3,030	$ 2,073
Deferred income tax liabilities:		
Deferred policy acquisition costs	$ 2,009	$ 1,425
State deferred taxes	442	543
Other	39	35
Deferred income tax liabilities	$ 2,490	$ 2,003
Net deferred income tax assets	$ 540	$ 70

The Company's net deferred tax assets were impacted by the passage of the Tax Cuts and Jobs Act on December 22, 2017, which reduced the corporate federal income tax rate from 35% to 21% and required us to reduce the value of our net deferred tax assets to reflect this new rate, effective for both periods presented in the table above. Realization of net deferred tax assets is dependent on generating sufficient taxable income in future periods.

As of September 30, 2018, 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.

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9. Net Earnings Per Share

Net earnings per share is computed by dividing net income by the weighted average number of common shares and common share equivalents outstanding during the periods presented. In calculating diluted earnings per share, those potential common shares that are found to be anti-dilutive are excluded from the calculation. The table below provides a summary of the numerators and denominators used in determining basic and diluted earnings per share for the three and nine months ended September 30, 2018 and 2017.

	Three months ended September 30,		**Nine months ended September 30,**	
	2018	2017	2018	2017
Basic and Diluted:				
Net loss (in thousands)	$(2,114)	$(2,263)	$(28)	$(1,096)
Less: dividends declared on Series A Preferred Shares	(350)	–	(758)	–
Loss attributable to common shareholders	(2,464)	(2,263)	(786)	(1,096)
Weighted average common shares outstanding	5,991,856	5,961,636	5,987,644	5,958,407
Loss per common share	$(0.41)	$(0.38)	$(0.13)	$(0.18)

The following potentially dilutive securities outstanding as of September 30, 2018 and 2017 have been excluded from the computation of diluted weighted-average shares outstanding as their effect would be anti-dilutive.

	As of September 30,	
	2018	2017
Options to purchase common stock	177,456	177,456
Warrants to purchase common stock	1,906,875	1,906,875
Restricted stock units	187,196	20,500
Performance shares[1]	–	475,000
	2,271,527	2,579,831

[1] On July 24, 2018, the Company entered into a Termination Agreement whereby the performance shares owned by KFSI and its affiliates were cancelled (see Note 12 – Related Party Transactions for further information).

10. Options, Warrants, and Restricted Stock Units

The Company has established an equity incentive plan for employees and directors of the Company (the “2014 Plan”). The purpose of the Plan was to create incentives designed to motivate recipients to 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.

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

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

There were no grants, exercises, or cancellations of the Company’s stock options for the nine months ended September 30, 2018. A total of 21,296 stock options vested during the nine months ended September 30, 2018, 19,596 of which were granted on March 31, 2014 and have a weighted average exercise price of $8.00 per share, and 1,700 of which were granted on April 4, 2014 and have a weighted average exercise price of $8.69 per share. The following table summarizes the Company’s stock options outstanding as of September 30, 2018.

Stock Options Outstanding as of September 30, 2018 (issued pursuant to the 2014 Plan)

Date of Grant	Exercise Price ($)	Expiration Date	Remaining Contractual Life (Years)	Number Outstanding	Number Exercisable
03/31/2014	8.00	03/31/2019	0.50	163,301	163,301
04/04/2014	8.69	04/04/2019	0.51	14,155	14,155
			Total	177,456	177,456

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On May 29, 2015, the Company's Board of Directors granted RSUs to certain of its executive officers under the 2014 Equity Incentive 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.

In connection with the Company's appointment of Dan Case as Chief Operating Officer effective May 23, 2017, we entered into an offer letter with Mr. Case, which provided Mr. Case with the opportunity to purchase up to 68,027 shares of the Company's common stock on the open market or in direct purchases from the Company through June 15, 2018. At the end of the purchase period, the Company agreed to match any such shares purchased by Mr. Case with a grant of RSUs of the Company equal to two RSUs for each share purchased by Mr. Case. Any shares purchased directly from the Company were agreed to be made at a price equal to the closing price of the Company's common stock on the prior trading day, but at a price not less than the Company's latest quarter end published book value per share. This arrangement was entered into outside of either the 2014 or 2018 Plan, and was approved by the Compensation Committee of the Board of Directors as an inducement material to Mr. Case entering into employment with the Company in reliance on Nasdaq listing rule 5635(c)(4). Through the purchase period, Mr. Case had purchased 68,027 shares of the Company's common stock pursuant to this arrangement, 28,000 of which shares were purchased directly from the Company at a purchase price of $8.00 per share on September 14, 2017. Accordingly, on June 15, 2018, the Company granted 136,054 RSUs to Mr. Case pursuant to the agreement. The RSUs will vest 20% per year over five years following the date granted, subject to continued employment through such vesting date. The estimated fair value of the RSUs on grant date was estimated to be $1,034, which the Company will charge to compensation expense over the period in which the RSUs vest.

On May 31, 2017, the Compensation Committee of the Company's Board of Directors approved a share matching arrangement for certain purchases of common stock made by the Company's executive officers and directors. During the period beginning on May 31, 2017 and ending on November 30, 2017, each of the Company's executive officers and directors had the opportunity to purchase the Company's common stock through the open market, independently, and without assistance from the Company. At the end of the purchase period, the Company agreed to match any such shares purchased by the Company's executive officers and directors with a grant of RSUs of the Company equal to two RSUs for each share purchased. Accordingly, on December 15, 2017, the Committee granted a total of 108,330 RSUs as follows; 40,000, 32,000 and 3,000 RSUs to our executive officers, Messrs. Raucy, Hill and Stroud, respectively, as well as 6,666 RSUs to each of our then-serving directors Swets Jr., Cerminara, Horowitz, Johnson and Wong. Each RSU entitles the grantee to one share of the Company's common stock upon the vesting date of the RSU, which will vest 20% per year over a period of five years following the date granted, subject to each officer's continued employment with the Company, or each director's continued service on the Board. Prior to the vesting of the RSUs, the grantee will not be entitled to any dividends declared on the Company's common stock. The RSUs do not expire; however, should the grantee discontinue employment with the Company for any reason other than death or disability, all unvested RSUs will be deemed forfeited on the date employment is discontinued. The Board of Directors may, in its discretion, accelerate vesting in the event of early retirement. Similarly, should a director make himself available and consent to be nominated by the Company for continued service but is not nominated by the Board for election by the shareholders, other than for good reason as determined by the Board in its discretion, then such director's RSU grant will vest in full as of his last date of service as a director with the Company. Accordingly, since Mr. Horowitz's term as a director did not continue following the Company's annual meeting of shareholders held on May 31, 2018, Mr. Horowitz' 6,666 RSUs shares vested in full on May 31, 2018. Directors are required to maintain ownership of the shares purchased through the full five-year vesting period, except as set forth above.

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

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Also on August 22, 2018, the Company's Board of Directors modified the compensation program for all non-employee directors of the Company as follows:

- Each non-employee director will receive a cash retainer of $50 per year, paid in quarterly installments beginning September 1, 2018;
- Both the Chairman and Co-Chairman of the Board will receive an additional annual cash retainer of $75 each, paid in quarterly installments beginning September 1, 2018;
- The Chairman of the Audit Committee will receive an additional cash retainer of $15, paid in quarterly installments beginning September 1, 2018;
- The Chairman of the Compensation and Management Resources Committee as well as the Chairman of the Nominating and Corporate Governance Committee will each receive an additional cash retainer of $5, paid in quarterly installments beginning September 1, 2018;
- Each of the members of the Audit, Compensation and Management Resources, and Nominating and Corporate Governance Committees (excluding the Chairman of each of those committees), will each receive an additional cash retainer of $2, paid in quarterly installments beginning September 1, 2018; and
- Each non-employee director will receive an annual grant of RSUs with a value of $40, vesting in five equal annual installments, beginning with the first anniversary of the grant date.

Accordingly, on August 22, 2018, the Board issued 5,714 RSUs to each of the Company's six non-employee directors.

The following table summarizes RSU activity for the three and nine months ended September 30, 2018.

Restricted Stock Units	Number of Units	Weighted **Average Grant Date Fair Value**
Non-vested units, December 31, 2017	128,830	$ 6.27
Granted	–	–
Vested	–	–
Forfeited	–	–
Non-vested units, March 31, 2018	128,830	$ 6.27

Granted	136,054	$ 7.60
Vested	(6,666)	7.20
Forfeited	–	–
Non-vested units, June 30, 2018	258,218	$ 6.95
Granted	35,284	$ 7.00
Vested	–	–
Forfeited	–	–
Non-vested units, September 30, 2018	293,502	$ 6.95

Total stock based compensation expense for the nine months ended September 30, 2018 and 2017 was $236 and $13, respectively. As of September 30, 2018, total unrecognized stock compensation expense of $1,831 remains, which will be recognized through June 30, 2023.

There were no grants, exercises, or cancellations of the Company's common stock warrants for the three and nine months ended September 30, 2018. The following table summarizes the Company's warrants outstanding as of September 30, 2018.

Date of Grant	Exercise Price ($)	Expiration Date	Remaining Contractual Life (Years)	Number Outstanding **and Exercisable**
03/31/2014	9.60	03/31/2019	0.50	312,500
03/31/2014	10.00	03/31/2019	0.50	94,375
02/24/2015	15.00	02/24/2022	3.41	1,500,000
			Total	1,906,875

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11. Shareholders’ Equity

Sale of Common Stock to Chief Operating Officer

On September 14, 2017, the Company sold 28,000 shares of its common stock to our Chief Operating Officer, Dan Case, at a sale price of $8.00 per share, as previously discussed in Note 10.

Grant of Bonus Shares to Chief Financial Officer

On August 22, 2018, the Company’s Board of Directors granted 1,000 shares of the Company’s common stock Company’s Chief Financial Officer, Mr. Hill, as previously discussed in Note 10.

Offering of 8.00% Cumulative Preferred Stock, Series A

On February 28, 2018, we completed the underwritten public offering of 640,000 shares of the Preferred Stock designated as 8.00% Cumulative Preferred Stock, Series A, par value $25.00 per share. Also, on March 26, 2018, we issued an additional 60,000 shares of Preferred Stock pursuant to the exercise of the underwriters’ over-allotment option. Dividends on the Preferred Stock are cumulative from the date of original issue and are payable quarterly on the 15th day of March, June, September and December of each year, commencing on June 15, 2018 when, as and if declared by our Board of Directors or a duly authorized committee thereof. The first dividend record date for the Preferred Stock was on June 1, 2018. On June 15, 2018, the Company made its initial dividend payment to holders of record of Preferred Stock on June 1, 2018, in the amount of $408. On August 14, 2018, the Board declared a dividend payable to holders of record of Preferred Stock as of September 1, 2018. The dividend, in the amount of $350, was paid on September 17, 2018. On November 12, 2018, the Board declared a dividend payable to holders of record of Preferred Stock as of December 1, 2018. The dividend, in the amount of $350, will be paid on December 17, 2018. Dividends are payable out of amounts legally available therefor at a rate equal to 8.00% per annum per $25.00 of stated liquidation preference per share, or $2.00 per share of Preferred Stock per year.

