

KINGSWAY FINANCIAL SERVICES INC
Form 6-K
November 02, 2006
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U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON D.C. 20549

FORM 6-K

**REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 OF
THE SECURITIES EXCHANGE ACT OF 1934**

For the month of November, 2006.

KINGSWAY FINANCIAL SERVICES INC.

(Exact name of Registrant as specified in its charter)

ONTARIO, CANADA

(Province or other jurisdiction of incorporation or organization)

5310 Explorer Drive, Suite 200, Mississauga, Ontario, Canada L4W 5H8

(Address of principal executive offices)

[Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:]

Form 20-F _____ Form 40-F X

[Indicate by check mark whether the Registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:]

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Yes _____ No X

[If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):]

N/A

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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.

KINGSWAY FINANCIAL SERVICES INC.

Dated: November 2, 2006

By: /s/ W. Shaun Jackson
W. Shaun Jackson
Executive Vice President and
Chief Financial Officer

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KINGSWAY ANNOUNCES NEW DIRECTOR

Toronto, Ontario (November 2, 2006) (TSX:KFS, NYSE:KFS) William G. Star, President & Chief Executive Officer of Kingsway Financial Services Inc. is pleased to announce the appointment of Robert T. E. Gillespie to the Company's Board of Directors.

Mr. Gillespie is a graduate of the Heriot-Watt University in Edinburgh and the Harvard Business School. During his career, Mr. Gillespie was formerly the Chairman and Chief Executive Officer of General Electric Canada Inc. from 1992 to 2005. Mr. Gillespie also serves on the boards of several public and private companies as well as being an honorary trustee of the Royal Ontario Museum. He is a fellow of the Canadian Academy of Engineering and throughout his distinguished career received many awards including Canada's International Executive of the Year.

I am pleased to welcome Bob to the Board of Kingsway Financial, said Bill Star, Chairman and CEO. I am confident that his experience and business knowledge will bring additional strength and an extra dimension to our board.

About the Company

Kingsway Financial Services Inc. is one of the largest truck insurers and non-standard automobile insurers in North America based on A.M. Best data that we have compiled. Kingsway's primary business is trucking insurance and the insuring of automobile risks for drivers who do not meet the criteria for coverage by standard automobile insurers. The Company currently operates through eleven wholly-owned insurance subsidiaries in Canada and the U.S.. Canadian subsidiaries include Kingsway General Insurance Company, York Fire & Casualty Insurance Company and Jevco Insurance Company. U.S. subsidiaries include Universal Casualty Company, American Service Insurance Company, Southern United Fire Insurance Company, Lincoln General Insurance Company, U.S. Security Insurance Company, American Country Insurance Company, Zephyr Insurance Company and Avalon Risk Management, Inc. The Company also operates reinsurance subsidiaries in Barbados and Bermuda.

Lincoln General Insurance Company, Universal Casualty Insurance Company, American Service Insurance Company, Southern United Fire Insurance Company, Jevco Insurance Company, Kingsway Reinsurance Corporation, Barbados and Kingsway Reinsurance (Bermuda) Ltd. are all rated A- (Excellent) by A.M. Best. Kingsway General and York Fire are rated B++ (Very Good) and American Country and U.S. Security are rated B+ (Very Good) by A.M. Best. The Company's senior debt is rated investment grade BBB- (stable) by Standard and Poor's and A.M. Best and BBB (stable) by Dominion Bond Rating Services. The common shares of Kingsway Financial Services Inc. are listed on the Toronto Stock Exchange and the New York Stock Exchange, under the trading symbol KFS.

For further information, please contact:

Shaun Jackson

Executive Vice President and Chief Financial Officer

Tel: (905) 629-7888

Fax: (905) 629-5008

Web Site: www.kingsway-financial.com

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KINGSWAY REPORTS 19% INCREASE IN NET INCOME AND INCREASES DIVIDEND

Toronto, Ontario (November 2, 2006) Kingsway Financial Services Inc. (TSE:KFS, NYSE:KFS) today announced financial results in **U.S. dollars** for the third quarter ended September 30, 2006.