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

Trading of the shares commenced on March 22, 2018 on the Nasdaq Stock Market under the symbol "PIHPP". Net proceeds received by the Company were approximately $16,500. The Company used $1,500 of the net proceeds to repurchase 60,000 shares of its Series B Preferred Stock from IWS Acquisition Corporation, as discussed under Note 12 – Related Party Transactions, with the remainder of the proceeds to be used to support organic growth, including spending for business development, sales and marketing and working capital, and for future potential acquisition opportunities.

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

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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 Kingsway America, Inc. ("KAI", a wholly owned subsidiary of KFSI), whereby KAI was 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 equaled or exceeded: (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 would have received 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 would have received 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 would have received 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). As of July 24, 2018, the date in which the PSGA was terminated as discussed below, the Company had not issued any shares under the PSGA.

On July 24, 2018, the Company entered into a Termination Agreement with KAI, pursuant to which KAI agreed to terminate the PSGA in exchange for a payment of $1,000, which has been recorded as a charge under the heading "Loss on repurchase of Series B Preferred Shares and Performance Shares" on the Company's statement of income for the three and nine months ended September 30, 2018. As a result of the Termination Agreement, KAI has no further rights to any of the performance share grants contemplated by the PSGA. Mr. Larry G. Swets, Jr., who is a director of the Company, also serves as a director of KFSI.

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

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

100,000 shares of the Company’s common stock issuable pursuant to the Performance Shares Grant Agreement dated February 24, 2015, and subject to the achievement of the Milestone Event (as defined below). The Performance Shares are no longer outstanding as they were repurchased by the Company on January 2, 2018, as discussed below;

120,000 shares of Series B Preferred Stock of the Company (the “Series B Preferred Shares”). The Series B Preferred Shares are no longer outstanding as they were repurchased by the Company on January 2, 2018 and February 28, 2018, as discussed below; and

A warrant (the “Warrant”) to purchase 1,500,000 shares of the Company’s common stock at an exercise price of $15.00 per share. The Warrant expires on February 24, 2022.

The Performance Shares Grant Agreement granted 1347 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 equaled or exceeded $10.00 per share for any 20 trading days within any 30-day trading period (the “Milestone Event”). 1347 Advisors was not entitled to any dividends declared or paid on the Company’s stock prior to the Milestone Event having been achieved. As described below, on January 2, 2018, the Performance Shares Grant Agreement was terminated. As the Milestone Event was never achieved, no shares of common stock were issued to 1347 Advisors under the agreement.

The Series B Preferred Shares had a par value of $25.00 dollars and paid annual cumulative dividends at a rate of eight percent per annum. The shares ranked senior to the Company’s common stock, and the Company was not permitted to issue any other series of preferred stock that ranked equal or senior to the Series B Preferred Shares while the Series B Preferred Shares were outstanding.

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As described below, through two transactions dated January 2, 2018 and February 28, 2018, all shares of Series B Preferred Shares have been repurchased by the Company.

Subsequent to the issuance of the Series B Preferred Shares, 1347 Advisors transferred 60,000 of its 120,000 Series B Preferred Shares to IWS Acquisition Corporation, an affiliate of KFSI. On January 2, 2018, the Company entered into a Stock Purchase Agreement with 1347 Advisors and IWS Acquisition Corporation, pursuant to which the Company repurchased 60,000 Series B Preferred Shares from 1347 Advisors for an aggregate purchase price of $1,740, representing (i) the par value of the Series B Preferred Shares, or $1,500; and (ii) declared and unpaid dividends with respect to the dividend payment due on February 23, 2018, or $240. Also in connection with the Stock Purchase Agreement, the Performance Shares Grant Agreement, dated February 24, 2015, between the Company and 1347 Advisors was terminated. In connection with the termination, the Company made a cash payment of $300 to 1347 Advisors. Upon termination of the MSA Agreement, the Company recorded an increase of approximately $54 to additional paid in capital, representing the estimated fair value of the Performance Share Grant Agreement on the grant date. Upon the termination of the Performance Share Grant Agreement, we compared the amount previously recorded in additional paid in capital to the amount paid to terminate the agreement, resulting in a reversal of the $54 originally recorded to additional paid in capital as well as a charge of $246 recorded to “Loss on repurchase of Series B Preferred Shares and Performance Shares” on the Company’s statement of income for the nine months ended September 30, 2018.

Pursuant to the Stock Purchase Agreement, the Company also agreed to repurchase the remaining 60,000 Series B Preferred Shares from IWS Acquisition Corporation for an aggregate purchase price of $1,500, upon the completion of a capital raise resulting in the Company receiving net proceeds in excess of $5,000. On February 28, 2018, the Company purchased the remaining 60,000 Series B Preferred Shares from IWS Acquisition Corporation for $1,500 with the proceeds from the offering of the Company’s 8.00% Cumulative Preferred Stock, Series A (the “Preferred Stock”) offering (discussed under Note 11 – Shareholders’ Equity).

The Company applied the guidance outlined in ASC 480 – *Distinguishing Liabilities from Equity* in recording the issuance of the Series B Preferred Shares. Due to the fact that the shares had a mandatory redemption date of February 24, 2020, applicable guidance required that we classify the shares as a liability on our consolidated balance sheet, rather than recording the value of the shares in equity. The resulting liability was recorded at a discount to the $4,200 redemption amount plus dividends expected to be paid on the shares while outstanding, discounted for the Company’s estimated cost of equity (13.9%). As a result, total amortization in the amount of $0 and $93 was charged to operations for the three months ended September 30, 2018 and 2017, respectively. Upon our repurchase of the Series B Preferred Shares in both January and February 2018, we compared the amortized carrying amount of the liability to the amount paid to repurchase the shares, resulting in a charge of $366 to “Loss on repurchase of Series B Preferred Shares and Performance Shares” on the Company’s statement of income for the nine months ended September 30, 2018.

Investment in Limited Liability Company and Limited Partnerships

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

Also, on June 18, 2018, the Company invested $2,219 as a limited partner in Metrolina Property Income Fund, LP (the "Fund"). The general partner of the Fund, FGI Metrolina GP, LLC, is managed, in part, by Messrs. Cerminara and Johnson, the Chairman and Co-Chairman of the Board of Directors of the Company, respectively. The Fund's investment program is managed by FGI Funds Management LLC, an affiliate of FGI, which, with its affiliates, is the largest shareholder of the Company. As of September 30, 2018, the Company's investment represents a 49.5% ownership stake in the Fund.

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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 and nine months ended September 30, 2018 and 2017.

	Three months ended September 30,		**Nine months ended September 30,**	
	2018	2017	2018	2017
Unrealized gains (losses) on available-for-sale securities:				
Balance, beginning of period	$(1,079)	$4	$(169)	$(65)
Other comprehensive income (loss) before reclassifications	(169)	40	(1,308)	187
Amounts reclassified from accumulated other comprehensive gains (losses)	–	(3)	63	(45)
Income tax expense (benefit)	36	(12)	235	(48)
Net current-period other comprehensive (loss) income	(133)	25	(1,010)	94
Reclassification of certain tax effects from accumulated other comprehensive loss	–	–	(33)	–
Balance, September 30	$(1,212)	$29	$(1,212)	$29

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

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

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Financial instruments measured at fair value as of September 30, 2018 and December 31, 2017 in accordance with this guidance are as follows.

September 30, 2018	Level 1	Level 2	Level 3	Total
Fixed income securities:				
U.S. government	$–	$7,834	$ –	$7,834
State municipalities and political subdivisions	–	6,352	–	6,352
Asset-backed securities and collateralized mortgage obligations	–	31,489	–	31,489
Corporate	–	27,916	–	27,916
Total fixed income securities	$–	$73,591	$ –	$73,591
Equity securities:				
Common stock	3,021	–	–	3,021
Warrants to purchase common stock	220	–	–	220
Rights to purchase common stock	94	–	–	94
Total equity securities	$3,335	$–	$ –	$3,335
Total fixed income and equity securities	$3,335	$73,591	$ –	$76,926
December 31, 2017				
Fixed income securities:				
U.S. government	$–	$2,698	$ –	$2,698
State municipalities and political subdivisions	–	5,907	–	5,907
Asset-backed securities and collateralized mortgage obligations	–	19,867	–	19,867
Corporate	–	22,650	–	22,650
Total fixed income securities	$–	$51,122	$ –	$51,122
Equity securities:				
Common stock	2,460	–	–	2,460
Warrants to purchase common stock	154	–	–	154
Rights to purchase common stock	93	–	–	93
Total equity securities	$2,707	$–	$ –	$2,707
Total fixed income and equity securities	$2,707	$51,122	$ –	$53,829

15. Variable Interest Entity

On June 18, 2018, the Company invested $2,219 in FGI Metrolina Property Income Fund, LP (the "Fund"), which intends to invest in real estate through a real estate investment trust which is wholly owned by the Fund. Upon analysis of the Fund's capital structure, related contractual relationships and terms, nature of the Fund's operations and purpose, as well as our involvement with the entity, we have determined that the Fund represents a variable interest entity (VIE) investment of the Company. Applicable guidance requires us to consolidate those VIEs where we are determined to be the primary beneficiary. The primary beneficiary is the entity that has both 1) the power to direct the activities of the VIE which most significantly affect the VIE's economic performance; and 2) the obligation to absorb losses or the right to receive the benefits that could be potentially significant to the VIE. The Company's investment in the Fund is that of a limited partner with a 49.5% ownership interest. As limited partners in the Fund do not have the authority to direct the operations of the Fund, we have determined we are not the primary beneficiary of the VIE, and, accordingly, have accounted for this investment under the equity method of accounting.

As of September 30, 2018 and December 31, 2017, the total assets of the Fund were $4,481 and $0, respectively. Our maximum exposure to loss associated with our investment in the Fund was $2,219 and $0 as of September 30, 2018 and December 31, 2017, respectively. The Company's maximum exposure to loss associated with the Fund is limited to our investment as we are under no further obligation to send additional capital, or cover losses of the Fund beyond that of our initial investment. Our investment of $2,219 and $0 is reflected on our balance sheet under the heading "Other investments" as of September 30, 2018 and December 31, 2017, respectively. Although it is not the Company's intent, should the Company's ownership percentage in the Fund exceed 50% of the total ownership interest in the Fund, we would be required to consolidate the Fund's financial statements with our results in future periods as we would be deemed to have a controlling interest in the Fund.

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16. Statutory Requirements

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

Statutory Surplus and Capital Requirements

In order to retain its certificates of authority in Louisiana and Florida, Maison is required to maintain a minimum capital surplus of $5,000 and $35,000, respectively. As of September 30, 2018, Maison's capital surplus was $35,633.

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 certificates of authority in Texas and Florida, Maison is required to maintain an RBC ratio of 300% or more. As of December 31, 2017, Maison's RBC ratio was 363%; as a result, our surplus was considered to be in the "no action" level.

States routinely require deposits of assets for the protection of policyholders either in those states or for all policyholders. As of September 30, 2018, Maison held certificates of deposit with an estimated fair value of approximately $100 and $300 as a deposit with the LDI and FOIR, respectively. Maison also held cash investment securities with an estimated fair value of approximately $1,961 as a deposit with the TDI.

Surplus Notes

PIH, as the parent company of Maison, is subject to the insurance holding company laws of the State of Louisiana, which, among other things, regulate the terms of surplus notes issued by insurers to their parent company. As of September 30, 2018, Maison's capital includes five surplus notes issued to PIH in the amount of $10,100, all of which were 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 September 30, 2018, are as follows.

Date of Issuance	Maturity Date	Principal Amount
December 21, 2015	December 21, 2019	850
September 29, 2016	September 29, 2020	3,450
November 14, 2016	November 14, 2018	550
September 28, 2017	September 28, 2019	2,950
December 28, 2017	December 28, 2019	2,300
		$ 10,100

Restrictions on Payments from our Subsidiary Companies

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

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17. Commercial Line of Credit Facility

On April 23, 2018, the Company and MMI (collectively, the "Borrowers") executed a Commercial Business Loan Agreement and related Promissory Note (collectively, the "Loan Agreement") with Hancock Bank, a trade name for Whitney Bank (the "Lender"). The Loan Agreement provides for a revolving line of credit of $5,000. The line of credit will expire on April 19, 2019, or such earlier date on which the line of credit shall have been terminated in accordance with the provisions of the Loan Agreement. Proceeds of borrowings under the Loan Agreement may be used to support working capital. The line of credit is secured by all accounts, equipment and general intangibles of the Borrowers, and all proceeds thereof.

Borrowings under the Loan Agreement will bear interest at a rate per annum equal to one-month LIBOR plus a margin of 3.00%. The line of credit is to be repaid in monthly payments of interest only, with all principal and interest to be payable in full at maturity. The Loan Agreement contains certain restrictive covenants customary for transactions of this type (subject to negotiated exceptions and baskets), including restrictions on liens, indebtedness, loans and guarantees, acquisitions and mergers, sales of assets, and stock repurchases. In addition, during the term of the Loan Agreement, the Borrowers are required to maintain (a) a maximum Premium/Surplus Ratio of Maison Insurance Company of 3.00 to 1.00, and (b) a minimum Demotech rating of Maison Insurance Company of "A" at all times.

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

As of September 30, 2018, the Company has not borrowed any funds under the Loan Agreement.

18. Commitments and Contingencies

Legal Proceedings:

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

Operating Lease Commitments:

On February 28, 2018, we entered into an agreement to lease space located at 8750 N. Central Expressway, Dallas, Texas, 75231, which consists of approximately 3,000 square feet of office space. The lease term runs through April, 2021, with an option to extend the lease for an additional three year term subject to certain conditions. Rent is payable in monthly installments of approximately $6,000 and escalates by approximately 2% annually.

As of September 30, 2018, the Company had the following amounts due under its operating leases for facilities leased in Baton Rouge, Louisiana, Tampa, Florida, and Dallas, Texas.

Year ending September 30,	
2019	$449
2020	180
2021	64
2022 and thereafter	–
	$693

Capital Lease Commitments:

In March 2018, we entered into a master agreement to lease vehicles for the use of our sales representatives in Louisiana, Texas and Florida, which have been recorded as capital leases having a carrying value of approximately $164, which are reflected in "Property and equipment" in the Company's balance sheet as of September 30, 2018. Future minimum lease payments, together with the present value of the net minimum lease payments as of September 30, 2018, are presented in the following table.

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Year ending September 30,	
2019	$57
2020	57
2021	39
Total minimum lease payments	153
Less: amount representing estimated executory costs included in total minimum lease payments	–
Net minimum lease payments	153
Less: amount representing interest	25
Present value of minimum lease payments	$128

The present value of the minimum lease payments of $128 has been recorded as a liability on the Company's balance sheet, included in "Accounts payable and other accrued expenses" as of September 30, 2018.

19. Subsequent Events

On October 10, 2018, Hurricane Michael made landfall near Mexico Beach, Florida, as a Category 4 hurricane as the thirteenth named storm of the 2018 Atlantic hurricane season. Although the Company insures properties from the peril of wind throughout the State of Florida, its exposure in the panhandle area of the State that experienced the most significant damage from the storm was minimal such that we anticipate that both our gross and net incurred losses from the storm, at this time, should not exceed $800, and thus not exceed the retention under our catastrophe excess of loss reinsurance program, which is currently $10,000.

Furthermore, on November 1, 2018, the Company's policyholders in East Texas and Louisiana experienced severe storms, which produced tornados and other wind damage throughout the region. The Company's current estimate of both gross and net incurred losses for these storms is not expected to exceed $1,200.

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

You should read the following discussion in conjunction with our consolidated financial statements and related notes and information included elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report for the year ended December 31, 2017 on Form 10-K filed with the Securities and Exchange Commission ("SEC") on March 26, 2018.

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

Emerging Growth Company

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

Cautionary Note about Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Sections 27A of the Securities Act of 1933, as amended, and 21E of the Securities Exchange Act of 1934, as amended. We use words such as “anticipate,” “estimate,” “plan,” “project,” “continuing,” “ongoing,” “expect,” “believe,” “intend,” “may,” “will,” “should,” similar expressions to identify forward-looking statements. Such forward-looking statements relate to future events or future performance, but reflect management’s current beliefs, based on information currently available. Although we believe that the plans, objectives, expectations, and prospects reflected in or suggested by our forward-looking statements are reasonable, those statements involve risks, uncertainties, and other factors that may cause our actual results, performance, or achievements to be materially different from any future results, performance, or achievements expressed or implied by these forward-looking statements, and we can give no assurance that our plans, objectives, expectations, and prospects will be achieved.

Important factors that may cause our actual results to differ materially from the results contemplated by the forward looking statements are contained in Item 1A. Risk Factors and elsewhere in the Company’s Form 10-K for the year ended December 31, 2017 and in our subsequent filings with the SEC, and include, among others, the following: (i) our limited operating history and status as an emerging growth company; (ii) lack of future opportunities to participate in take-out programs; (iii) the level of demand for our coverage and the incidence of catastrophic events related to such coverage, including the impact of climate change and our lack of geographic diversification; (iv) our ability to successfully implement our business strategy and expand our operations, including through acquisitions and development of new products; (v) changes in general economic, business, and industry conditions, including cyclical changes in the insurance industry; (vi) our ability to grow and remain profitable in the competitive insurance industry, including our lack of a rating from A.M. Best; (vii) legal, regulatory, and tax developments, including the effects of emerging claim and coverage issues and increased litigation against the insurance industry; (viii) legal actions brought against us; (ix) damage to our reputation; (x) adequacy of our insurance reserves; (xi) availability of reinsurance and ability of reinsurers to pay their obligations; (xii) the failure of our risk mitigation strategies or loss limitation methods; (xiii) our reliance on independent agents to write our insurance and other third parties; (xiv) our ability to maintain our public company status, exchange listing and effective internal control systems; (xv) data security breaches and other factors affecting our information technology systems; (xvi) our ability to attract and retain qualified employees, independent agents and brokers; (xvii) our ability to meet our obligations or obtain additional capital on favorable terms, or at all; (xviii) our ability to accurately price the risks that we underwrite; and (xix) restrictions on the use of our net operating loss carryforwards.

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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

We are an insurance holding company specialized in providing personal property insurance in coastal markets including those in Louisiana, Texas and Florida. These markets are characterized as regions where larger, national insurers have reduced their market share in favor of other, less catastrophe-exposed markets. These markets are also characterized by state-administered residual insurers controlling large market shares. These unique markets can trace their roots to Hurricane Andrew, after which larger national carriers limited their capital allocation and approaches to property risk aggregation. These trends accelerated again after back to back exceptionally active hurricane seasons in 2004 and 2005. However, the decade following Hurricane Katrina in 2005 had relatively few losses arising from tropical storm activity, which led to declines in reinsurance pricing and increases in its availability. We were incorporated on October 2, 2012 in the State of Delaware to take advantage of these favorable dynamics where premium could be acquired relatively more quickly and under less competitive pressure than in other property insurance markets and reinsurance, a significant expense for primary insurers, was declining from record high levels. We execute on this opportunity via a management team with expertise in the critical facets of our business: underwriting, claims, reinsurance, and operations. Within our three-state market, we seek to sell our products in territories with the highest rate per exposure and the least complexity in terms of risk. Further, we seek to leverage our increasingly geographically diverse insurance portfolio to gain efficiencies with respect to reinsurance. As of September 30, 2018, we covered risks on over 62,000 policies, an increase of over 51% from one year prior.

On November 19, 2013, we changed our legal name from Maison Insurance Holdings, Inc. to 1347 Property Insurance Holdings, Inc., and on March 31, 2014, we completed an initial public offering of our common stock. Prior to March 31, 2014, we were a wholly owned subsidiary of Kingsway America Inc., which, in turn, is a wholly owned subsidiary of Kingsway Financial Services Inc., or KFSI, a publicly owned holding company based in Canada. As of September 30, 2018, KFSI and its affiliates no longer held any of our outstanding shares of common stock, but did hold warrants that, if exercised, would cause KFSI and its affiliate to hold an approximate 20.0% ownership interest in our common stock. In addition, as of September 30, 2018, Fundamental Global Investors, LLC and its affiliates, or FGI, beneficially owned approximately 45.4% of our outstanding shares of common stock. D. Kyle Cerminara, Chairman of our Board of Directors, serves as Chief Executive Officer, Co-Founder and Partner of FGI, and Lewis M. Johnson, Co-Chairman of our Board of Directors, serves as President, Co-Founder and Partner of FGI.

We have three wholly-owned subsidiaries: Maison Insurance Company, or “Maison”, Maison Managers Inc., or “MMI”, and ClaimCor, LLC, or “ClaimCor”.