Q3 2006 compared to Q3 2005

Net income increased 19% to \$37.4 million compared to \$31.3 million

Operating earnings¹ increased 37% to \$31.9 million

Diluted earnings per share increased 20% to \$0.66 compared with \$0.55

Combined ratio improved to 97.2% compared to 97.8% in Q3 2005

Underwriting profit improved to \$12.7 million compared to \$10.0 million last year

Gross premiums written increased 7% to \$483.9 million

Investment income increased 40% to \$31.5 million

Annualized return on equity of 16.8%

Book value per share increased 18% to \$16.14 from \$13.65 at Q3 2005

Net income increased by 19% in the quarter to a third quarter record of \$37.4 million (C\$41.9 million), compared to \$31.3 million (C\$37.5 million) in the third quarter of last year. Net income for the nine months ended September 30, 2006 increased 7% to \$106.5 million (C\$120.2 million) compared to \$99.1 million (C\$121.0 million) reported last year.

In the third quarter, operating earnings¹ increased 37% to a third quarter record of \$31.9 million (C\$35.8 million) compared to \$23.3 million (C\$28.0 million) in the same quarter last year. Operating earnings for the first nine months of 2006 increased 24% to \$95.1 million (C\$107.5 million) compared to \$76.8 million (C\$94.0 million) for the same period last year.

Return on equity (annualized) was 16.8% in the quarter compared to 16.7% in the same quarter of 2005, and 16.6% for the year to date compared to 18.4% for the same period last year. Diluted earnings per share increased 20% to \$0.66 (C\$0.74) for the quarter compared to \$0.55 (C\$0.66) for the third quarter of 2005. For the nine month period, diluted earnings per share increased by 7% to \$1.87 (C\$2.11) compared to \$1.74 (C\$2.13) for the same period last year.

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Revenues and earnings continue to grow in line with our expectations, said Bill Star, President & Chief Executive Officer. Strong operating results, in particular, from our Canadian operations and increased investment income have resulted in a solid third quarter and first nine months of 2006. Our growth in earnings and excellent return on equity have also increased our capital strength, while reducing Kingsway's operating leverage. Market conditions continue to be competitive, but we are starting to see indications of improvements, particularly in the U.S.. Consistent with our operating strategy, we expect to continue to seize opportunities for profitable growth as they arise.

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1. Measures used in this news release that are not based on generally accepted accounting principles (non-GAAP) are defined at the end of this release and reconciled to the most comparable GAAP measure.

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Premium Growth

During the third quarter of 2006, gross premiums written increased 7% to \$483.9 million (C\$542.6 million), compared with \$452.3 million (C\$543.9 million) in the third quarter last year. Gross premiums written increased 5% to \$1.52 billion (C\$1.73 billion) for the first nine months of 2006, compared to \$1.46 billion (C\$1.78 billion) for the same period last year. In the quarter, U.S. operations comprised 68% (69% year to date) of gross premiums written, compared with 65% (67% year to date) in the third quarter last year. Trucking, non-standard automobile and commercial automobile premiums comprised 32%, 26% and 13%, respectively, of gross premiums written compared with 30%, 29% and 13% last year.

For the quarter, gross premiums written from U.S. operations increased 13% to \$329.3 million (C\$369.3 million) compared with \$292.2 million (C\$351.4 million) last year. For the nine months, gross premiums written by U.S. operations increased 8% to \$1.05 billion (C\$1.19 billion) compared to \$980.0 million (C\$1.20 billion) last year. Gross premiums written from Canadian operations decreased 3% to \$154.6 million (C\$173.3 million) for the quarter, compared to \$160.1 million (C\$192.5 million) in Q3 last year and for the year to date were \$469.8 million (C\$531.0 million) compared to \$475.4 million (C\$582.3 million) for the same period last year.

Net premiums written were \$444.7 million (C\$498.6 million) compared with \$442.5 million (C\$532.3 million) for the third quarter of last year and were \$1.42 billion (C\$1.61 billion) for the first nine months compared to \$1.42 billion (C\$1.74 billion) for the first nine months of 2005.