Through Maison, we began providing property and casualty insurance to individuals in Louisiana in December 2012. In September 2015, Maison began writing manufactured home policies in the State of Texas on a direct basis, and in December 2017, Maison began writing wind/hail only policies in Florida via the assumption of policies from Florida Citizens Property Insurance Corporation (“FL Citizens”). Our current insurance offerings in Louisiana, Texas, and Florida include homeowners insurance, manufactured home insurance and dwelling fire insurance. We write both full peril property policies as well as wind/hail only exposures and we produce new policies through a network of independent insurance agencies. We refer to the policies we write through independent agencies as voluntary policies versus those policies we have assumed through state-run insurers such as FL Citizens, which we refer to as take-out policies. We also wrote commercial business in Texas through a quota share agreement with Brotherhood Mutual Insurance Company (“Brotherhood”). Through this agreement, we had assumed wind/hail only exposures on certain churches and related structures that Brotherhood insures throughout the State of Texas. We discontinued this business effective January 1, 2018 as a result of our evaluation of the risk adjusted returns on this portion of our business.

Maison has also participated in the last six rounds of take-outs from Louisiana Citizens Property Insurance Corporation, or “LA Citizens”, occurring on December 1st of each year, as well as the inaugural depopulation of policies from the Texas Windstorm Insurance Association, or “TWIA”, which occurred on December 1, 2016. Under these programs, state-approved insurance companies, such as Maison, have the opportunity to assume insurance policies written by LA Citizens and TWIA. The majority of policies that we have obtained through LA Citizens as well as all of the policies we have obtained through TWIA cover losses arising only from wind and hail. Prior to our take-out, some of the LA Citizens and TWIA policyholders may not have been able to obtain such coverage from any other marketplace. As discussed below, due to the significant reduction of policies available when compared to those available for assumption in prior years, the Company will not participate in the December 1, 2018 assumption of policies from LA Citizens.

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On March 1, 2017, Maison received a certificate of authority from the Florida Office of Insurance Regulation, or FOIR, which authorized 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 FOIR 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 FOIR via the National Association of Insurance Commissioners electronic filing system. Among other requirements, the FOIR requires the following as conditions related to the issuance of Maison's certificate of authority:

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

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

Maison has agreed to receive prior approval from the FOIR prior to the payment of any dividends; and

Maison has agreed to receive written approval from the FOIR 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.

On September 29, 2017, Maison received authorization from the FOIR to assume personal lines policies from FL Citizens pursuant to a proposal of depopulation which Maison filed with FL Citizens on August 18, 2017. Accordingly, on December 19, 2017, Maison entered the Florida market via the assumption of 3,444 policies from FL Citizens covering the perils of wind and hail only. As of September 30, 2018, approximately 2,181 of these policies had renewed, becoming direct business for Maison, while approximately 867 policies remained under the assumption agreement with FL Citizens. On September 27, 2018, Maison was once again approved to take-out up to 9,563 personal, residential, wind-only policies from FL Citizens on the depopulation to occur on December 19, 2018.

MMI serves as our management services subsidiary, known as a managing general agency, and provides underwriting, policy administration, claims administration, marketing, accounting and other management services to Maison. MMI contracts primarily with independent agencies for policy sales and services, and also contracts with an independent third-party for policy administration services. As a managing general agency, MMI is licensed by, and subject to, the regulatory oversight of the LDI, TDI and FOIR. MMI earns commissions on a portion of the premiums Maison writes, as well as a per policy fee which ranges from $25-$75 for providing policy administration, marketing, reinsurance contract negotiation, and accounting and analytical services.

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

The Company has also received approval from its state regulators to form a captive reinsurance vehicle, which will provide Maison with $5,000 of coverage excess of $5,000 retention per event with an annual limit of $5,000. We have engaged Horseshoe Re Limited, a Bermuda-based insurance services firm, to facilitate the formation and administration of this vehicle.

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Business Strategy

Our primary goal is to continue to expand our property and casualty writings. Our goal for Louisiana, the first state where we began to offer insurance, has been to establish a market share of 2% to 3%. We plan to expand our writings in Louisiana and other states through:

Increasing our number of voluntary policies. We believe that ease of use enhancements for our web-based agent quoting portal as well as refining our product offerings has positioned us to continue to experience organic new policy growth through our independent agencies. Our goal is to continue to grow through strategic relationships with agencies in the states where we currently provide insurance and also potentially in new coastal markets in the United States. Our years of experience in coastal markets make us qualified to manage agent expectations and provide superior support and service for our policyholders.

Increasing our book of business through the depopulation of policies from state-run insurers. On December 19, 2017, we participated in the depopulation of wind/hail-only policies from FL Citizens, which has allowed us to quickly establish a significant presence in the State of Florida. We plan to participate in the December 2018 depopulation of policies from FL Citizens and continue to focus on wind/hail-only and other specialty products in the states of Florida, Louisiana, and Texas where we have extensive management experience.

Strategic acquisitions. We intend to explore growth opportunities through strategic acquisitions in coastal states, including Louisiana, Texas and Florida. We also plan to pursue complementary books of business provided they meet our underwriting criteria. We will evaluate each opportunity based on expected economic contribution to our results and support of our market expansion initiatives.

Attracting and retaining high-quality agents. We intend to focus our marketing efforts on maintaining and improving our relationships with highly productive independent agents, as well as on attracting new high quality agents in areas with a substantial potential for profitable growth.

Reducing our ratio of expenses to net premiums earned and using technology to increase our operating efficiency. We are committed to improving our profitability by reducing expenses through enhanced technologies and by increasing the number of policies that we write through the strategic deployment of our capital. We currently outsource our policy administration and a portion of our claims handling functions to third parties with our dedicated oversight and direction, which we believe results in increased service and lower expense and loss ratios.

The Company will continue to evaluate its existing book of business with an emphasis on risk-adjusted returns and rate adequacy. Accordingly, we have terminated our quota-share agreement with Brotherhood effective January 1, 2018 as a result of our evaluation of the risk-adjusted returns on this portion of our business.

Our Products

As of September 30, 2018, we covered risks on over 62,000 direct and assumed policies. Of these policies, approximately 60% of our policies are homeowner multi-peril, approximately 10% are manufactured home multi-peril policies, approximately 26% are wind/hail only policies, approximately 3% are multi-peril dwelling policies, and approximately 1% are dwelling fire policies.

Homeowners' Insurance

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

Wind/Hail Insurance

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

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Manufactured Home Insurance

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

Dwelling Fire Insurance

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

Our direct in-force policy counts as well as assumed policies as of September 30, 2018 and December 31, 2017 were as follows:

Source of Policies	Policies in-force as of September 30, 2018	December 31, 2017
Homeowners	36,780	23,283
Manufactured Homes	5,992	4,975
Other Dwellings	5,450	5,187

Total Voluntary Policies	48,222	33,445
Assumed through LA Citizens Depopulation Program	10,184	12,002
Assumed through FL Citizens Depopulation Program	3,048	3,444
Assumed through Brotherhood Quota-Share Agreement	–	1,035
Assumed through TWIA Quota-Share Agreement	662	745
Total Assumed Policies	13,894	17,226
Total all Policies	62,116	50,671

On May 3, 2018, the Louisiana State Legislature sent House Bill No. 333 (“HB 333”) to the Louisiana Governor for executive approval, which was signed by the Governor on May 11, 2018 and became effective on August 1, 2018. HB 333 amends the law with respect to the depopulation of policies from LA Citizens. Prior to the adoption of HB 333, LA Citizens was required to offer all of its in-force policies for removal to the voluntary market at least once per year and was further required to offer for depopulation policies with all available geographic and risk characteristics that served to reduce the exposure of LA Citizens. The amendments under HB 333 allow LA Citizens, with approval of its board of directors, to choose which of its in-force policies to depopulate and not necessarily offer all, or any of its policies for removal to the voluntary market. In July 2018, the Company was notified by LA Citizens of the number of policies which would be available for assumption by all insurers electing to participate in the December 1, 2018 depopulation under the new law. Due to the significant reduction of policies available when compared to those available for assumption in prior years, the Company will not participate in the December 1, 2018 assumption of policies from LA Citizens.

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.

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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, the valuation of deferred policy acquisition costs and stock-based compensation expense.

Provision for Loss and Loss Adjustment Expense Reserves

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

Factors affecting the provision for loss and loss adjustment expense reserves include the continually evolving and changing regulatory and legal environment, actuarial studies, professional experience and expertise of the Company’s claims department personnel and independent adjusters retained to handle individual claims, the quality of the data used for projection purposes, existing claims management practices, including claims handling and settlement practices, the effect of inflationary trends on future loss settlement costs, court decisions, economic conditions and public attitudes.

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

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

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Valuation of Fixed Income and Equity Securities

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

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

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

The Company carries a net deferred income tax asset of $540 and $70 at September 30, 2018 and December 31, 2017, respectively, all of which the Company believes is more likely than not to be fully realized based upon management’s assessment of future taxable income.

Securities Issued to 1347 Advisors, LLC

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

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

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The Company estimated the fair value of the Warrants on the 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 were only issuable based upon the achievement of certain market conditions.

Deferred Policy Acquisition Costs

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

Stock-Based Compensation Expense

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

New Accounting Pronouncements

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

Analysis of Financial Condition

As of September 30, 2018 compared to December 31, 2017

Investments

The Company's investments in fixed income and equity securities are classified as available-for-sale and are reported at estimated fair value. The Company held an investments portfolio comprised primarily of fixed income securities issued by the U.S. Government, government agencies and high quality corporate issuers. The fixed income portfolio is managed by a third-party investment management firm in accordance with the investment policies and guidelines approved by the investment committee of the Company's Board of Directors. These guidelines stress the preservation of capital, market liquidity and the diversification of risk. Additionally, the Company's investment committee is in place to identify, evaluate and approve suitable investment opportunities for the Company. This has resulted in a number of equity investments managed by the committee that represent approximately 8.2% of the estimated fair value of Company's total investment portfolio as of September 30, 2018. 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.

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The table below summarizes, by type, the Company's investments as of September 30, 2018 and December 31, 2017.