Net premiums earned decreased 1% to \$458.3 million (C\$513.9 million) for the quarter, compared with \$461.4 million (C\$554.6 million) for the third quarter last year. For the first nine months of 2006, net premiums earned were \$1.34 billion (C\$1.52 billion) compared with \$1.35 billion (C\$1.65 billion) in the same period last year. For the U.S. operations, net premiums earned increased 3% to \$305.9 million (C\$343.1 million) compared with \$297.8 million (C\$358.0 million) in the third quarter of 2005. Net premiums earned from Canadian operations decreased by 7% to \$152.4 million (C\$170.8 million) compared with \$163.6 million (C\$196.6 million) last year. For the year to date, net premiums earned from U.S. operations were \$906.5 million (C\$1.03 billion) compared to \$905.4 million (C\$1.11 billion) last year, and for the Canadian operations were \$435.0 million (C\$492.3 million) and \$441.2 million (C\$539.7 million), respectively.

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Underwriting Profit & Combined Ratio

The combined ratio for the third quarter was 97.2% (97.1% year to date) which produced a quarterly underwriting profit of \$12.7 million (C\$14.2 million) and \$38.8 million (C\$44.0 million) year to date. The Company increased its net estimates for unpaid claims occurring in prior periods by \$9.0 million, which increased the combined ratio by 2.0% in the quarter (0.8% year to date) primarily as a result of program business in the United States. The Canadian operations reported favourable reserve development in the quarter and year to date. Increases in professional fees related to Sarbanes-Oxley, audit and litigation costs account for a 1.3% (0.6% year to date) increase to the general expense ratio for the third quarter.

For the quarter, the U.S. operations combined ratio was 99.3% (97.7% Q3 last year) which produced an underwriting profit of \$2.1 million (\$6.7 million Q3 last year) and the Canadian operations improved to 93.0% (98.0% Q3 last year) which produced an underwriting profit of \$10.6 million (\$3.3 million Q3 last year). For the year to date, U.S. operations combined ratio was 98.7% (97.0% last year) which produced an underwriting profit of \$12.1 million (\$27.6 million last year) and for the Canadian operations was 93.9% (97.3% last year), with an underwriting profit of \$26.7 million (\$12.1 million last year).

Investment Income

Investment income, excluding net realized gains and losses, increased 40% to \$31.5 million (C\$35.3 million) compared with \$22.5 million (C\$26.9 million) for the same quarter of 2005. For the year to date investment income, excluding net realized gains and losses, increased by 33% to \$90.5 million (C\$102.3 million) compared to \$68.1 million (C\$83.3 million) last year. The yield before expenses on the fixed income portfolio was 4.5% for the third quarter (4.2% year to date) compared to 3.6% (3.6% year to date) for the same quarter last year.

For the quarter, net realized gains amounted to \$8.3 million (C\$9.3 million) compared with \$11.7 million (C\$13.8 million) in the third quarter of 2005. For the quarter net realized gains after tax were \$5.5 million (C\$6.1 million) compared with \$8.0 million (C\$9.5 million) in the third quarter of 2005.

For the year to date, net realized gains amounted to \$17.8 million (C\$19.7 million) compared with \$30.0 million (C\$36.3 million) for the same period last year. For the year to date net realized gains after tax were \$11.4 million (C\$12.6 million) compared with \$22.3 million (C\$27.0 million) for the same period last year.

For the quarter, there were no adjustments to the carrying value for declines in market value considered other than temporary (\$0.8 million in Q3 2005) on investments still held. Net realized gains include realized losses of \$8.5 million (\$3.6 million in Q3 2005). For the year, net realized gains include adjustments to the carrying value for declines in the market value considered other than temporary of \$2.5 million (\$2.9 million last year) on investments still held and realized losses of \$27.0 million (\$13.6 million last year).

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Net unrealized gains on the total investment portfolio were \$20.2 million (C\$22.6 million) or \$0.36 (C\$0.40) per share outstanding at September 30, 2006, as compared to net unrealized gains of \$18.2 million (C\$21.2 million) or \$0.32 (C\$0.37) per share outstanding at the end of 2005. Net unrealized gains on the common shares portfolio were \$30.0 million (C\$33.5 million) or \$0.53 (C\$0.60) per share outstanding at September 30, 2006 compared to \$40.1 million (C\$46.6 million) or \$0.71 (C\$0.83) per share outstanding at the end of 2005.

Balance Sheet

Total assets as at September 30, 2006 were \$4.11 billion (C\$4.64 billion) compared to \$3.80 billion (C\$4.44 billion) at the end of 2005. Book value per share increased by 18% to \$16.14 (C\$18.04) from \$13.65 (C\$15.87) as at September 30, 2005.

The carrying value of the investment portfolio including cash increased 6% to \$3.10 billion (C\$3.47 billion), compared to \$2.91 billion (C\$3.39 billion) as at December 31, 2005. At September 30, 2006, 23% of the fixed income portfolio matures in less than one year and 47% matures after one year and in less than five years. The fair value of the investment portfolio including cash was \$55.65 (C\$62.20) per common share at September 30, 2006.

During the quarter, provisions for unpaid claims increased by 5% to \$1.94 billion (C\$2.17 billion) compared to \$1.84 billion (C\$2.14 billion) at the end of 2005.

The Company has increased its investment in capital assets by \$29.0 million during the year, \$27.1 million of which is the result of the construction that continues on its new head office building in Mississauga and new facilities for Lincoln General in York, Pennsylvania. The head office building in Mississauga is scheduled for completion in the first quarter of 2007, and the York, Pennsylvania facility has been completed and is now occupied.

Normal Course Issuer Bid

During the quarter, the Company repurchased and cancelled 90,000 common shares under the normal course issuer bid for a total purchase price of \$1.9 million (C\$2.1 million). For the year to date, we have repurchased and cancelled 562,800 common shares or 1% of the shares outstanding at the beginning of the year for a total purchase price of \$11.1 million (C\$12.5 million) at an average price of \$19.66 (C\$22.13).

Quarterly Dividend

The Board of Directors today approved the payment of the Company's quarterly dividend to shareholders of C\$0.075 per common share. The dividend payment will be made on December 29, 2006 to shareholders of record as at December 15, 2006.

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Further Information

The discussion and analysis of our results of operation and information in this press release is an update of the information set forth in our 2005 Annual Report. Further information about our financial results and condition can be found in our Annual Report and other filings available on our website at www.kingsway-financial.com, on the Canadian Securities Administrators' website at www.sedar.com, and on the EDGAR section of the U.S. Securities and Exchange Commission's website at www.sec.gov.

Conference Call

The Company will have its quarterly conference call today at 5:00pm (EDT). The call may be accessed by telephone at 1-800-814-4861. A live broadcast of the conference call can be accessed at <http://www.newswire.ca/en/webcast/viewEvent.cgi?eventID=1613700> or through a link from our website at www.kingsway-financial.com. A rebroadcast of the conference call will also be available and can be accessed through our website.

Annual Investor Day

The Company will be hosting its annual Investor Day on Thursday, November 9, 2006 starting at 8:30am at the TSX Broadcast Centre located at The Exchange Tower, 2 First Canadian Place, Toronto, Ontario. Executives of Kingsway Financial and several of the subsidiaries will be speaking regarding their company's operations.

Forward Looking Statements

This press release includes forward looking statements that are subject to risks and uncertainties. For information identifying important factors that could cause actual results to differ materially from those anticipated in the forward looking statements, see Kingsway's securities filings, including its 2005 Annual Report under the heading Risks and Uncertainties in the Management's Discussion and Analysis section. The Company disclaims any intention or obligation to update or revise any forward looking statements, whether as a result of new information, future events or otherwise.