Type of Investment	September 30, 2018 Carrying Amount	September 30, 2018 Percent of Total	December 31, 2017 Carrying Amount	December 31, 2017 Percent of Total
Fixed income securities:				
U.S. government	$7,834	9.7 %	$2,698	4.9 %
State municipalities and political subdivisions	6,352	7.8 %	5,907	10.7 %
Asset-backed securities and collateralized mortgage obligations	31,489	38.9 %	19,867	36.0 %
Corporate	27,916	34.5 %	22,650	41.0 %
Total fixed income securities	73,591	90.9 %	51,122	92.6 %
Equity securities:				
Common stock	3,021	3.7 %	2,460	4.4 %
Warrants to purchase common stock	220	0.3 %	154	0.3 %
Rights to purchase common stock	94	0.1 %	93	0.2 %
Total equity securities	3,335	4.1 %	2,707	4.9 %
Short-term investments	697	0.9 %	417	0.8 %
Other investments	3,295	4.1 %	945	1.7 %
Total investments	$80,918	100.0 %	$55,191	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 $2,001 and an estimated fair value of $1,961 as of September 30, 2018.

The Company's other investments are comprised of investments in a limited partnership and a limited liability company which seek to provide equity and asset-backed debt investment in a variety of privately-owned companies. The Company has committed to a total investment of $1,000, of which the two entities have drawn down approximately $776 through September 30, 2018. The limited liability company is managed by Argo Management Group, LLC, an entity which, as of April 21, 2016 is wholly owned by KFSI. The Company has accounted for these two investments under the cost method, as the investments do not have readily determinable fair values and the Company does not exercise significant influence over the operations of the investments or the underlying privately-owned companies.

Additionally, on June 18, 2018 the Company invested $2,219 in FGI Metrolina Property Income Fund, LP (the "Fund"), which intends to invest in real estate through a real estate investment trust which is wholly owned by the Fund. The general partner of the Fund, FGI Metrolina GP, LLC, is managed, in part, by Messrs. Cerminara and Johnson, the Chairman and Co-Chairman of the Board of Directors of the Company, respectively. The Company, a limited partner of the Fund, does not have a controlling financial interest in the Fund, but exerts significant influence over the entity's operating and financial policies as it owns an economic interest of approximately 49.5%. Accordingly, the Company has accounted for this investment under the equity method of accounting.

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 FOIR.

Liquidity and Cash Flow Risk

The table below summarizes the fair value of the Company's fixed income securities by contractual maturity as of September 30, 2018 and December 31, 2017. 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.

	September 30, 2018		December 31, 2017	
Matures in:	Carrying Amount	Percent of Total	Carrying Amount	Percent of Total
One year or less	$3,723	5.1 %	$1,525	3.0 %
More than one to five years	33,397	45.4 %	22,995	45.0 %
More than five to ten years	13,060	17.7 %	13,138	25.7 %
More than ten years	23,411	31.8 %	13,464	26.3 %
Total	$73,591	100.0 %	$51,122	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 that virtually all of the Company's investments are in U.S. dollar denominated instruments and the Company maintains a relatively small investment in equity instruments, its primary market risk exposures in the investments portfolio are to changes in interest rates.

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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 September 30, 2018 and December 31, 2017, the Company's debt securities had the following quality ratings as assigned by Standard and Poor's ("S&P") or Moody's Investors Service ("Moody's").

	September 30, 2018		December 31, 2017	
Rating (S&P/Moody's)	Carrying Amount	Percent of Total	Carrying Amount	Percent of Total
AAA/Aaa	$40,895	55.6 %	$24,188	47.3 %
Aa/Aa	7,033	9.6 %	6,322	12.4 %
A/A	14,643	19.9 %	13,651	26.7 %
BBB	11,020	14.9 %	6,961	13.6 %
Total fixed income securities	$73,591	100.0 %	$51,122	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.

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 and nine months ended September 30, 2018 and 2017.

As of September 30, 2018, the gross unrealized losses for equity securities amounted to $97, fixed income securities amounted to $1,698, and there were no unrealized losses attributable to non-investment grade fixed income securities. At both September 30, 2018 and December 31, 2017, 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 other policy processing fees that are directly related to successful efforts to acquire new or existing insurance policies to the extent they are considered recoverable and represent those costs related to acquiring the premiums the Company has yet to earn (the unearned premium reserve). DPAC increased $2,781, to $9,566 as of September 30, 2018 compared to $6,785 as of December 31, 2017, corresponding to an increase in our unearned premium reserves over the same period. DPAC expressed as a percentage of unearned premium reserves was 19.3% and 17.2% as of September 30, 2018 and December 31, 2017, respectively. On December 19, 2017, we participated in our first depopulation of policies from FL Citizens. Under the terms of its depopulation program, FL Citizens does not charge insurers a ceding commission for those premiums assumed, unlike LA Citizens and TWIA, which charge a ceding commission of 16% and approximately 22% of the premiums assumed from each entity, respectively. As of December 31, 2017, we had approximately $5,692 in unearned premium related to our depopulation of FL Citizens policies, with no corresponding acquisition costs related to commissions paid on these premiums. As these premiums are earned and also as these policies renew, as was the case during the nine months ended September 30, 2018, our DPAC cost to unearned premium ratio has increased. As of September 30, 2018, unearned premium related to our depopulation of FL Citizens policies was $300. As we expect to participate in the December 2018 depopulation of policies from FL Citizens, we anticipate this trend to somewhat repeat beginning in the fourth quarter 2018.

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Premiums Receivable, Net of Allowance for Doubtful Accounts

Premiums receivable, net of allowances for credit losses, decreased by $7,337 to $3,494 as of September 30, 2018 from $10,831 as of December 31, 2017, due, in large part, to our collection of premiums due to us from LA and FL Citizens as of December 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. Our catastrophe excess of loss ("CAT XOL") treaties, which run from June 1st of each year to May 31st of the following year, make up the majority of our ceded unearned premiums at both September 30, 2018 and December 31, 2017. As the ultimate amount of premium we will cede under our CAT XOL treaties is based upon the risks we cover as of September 30th of each treaty year, we must develop an estimate of the amounts due to our reinsurers at the inception of each treaty. Ceded premiums are earned by our reinsurers based upon actual amounts due for each treaty year, whereas cash payments made to our reinsurers are based upon an estimated schedule developed at the outset of each treaty year. At the end of each treaty year, estimated cash payments are reconciled with actual premiums due, and all premium balances are settled. This has resulted in the increase in the unearned portion of our ceded premiums year over year. We expect to cede approximately $33,900 in premiums under CAT XOL treaty year expiring May 31, 2019, compared to $24,800 for the treaty year which expired on May 31, 2018.

Reinsurance Recoverables

Reinsurance recoverable on both paid losses and loss reserves represents amounts due to the Company, or expected to be due to the Company from its reinsurers, based upon claims and claim reserves which have exceeded the retention amount under our reinsurance treaties. As of September 30, 2018, we have recorded an expected recovery of $4,903 on paid losses as well as $5,695 on loss and loss adjustment expense reserves, compared to $1,952 and $8,971, respectively, as of December 31, 2017. Our expected recoveries at both periods relate primarily to Hurricane Harvey, which impacted our policyholders in Texas and Louisiana in August, 2017. In 2018, we have revised our estimate of the ultimate gross losses we expect to incur from Hurricane Harvey to $27,900, from our estimate of $27,000 as of December 31, 2017. As our retention is $5,000 under our CAT XOL treaty, we expect to recover approximately $22,900 from our reinsurers from this event. As of September 30, 2018, we had collected $18,513, with the remaining

$1,352 recorded as a recoverable on paid losses and $3,035 recorded as a recoverable on loss and loss adjustment expense reserves.

Funds Deposited with Reinsured Companies

Funds deposited with reinsured companies represents collateral we have placed on deposit with Brotherhood based upon our quota-share agreement (which terminated on January 1, 2018) to reinsure a portion of Brotherhood's business for wind/hail coverage only. Our deposit decreased to $524 as of September 30, 2018 from $2,250 as of December 31, 2017 as we have applied the collateral placed on deposit to our quota-share portion of losses Brotherhood has paid during the nine months ended September 30, 2018 with respect to Hurricane Harvey, which impacted a number of churches Brotherhood insures on or near the Gulf Coast of Texas in August 2017. The losses we incur with respect to our quota share agreement with Brotherhood are subject to our CAT XOL treaty; thus we are able to include these Hurricane Harvey losses in the ultimate $22,900 that we expect to recover from our reinsurers as previously discussed under the heading "Reinsurance Recoverables".

Current Income Taxes Recoverable

Current income taxes recoverable were $1,370 as of September 30, 2018 compared to $64 as of December 31, 2017, representing the estimate of both the Company's state and federal income taxes due or receivable as of each date, less estimated payments made.

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Net Deferred Income Taxes

The Company's net deferred tax asset increased $470, to $540 as of September 30, 2018, from $70 as of December 31, 2017, due, in large part, to the increase in deferred tax assets associated with our unearned premium reserves as well as the unrealized losses on our bond portfolio. Net deferred income taxes are comprised of approximately $3,030 of deferred tax assets, net of approximately $2,490 of deferred tax liabilities as of September 30, 2018, compared to $2,073 of deferred tax assets, net of $2,003 of deferred tax liabilities as of December 31, 2017.

Property and Equipment

Property and equipment increased $138 to $343 as of September 30, 2018 compared to $205 as of December 31, 2017, due, in part, to the fact that the Company entered into vehicle lease agreements in the first quarter of 2018, which vehicles will be used by our sales representatives in Texas, Louisiana and Florida. Also included in property and equipment are computers, office equipment, and improvements at our leased facilities in Tampa, Florida and Baton Rouge, Louisiana, shown net of accumulated depreciation. 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 increased $247, to $1,135 as of September 30, 2018 from $888 as of December 31, 2017. The major components of other assets, and the change therein, are shown below.

Other Assets	September 30, 2018	December 31, 2017	Change
Accrued interest on investments	$ 384	$ 285	$ 99
Security deposits for facility leases	25	38	(13)
Prepaid expenses	707	556	151
Other	19	9	10
Total	$ 1,135	$ 888	$ 247

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”) gross of amounts expected to be recovered from reinsurance. The table below separates our loss reserves and LAE between IBNR and case specific estimates as of September 30, 2018 and December 31, 2017, 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
September 30, 2018						
Homeowners(1)	$ 5,369	$ 443	$ 5,812	$ 4,170	$ 9,982	$ 2,288
Special Property(2)	2,479	321	2,800	1,390	4,190	3,407
Total	$ 7,848	$ 764	$ 8,612	$ 5,560	$ 14,172	$ 5,695
December 31, 2017						
Homeowners	$ 2,438	$ 260	$ 2,698	$ 1,971	$ 4,669	$ 1,562
Special Property	5,307	103	5,410	3,409	8,819	7,409
Total	$ 7,745	$ 363	$ 8,108	$ 5,380	$ 13,488	$ 8,971

(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 wind/hail only business we had assumed through our agreement with Brotherhood and our personal wind/hail only business we have assumed through our agreements with LA Citizens, FL Citizens and TWIA.

Gross reserves as of September 30, 2018 were $14,172, an increase of $684 from December 31, 2017. As of September 30, 2018, gross reserves in the approximate amount of $3,035 have been established for PCS Catastrophe 1743, or Hurricane Harvey, a major storm which made initial landfall in the United States as a Category 4 hurricane near Rockport, Texas in August 2017, compared to gross reserves in the amount of $7,124 for Hurricane Harvey as of December 31, 2017. At December 31, 2017, we had anticipated our total incurred losses from Hurricane Harvey to be $27,000 on a gross basis, which we have revised to $27,900 as of September 30, 2018. After recoveries under our catastrophe excess of loss reinsurance program, our net incurred losses remain at $5,000 as of both periods; thus we experienced no net adverse development during the first nine months of 2018 as a result of Hurricane Harvey. Furthermore, we have released reserves from prior accident years (for losses unrelated to Hurricane Harvey), resulting in prior period redundancy of $123 for the current quarter and $1,922 for the nine months ended September 30, 2018. The reinsurance recoverable on reserves as of September 30, 2018 was $5,695, a decrease of $3,276 from December 31, 2017, due, in large part, to recoveries collected from our reinsurers under our catastrophe excess of loss program for Hurricane Harvey losses. As a result of the foregoing, net loss reserves were $8,477 and $4,517 as of September

30, 2018 and December 31, 2017, respectively.

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

Unearned Premium Reserves

Unearned premium reserves increased $9,941 to $49,464 as of September 30, 2018 compared to $39,523 as of December 31, 2017, which corresponds to the increase in premium we have written, particularly in the State of Texas, during the first nine months of 2018. The following table outlines the change in unearned premium reserves by state and by line of business.

	September 30, 2018	December 31, 2017	Change
Homeowners - LA	$ 17,451	$ 16,920	$531
Special Property - LA	8,836	9,050	(214)
Total Louisiana	26,287	25,970	317
Homeowners – TX	15,404	4,717	10,687
Special Property – TX	3,752	3,454	298
Total Texas	19,156	8,171	10,985
Special Property – FL	4,021	5,382	(1,361)
Total Florida	4,021	5,382	(1,361)
Unearned Premium Reserves	$ 49,464	$ 39,523	$9,941

Ceded Reinsurance Premiums Payable

Ceded reinsurance premiums payable increased $4,096, to $9,628 as of September 30, 2018 compared to $5,532 as of December 31, 2017. The bulk of the balance payable as of both dates represents quarterly installment payments due under our catastrophe reinsurance programs, which are paid in the first month of each quarter. See "Ceded Premiums Written" under the heading "Results of Operations" below for further information on the premium we have ceded under our reinsurance programs.

Agency Commissions Payable

Agency commissions payable increased $270 to $965 as of September 30, 2018 versus $695 as of December 31, 2017. As agency commissions are paid in arrears, this balance represents commissions owed to the Company's independent agencies on policies written throughout the months ended September 30, 2018 and, December 31, 2017 respectively. Since the commissions we pay to our independent agencies are based upon a percentage of the premium our agencies write, the balance due will vary directly with the volume of premium written each month.

Premiums Collected in Advance

Advance premium deposits increased $1,521 to $2,599 as of September 30, 2018 from $1,078 as of December 31, 2017, and represent cash the Company has received for policies which were not yet in-force as of September 30, 2018 and December 31, 2017, 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 the reserves we have established for losses and loss adjustment expenses as of December 31, 2017. As of September 30, 2018 deposits were $158, compared to $206 as of December 31, 2017. This balance decreased by $48 as a portion of the balance was applied to reinsurance recoveries due to us on paid losses during the nine months ended September 30, 2018.

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Accounts Payable and Other Accrued Expenses

Accounts payable and other accrued expenses increased $1,528, to $5,801 as of September 30, 2018 compared to $4,273 as of December 31, 2017. The largest driver of the change when comparing periods was the change in unearned policy fees, which correlates directly with the premium we write, and increased by $1,171 from December 31, 2017. The components of accounts payable and other accrued expenses, as well as the change therein, are shown below.

	September 30, 2018	December 31, 2017	Change
Accrued employee compensation	$ 112	$ 51	$ 61
Accrued professional fees	751	587	164
Unearned policy fees	1,625	454	1,171
Accrued premium taxes and assessments	2,355	2,703	(348)
Capital lease obligations	128	–	128
Other accounts payable	830	478	352
Total	$ 5,801	$ 4,273	$ 1,528

Related Party Transactions

Performance Share Grant Agreement

On March 26, 2014, the Company entered into a Performance Share Grant Agreement (“PSGA”) with Kingsway America, Inc. (“KAI”, a wholly owned subsidiary of KFSI), whereby KAI was 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 equaled or exceeded: (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 would have received 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 would have received 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 would have received

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). As of July 24, 2018, the date in which the PSGA was terminated as discussed below, the Company had not issued any shares under the PSGA.

On July 24, 2018, the Company entered into a Termination Agreement with KAI, pursuant to which KAI agreed to terminate the PSGA in exchange for a payment of $1,000, which has been recorded as a charge under the heading "Loss on repurchase of Series B Preferred Shares and Performance Shares" on the Company's statement of income for the three and nine months ended September 30, 2018. As a result of the Termination Agreement, KAI has no further rights to any of the performance share grants contemplated by the PSGA. Mr. Larry G. Swets, Jr., who is a director of the Company, also serves as a director of KFSI.

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

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

100,000 shares of the Company's common stock issuable pursuant to the Performance Shares Grant Agreement dated February 24, 2015, and subject to the achievement of the Milestone Event (as defined below). The Performance Shares are no longer outstanding as they were repurchased by the Company on January 2, 2018, as discussed below;

120,000 shares of Series B Preferred Stock of the Company (the "Series B Preferred Shares"). The Series B Preferred Shares are no longer outstanding as they were repurchased by the Company on January 2, 2018 and February 28, 2018, as discussed below; and

A warrant (the "Warrant") to purchase 1,500,000 shares of the Company's common stock at an exercise price of $15.00 per share. The Warrant expires on February 24, 2022.

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The Performance Shares Grant Agreement granted 1347 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 equaled or exceeded $10.00 per share for any 20 trading days within any 30-day trading period (the "Milestone Event"). 1347 Advisors was not entitled to any dividends declared or paid on the Company's stock prior to the Milestone Event having been achieved. As described below, on January 2, 2018, the Performance Shares Grant Agreement was terminated. As the Milestone Event was never achieved, no shares of common stock were issued to 1347 Advisors under the agreement.

The Series B Preferred Shares had a par value of $25.00 dollars and paid annual cumulative dividends at a rate of eight percent per annum. The shares ranked senior to the Company's common stock, and the Company was not permitted to issue any other series of preferred stock that ranked equal or senior to the Series B Preferred Shares while the Series B Preferred Shares were outstanding. On both February 24, 2017 and 2016, the Company issued a cash payment of $240 to 1347 Advisors representing the annual dividend payment due on the Series B Preferred Shares. As described below, through two transactions dated January 2, 2018 and February 28, 2018, all shares of Series B Preferred Shares have been repurchased by the Company.

Subsequent to the issuance of the Series B Preferred Shares, 1347 Advisors transferred 60,000 of its 120,000 Series B Preferred Shares to IWS Acquisition Corporation, an affiliate of KFSI. On January 2, 2018, the Company entered into a Stock Purchase Agreement with 1347 Advisors and IWS Acquisition Corporation, pursuant to which the Company repurchased 60,000 Series B Preferred Shares from 1347 Advisors for an aggregate purchase price of $1,740, representing (i) the par value of the Series B Preferred Shares, or $1,500; and (ii) declared and unpaid dividends with respect to the dividend payment due on February 23, 2018, or $240. Also in connection with the Stock Purchase Agreement, the Performance Shares Grant Agreement, dated February 24, 2015, between the Company and 1347 Advisors was terminated. In connection with the termination, the Company made a cash payment of $300 to 1347 Advisors. Upon termination of the MSA Agreement, the Company recorded an increase of approximately $54 to additional paid in capital, representing the estimated fair value of the Performance Share Grant Agreement on grant date. Upon the termination of the Performance Share Grant Agreement, we compared the amount previously recorded in additional paid in capital to the amount paid to terminate the agreement, resulting in a reversal of the $54 originally recorded to additional paid in capital as well as a charge of $246 recorded to "Loss on repurchase of Series B Preferred Shares and Performance Shares" on the Company's statement of income for the nine months ended September 30, 2018.

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

The Company applied the guidance outlined in ASC 480 – *Distinguishing Liabilities from Equity* in recording the issuance of the Series B Preferred Shares. Due to the fact that the shares had a mandatory redemption date of February 24, 2020, applicable guidance required that we classify the shares as a liability on our consolidated balance sheet, rather than recording the value of the shares in equity. The resulting liability was recorded at a discount to the $4,200 redemption amount plus dividends expected to be paid on the shares while outstanding, discounted for the Company's estimated cost of equity (13.9%). As a result, total amortization in the amount of $0 and $93 was charged to operations for the three months ended September 30, 2018 and 2017, respectively. Upon our repurchase of the Series B Preferred shares in both January and February 2018, we compared the amortized carrying amount of the liability to the amount paid to repurchase the shares, resulting in a charge of $366 to "Loss on repurchase of Series B Preferred Shares and Performance Shares" on the Company's statement of income for the nine months ended September 30, 2018.

Investment in Limited Liability Company and Limited Partnership

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

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Also, on June 18, 2018, the Company invested $2,219 as a limited partner in Metrolina Property Income Fund, LP (the "Fund"). The general partner of the Fund, FGI Metrolina GP, LLC, is managed, in part, by Messrs. Cerminara and Johnson, the Chairman and Co-Chairman of the Board of Directors of the Company, respectively. As of September 30, 2018, the Company's investment represents a 49.5% ownership stake in the Fund.

Public Offering of Preferred Stock

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

Contractual Obligations

As of September 30, 2018, the Company had the following amounts due under its operating and capital leases for its office facilities and equipment in Louisiana, Florida and Texas.

Year ending September 30,	Operating Leases	Capital Leases	Total
2019	$ 449	$ 57	$506
2020	180	57	237
2021	64	39	103
2022 and thereafter	–	–	–
Total	$ 693	$ 153	$846

Shareholders' Equity

Offering of 8.00% Cumulative Preferred Stock, Series A

On February 28, 2018, we completed the underwritten public offering of 640,000 preferred shares designated as 8.00% Cumulative Preferred Stock, Series A, par value $25.00 per share (the "Series A Preferred Stock"). In addition, on March 26, 2018, we issued an additional 60,000 shares of Series A Preferred Stock pursuant to the exercise of the underwriters' over-allotment option. Dividends on the Series A Preferred Stock are cumulative from the date of original issue and will be payable quarterly on the 15th day of March, June, September and December of each year, commencing on June 15, 2018, when, as and if declared by our Board of Directors or a duly authorized committee thereof. The first dividend record date for the Series A Preferred Stock was on June 1, 2018. On June 15, 2018, the Company made its initial dividend payment to holders of record of Preferred Stock on June 1, 2018, in the amount of $408. Also, on August 14, 2018, the Board declared a dividend payable to holders of record of Preferred Stock as of September 1, 2018. The dividend, in the amount of $350, was paid on September 17, 2018. On November 12, 2018, the Board declared a dividend payable to holders of record of Preferred Stock as of December 1, 2018. The dividend, in the amount of $350, will be paid on December 17, 2018. Dividends are payable out of amounts legally available therefor at a rate equal to 8.00% per annum per $25.00 of stated liquidation preference per share, or $2.00 per share of Preferred Stock per year.

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

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

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

	Preferred Shares Outstanding	Common Shares Outstanding	Treasury Shares	**Total Shareholders’ Equity**
Balance, January 1, 2018	–	5,984,766	151,359	$ 46,802
Issuance of Series A Preferred Stock	700,000	–	–	16,493
Repurchase of Performance Shares	–	–	–	(54)
Stock compensation expense	–	7,666	–	236
Net loss	–	–	–	(28)
Dividends declared on Series A Preferred Shares				(758)
Unrealized losses on investment portfolio (net of income taxes)	–	–	–	(1,010)
Balance, September 30, 2018	700,000	5,992,432	151,359	$ 61,681

Results of Operations

Three and Nine Months Ended September 30, 2018 Compared with Three and Nine Months Ended September 30, 2017

Gross Premiums Written

The following table shows our gross premiums written by state and by line of business for the three and nine months ended September 30, 2018 and 2017.

	Three months ended September 30,			Nine months ended September 30,		
Line of Business	2018	2017	Change	2018	2017	Change
Homeowners-LA	$8,935	$9,069	$(134)	$25,058	$25,540	$(482)
Special Property-LA	3,954	3,420	534	12,662	10,732	1,930
Total Louisiana	12,889	12,489	400	37,720	36,272	1,448
Homeowners-TX	9,170	2,206	6,964	22,568	4,934	17,634
Special Property-TX	1,620	2,468	(848)	5,690	7,611	(1,921)
Total Texas	10,790	4,674	6,116	28,258	12,545	15,713
Special Property-FL	2,608	–	2,608	4,605	–	4,605
Total Florida	2,608	–	2,608	4,605	–	4,605
Gross Premium Written	$26,287	$17,163	$9,124	$70,583	$48,817	$21,766

The increase in gross written premiums was primarily the result of organic growth in voluntary production from our independent agencies in Texas, as well as the assumption of premium through our depopulation of policies from FL Citizens.

Ceded Premiums Written

Ceded premiums written increased by $1,972 to $8,023 for the three months ended September 30, 2018, compared to $6,051 for the third quarter 2017. For the nine month periods ended September 30, 2018 and 2017, ceded written premiums were $23,541 and $16,426, respectively. The increase in ceded premiums written is primarily due to an increase in the total insured value of the Company's book of business year over year, the change in the geographic mix of coverage that we provide, as well as an increase in the limits purchased under our catastrophe excess of loss reinsurance ("CAT XOL"). The following table is a summary of the key provisions under the reinsurance treaties which covered the three and nine months ended September 30, 2018 and 2017.

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	2016/2017 CAT XOL Treaty 06/01/16 – 05/31/17	**2017/2018 CAT XOL Treaty 06/01/17 – 05/31/18**	**2018/2019 CAT XOL Treaty 06/01/18 – 05/31/19**
Wind/Hail loss occurrence clause(1)	144 hours	144 hours	144 hours
Retention on first occurrence	$5,000	$5,000	$10,000
Retention on second occurrence	$2,000	$2,000	$4,000
Limit of coverage including first event retention	$200,000	$200,000	$262,000
Franchise deductible(2)	$125	$250	N/A

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

(2) Specifies the gross incurred losses by which each 144 hour loss occurrence must exceed before recoveries are generated under our aggregate treaty. Once the franchise deductible is met, all losses under the loss occurrence qualify for recovery, not just those losses which exceed the franchise deductible amount. The Company did not purchase aggregate coverage for the 2018/2019 treaty year.

The total cost of our CAT XOL coverage is estimated to be approximately $33,900 for the 2018/2019 treaty year, based upon the exposures we insured as of September 30, 2018. In comparison, the total cost of our CAT XOL coverage for the 2017/2018 treaty year was approximately $24,800.

Net Premium Earned

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

	Three months ended September 30,			Nine months ended September 30,		
Line of Business	2018	2017	Change	2018	2017	Change
Homeowners-LA	$4,803	$5,566	$(763)	$15,927	$15,517	$410
Special Property-LA	1,867	1,610	257	7,282	4,745	2,537

Total Louisiana	6,670	7,176	(506)	23,209	20,262	2,947
Homeowners-TX	5,329	928	4,401	10,956	1,893	9,063
Special Property-TX	170	528	(358)	33	2,877	(2,844)
Total Texas	5,499	1,456	4,043	10,989	4,770	6,219
Special Property-FL	1,292	–	1,292	5,203	–	5,203
Total Florida	1,292	–	1,292	5,203	–	5,203
Net premium earned	$13,461	$8,632	$4,829	$39,401	$25,032	$14,369

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

	Three months ended September 30,			Nine months ended September 30,		
	2018	2017	Change	2018	2017	Change
Gross premium earned	$21,809	$14,907	$6,902	$60,642	$42,469	$18,173
Ceded premium earned	8,348	6,275	2,073	21,241	17,437	3,804
Net premium earned	$13,461	$8,632	$4,829	$39,401	$25,032	$14,369

Other Income

Other income increased $55 to $529 for the quarter ended September 30, 2018, compared to $474 for the same period in 2017. For the nine month periods ended September 30, 2018 and 2017, other income was $1,585 and $1,262, respectively. Other income is comprised of claims adjusting fee revenue earned by our subsidiary, ClaimCor, 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 (net losses and loss adjustment expenses divided by net premiums earned) for the periods presented.

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	Three months ended September 30, 2018		2017		Nine months ended September 30, 2018		2017	
	Losses ($)	**Loss Ratio (%)**	**Losses ($)**	**Loss Ratio (%)**	Losses ($)	Loss Ratio (%)	Losses ($)	Loss Ratio (%)
Catastrophe losses[1]	$1,800	13.4 %	$5,000	57.9 %	$6,800	17.3 %	$5,000	20.0 %
Weather-related non-cat losses	1,322	9.8 %	881	10.2 %	5,209	13.2 %	4,453	17.7 %
Non-weather related losses	5,657	42.0 %	2,836	32.9 %	9,687	24.6 %	6,500	26.0 %
Total current accident year losses	8,779	65.2 %	8,717	101.0%	21,696	55.1 %	15,953	63.7 %
Prior period redundancy[2]	(123)	(0.9)%	(922)	(10.7)%	(1,922)	(4.9)%	(2,144)	(8.5)%
Total net losses and LAE incurred	$8,656	64.3 %	$7,795	90.3 %	$19,774	50.2 %	$13,809	55.2 %

(1) Property Claims Services (PCS) defines a catastrophic event as an event where the insurance industry is estimated to incur over $25,000 of insured property damage that also impacts a significant number of insureds. For purposes of the above table, we have defined a Catastrophe loss as a PCS event where our estimated gross incurred loss exceeds $2,500. In prior periods, we had defined a Catastrophe loss as an event where our estimated gross incurred loss exceeded $1,500. Due to the general increase in the premiums we write year over year, we have determined $2,500 gross incurred losses to be a better indicator of a catastrophic event with respect to the exposures we currently insure. Prior year loss data has been restated to reflect this new definition.

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

Our net loss ratio for the quarter ended September 30, 2018 was 64.3% compared to 90.3% for the same quarter last year. Our net loss ratio for the third quarter 2017 was negatively affected by Hurricane Harvey, which exceeded the retention of our CAT XOL program then in place, resulting in $5,000 in catastrophe losses for the quarter. In comparison, catastrophe losses for the third quarter 2018 were $1,800, resulting primarily from loss development on a severe hailstorm in Dallas, TX and surrounding areas in the first week of June 2018. We anticipate our total incurred losses from this storm to be $6,800 on both a gross and net basis, as the retention on our CAT XOL program in place effective June 1, 2018 is $10,000.

We have also released reserves from prior accident years for both the quarters ended September 30, 2018 and 2017, resulting in a benefit to our current loss ratio of approximately 0.9% and 10.7%, respectively.

Amortization of Deferred Policy Acquisition Costs

Amortization of deferred acquisition costs for the quarter ended September 30, 2018 was $3,929, compared to $2,755 for the quarter ended September 30, 2017, and includes items such as commissions earned by our agencies, premium taxes, assessments, and policy processing fees. Expressed as a percentage of gross premiums earned, amortization was 18.1% for the third quarter, 2018, compared to 18.5% for the third quarter, 2017. For the nine month periods ended September 30, 2018 and 2017, this ratio was 17.9% and 18.5%, respectively. On December 19, 2017, we participated in our first depopulation of policies from FL Citizens. Under the terms of its depopulation program, FL Citizens does not charge insurers a ceding commission for those premiums assumed, unlike LA Citizens and TWIA, which charge a ceding commission of 16% and approximately 22% of the premiums assumed from each entity, respectively. As these premiums are earned, we expect that the ratio of deferred policy acquisition cost amortization to gross premiums earned will decrease, as was the case during the nine months ended September 30, 2018. Upon renewal of the policies which we have assumed from FL Citizens, however, we will pay our customary commission percentage to our independent agencies, which will be charged to deferred policy acquisition cost amortization throughout the coverage period of the renewal policies. These policies began to renew in April 2018, thus we anticipate that our deferred policy amortization ratio will continue to increase to 18%-19% of gross earned premium.

General and Administrative Expenses

General and administrative expenses increased $1,373 to $3,518 for the quarter ended September 30, 2018, compared to $2,145 for the quarter ended September 30, 2017. Expressed as a percentage of gross premium earned, general and administrative expenses were 16.1% and 14.4%, respectively. The largest driver in the increase in general and administrative expense were fees associated with preparing surveys and underwriting reports on the properties that we insure or potentially insure. Additionally, we have restructured our CAT XOL reinsurance treaty effective June 1, 2018 such that the costs of brokerage paid to place the treaties are charged to general and administrative expense, rather than being treated as premium ceded, as in past treaty years. This has resulted in an additional $266 in general and administrative expense when comparing quarters, or 1.2% of gross premium earned for the quarter ended September 30, 2018. We have also undergone enhancements to our policy processing and administration systems, which resulted in third party programming and testing fees in the quarter ended September 30, 2018.

Series B Preferred Shares and Performance Shares

As previously discussed under the heading “Related Party Transactions,” we recorded amortization charges of $33 and $276, as well as a charge of $1,612 and $0, for the nine months ended September 30, 2018 and 2017, respectively, which were related to our issuance and repurchase of our Series B Preferred Shares and our Performance Shares.

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Income Tax Expense

Income tax expense for the nine months ended September 30, 2018 was $4, on pretax losses of $24 compared to a tax benefit of $397 on pretax losses of $1,493 for the nine months ended September 30, 2017, resulting in an effective tax rate of (16.7)% and 26.6%, respectively. The passage of the Tax Cuts and Jobs Act on December 22, 2017 reduced the corporate federal income tax rate to 21% beginning January 1, 2018. Our actual effective tax rate varies from the statutory federal income tax rates as shown in the following table.

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Statutory federal income tax rate	21.0%	34.0%	21.0 %	34.0%
State income tax (net of federal tax benefit)	0.4 %	0.2 %	27.0 %	(7.0)%
Non-deductible expenses	(0.1)%	(0.1)%	(64.7)%	(0.4)%
Effective rate for income taxes	21.3%	34.1%	(16.7)%	26.6%

Net Income

As a result of the foregoing, the Company's net loss for the third quarter 2018 was $2,114, or $(0.41) per diluted share after deducting dividends paid on our preferred shares in the amount of $350, compared to a loss of $2,263, or $(0.38) per diluted share for the third quarter of 2017. For the nine months ended September 30, 2018 and 2017, net loss was $28, or $(0.13) per diluted share and $1,096, or $(0.18) per diluted share, respectively.

Weather Related Losses Subsequent to September 30, 2018

On October 10, 2018, Hurricane Michael made landfall near Mexico Beach, Florida, as a Category 4 hurricane as the thirteenth named storm of the 2018 Atlantic hurricane season. Although the Company insures properties from the peril of wind throughout the State of Florida, its exposure in the panhandle area of the State that experienced the most significant damage from the storm was minimal such that we anticipate that both our gross and net incurred losses from the storm, at this time, should not exceed $800, and thus not exceed the retention under our catastrophe excess of loss reinsurance program, which is currently $10,000.

Furthermore, on November 1, 2018, the Company's policyholders in East Texas and Louisiana experienced severe storms, which produced tornados and other wind damage throughout the region. The Company's current estimate of both gross and net incurred losses for these storms is not expected to exceed $1,200.

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

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

On April 23, 2018, the Company and MMI (collectively, the "Borrowers") executed a $5,000 Commercial Business Loan Agreement and related Promissory Note (collectively, the "Loan Agreement") with Hancock Bank, a trade name for Whitney Bank (the "Lender"). The Loan Agreement provides for a revolving line of credit of $5,000. The line of credit will expire on April 19, 2019, or such earlier date on which the line of credit shall have been terminated in accordance with the provisions of the Loan Agreement. Proceeds of borrowings under the Loan Agreement may be used to support working capital. The line of credit is secured by all accounts, equipment and general intangibles of the Borrowers, and all proceeds thereof.

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Borrowings under the Loan Agreement will bear interest at a rate per annum equal to one-month LIBOR plus a margin of 3.00%. The line of credit is to be repaid in monthly payments of interest only, with all principal and interest to be payable in full at maturity. The Loan Agreement contains certain restrictive covenants customary for transactions of this type (subject to negotiated exceptions and baskets), including restrictions on liens, indebtedness, loans and guarantees, acquisitions and mergers, sales of assets, and stock repurchases. In addition, during the term of the Loan Agreement, the Borrowers are required to maintain (a) a maximum Premium/Surplus Ratio of Maison Insurance Company of 3.00 to 1.00, and (b) a minimum Demotech rating of Maison Insurance Company of "A" at all times.

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

As of September 30, 2018, the Company had not borrowed any funds under the Loan Agreement.

Cash Flows

The following table summarizes the Company's consolidated cash flows for the nine months ended September 30, 2018 and 2017.

	Nine months ended September 30,	
Summary of Cash Flows	2018	2017
Net cash provided by operating activities	$21,496	$3,832
Net cash used by investing activities	(27,187)	(21,182)
Net cash provided (used) by financing activities	12,140	(16)
Net increase (decrease) in cash and cash equivalents	$6,449	$(17,366)

Nine months ended September 30, 2018

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

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

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

Nine months ended September 30, 2017

For the nine months ended September 30, 2017, net cash provided by operating activities as reported on our consolidated statement of cash flows was $3,832, driven, in large, by our collection of approximately $34,411 in premiums for the period (net of the amounts that we have ceded to our reinsurers), less the payment of approximately $19,920 in loss and LAE expenses (net of ceded recoveries collected from our reinsurers). We also paid approximately $6,830 in commissions to our agencies, Brotherhood and Citizens (as ceding commissions), as well as cash payments in the approximate amount of $3,829 for taxes, assessments and general and administrative expenses.

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$ amounts in thousands, except per share data

Net cash used in investing activities as reported on our consolidated statement of cash flows was $21,182, driven primarily by the net purchases of fixed income and equity securities as well as short term investments for our investment portfolio. Net cash used in financing activities was $16, as a result of a dividend payment of $240 made to Advisors as holders of the Preferred Shares issued in the MSA termination transaction, net of $224 in proceeds from the sale of our common stock.

As a result of the foregoing, cash and cash equivalents decreased from $43,045 as of December 31, 2016 to $25,679 as of September 30, 2017.

Regulatory Capital

In the United States, a risk-based capital ("RBC") formula is used by the National Association of Insurance Commissioners ("NAIC") to identify property and casualty insurance companies that may not be adequately capitalized. Most states, including Louisiana, Texas and Florida, have adopted the NAIC RBC requirements. In general, insurers reporting surplus with respect to policyholders below 200% of the authorized control level, as defined by the NAIC, on December 31st of the previous year are subject to varying levels of regulatory action, which may include discontinuation of operations. As of December 31, 2017, Maison's reported surplus was considered to be in the "no action" level by the Louisiana and Texas Departments of Insurance, as well as the FOIR. Furthermore, pursuant to the consent order approving Maison's admission into the State of Texas, Maison has agreed to maintain a RBC ratio of 300% or more, and provide the calculation of such ratio to the TDI on a periodic basis. As of December 31, 2017, Maison's RBC ratio was 363%.

State Deposits

States routinely require deposits of assets for the protection of policyholders. As of September 30, 2018, Maison held certificates of deposit with an estimated fair value of approximately $100 and $300 as a deposit with the LDI and FOIR, respectively. Maison also held cash and investment securities with an estimated fair value of approximately $1,961 as of September 30, 2018 as a deposit with the TDI.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company's management performed an evaluation under the supervision and with the participation of the Company's principal executive officer and principal financial officer of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as such term is defined in Rules 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of September 30, 2018. Based upon this evaluation, the Company's principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms; and (ii) accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with this evaluation that occurred during the quarter ended September 30, 2018 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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$ amounts in thousands, except per share data

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, 2017 filed with the SEC on March 26, 2018.

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

Performance Share Grant Agreement

On March 26, 2014, the Company entered into a Performance Share Grant Agreement (“PSGA”) with Kingsway America, Inc. (“KAI”, a wholly owned subsidiary of KFSI), whereby KAI was 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 equaled or exceeded: (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 would have received 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 would have received 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 would have received 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). As of September 30, 2018, the Company had not issued any shares under the PSGA.

On July 24, 2018, the Company entered into a Termination Agreement with KAI. Pursuant to the Termination Agreement, KAI agreed to terminate the PSGA in exchange for the payment by the Company to KAI of $1,000. As a result of the Termination Agreement, KAI will have no further rights to any of the performance share grants contemplated by the PSGA. Mr. Larry G. Swets, Jr., who is a director of the Company, also serves as a director of KFSI.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

Exhibit	**Description**
3.1	Third Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.2 of Registrant's Registration Statement on Form S-1/A filed with the Commission on January 30, 2014).
3.2	Second Amended and Restated Bylaws (incorporated by reference to Exhibit 3.3 of Registrant's Registration Statement on Form S-1/A filed with the Commission on January 30, 2014).
3.3	Certificate of Elimination of Certificate of Designations of Series B Preferred Shares of 1347 Property Insurance Holdings, Inc. (incorporated by reference to Exhibit 3.1 of Registrant's Current Report on Form 8-K filed with the Commission on February 28, 2018).
3.4	Certificate of Designations of Cumulative Preferred Stock, Series A, of 1347 Property Insurance Holdings, Inc. (incorporated by reference to Exhibit 3.1 of Registrant's Current Report on Form 8-K filed with the Commission on February 26, 2018).
10.1†	Amended and Restated Executive Restricted Stock Unit Agreement Under Share Matching Program, dated August 22, 2018, by and between 1347 Property Insurance Holdings, Inc. and Daniel E. Case (incorporated by reference to Exhibit 10.3 of Registrant's Current Report on Form 8-K filed with the Commission on August 28, 2018).
10.2	Termination Agreement, dated July 24, 2018, by and between 1347 Property Insurance Holdings, Inc. and Kingsway America Inc. (incorporated by reference to Exhibit 10.1 of Registrant's Current Report on Form 8-K filed with the Commission on July 25, 2018).
10.3†	Form of Non-Employee Director Restricted Share Unit Agreement Under the 2018 Equity Incentive Plan (last updated August 2018).
10.4†	Form of Executive Restricted Share Unit Agreement for Share-Matching Grants Under the 2018 Equity Incentive Plan (last updated August 2018) (incorporated by reference to Exhibit 10.2 of Registrant's Current Report on Form 8-K filed with the Commission on August 28, 2018).
10.5†	Form of Executive Stock Grant Agreement Under the 2018 Equity Incentive Plan (last updated August 2018) (incorporated by reference to Exhibit 10.1 of Registrant's Current Report on Form 8-K filed with the Commission on August 28, 2018).
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	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.
32.2*	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.
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.

*Furnished

† Denotes management contracts or compensatory plans or arrangements.

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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.

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Date:	November 13, 2018	By:	*/s/ Douglas N. Raucy*
			Douglas N. Raucy, President, Chief Executive Officer (principal executive officer)
Date:	November 13, 2018	By:	*/s/ John S. Hill*
			John S. Hill, Vice President, Secretary and Chief Financial Officer (principal financial and accounting officer)

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