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About the Company

Kingsway Financial Services Inc. is one of the largest truck insurers and non-standard automobile insurers in North America based on A.M. Best data that we have compiled. Kingsway's primary business is trucking insurance and the insuring of automobile risks for drivers who do not meet the criteria for coverage by standard automobile insurers. The Company currently operates through eleven wholly-owned insurance subsidiaries in Canada and the U.S.. Canadian subsidiaries include Kingsway General Insurance Company, York Fire & Casualty Insurance Company and Jevco Insurance Company. U.S. subsidiaries include Universal Casualty Company, American Service Insurance Company, Southern United Fire Insurance Company, Lincoln General Insurance Company, U.S. Security Insurance Company, American Country Insurance Company, Zephyr Insurance Company and Avalon Risk Management, Inc. The Company also operates reinsurance subsidiaries in Barbados and Bermuda.

Lincoln General Insurance Company, Universal Casualty Insurance Company, American Service Insurance Company, Southern United Fire Insurance Company, Jevco Insurance Company, Kingsway Reinsurance Corporation, Barbados and Kingsway Reinsurance (Bermuda) Ltd. are all rated A- (Excellent) by A.M. Best. Kingsway General and York Fire are rated B++ (Very Good) and American Country and U.S. Security are rated B+ (Very Good) by A.M. Best. The Company's senior debt is rated investment grade BBB- (stable) by Standard and Poor's and A.M. Best and BBB (stable) by Dominion Bond Rating Services. The common shares of Kingsway Financial Services Inc. are listed on the Toronto Stock Exchange and the New York Stock Exchange, under the trading symbol KFS .

For further information, please contact:

W. Shaun Jackson

Executive Vice President and Chief Financial Officer

Tel: (905) 629-7888

Fax: (905) 629-5008

Web Site: www.kingsway-financial.com

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KINGSWAY FINANCIAL SERVICES INC.**CONSOLIDATED STATEMENTS OF OPERATIONS****For the three and nine months ended September 30, 2006 and 2005****(In thousands of U.S. dollars, except for per share amounts)**

	Quarter to Sept 30:		9 months to Sept 30:	
	2006	2005	2006	2005
	(unaudited)			
Gross premiums written	\$ 483,903	\$ 452,341	\$ 1,523,635	\$ 1,455,393
Net premiums written	\$ 444,666	\$ 442,517	\$ 1,422,961	\$ 1,420,928
Revenue:				
Net premiums earned	\$ 458,309	\$ 461,445	\$ 1,341,520	\$ 1,346,570
Investment income	31,518	22,455	90,470	68,102
Net realized gains	8,343	11,657	17,777	30,042
	498,170	495,557	1,449,767	1,444,714
Expenses:				
Claims incurred	309,818	309,865	914,989	917,305
Commissions and premium taxes	83,267	101,395	252,283	279,017
General and administrative expenses	52,512	40,163	135,434	110,561
Interest expense	7,607	6,884	22,417	18,855
Amortization of intangibles		130		389
	453,204	458,437	1,325,123	1,326,127
Income before income taxes	44,966	37,120	124,644	118,587
Income taxes	7,561	5,781	18,183	19,480
Net income	\$ 37,405	\$ 31,339	\$ 106,461	\$ 99,107
Earnings per share:				
Basic:	\$ 0.67	\$ 0.55	\$ 1.89	\$ 1.75
Diluted:	\$ 0.66	\$ 0.55	\$ 1.87	\$ 1.74
Weighted average shares outstanding:				
Basic:	56,095	56,467	56,292	56,405
Diluted:	56,664	56,965	56,966	56,857
Claims ratio	67.6%	67.1%	68.2%	68.1%
Expense ratio	29.6%	30.7%	28.9%	28.9%
Combined ratio	97.2%	97.8%	97.1%	97.0%
Underwriting profit	\$ 12,712	\$ 10,022	\$ 38,814	\$ 39,687
Return on equity (annualized)	16.8%	16.7%	16.6%	18.4%
Book value per share			\$ 16.14	\$ 13.65

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KINGSWAY FINANCIAL SERVICES INC.**CONSOLIDATED BALANCE SHEETS****(In thousands of U.S. dollars)**

	Sept. 30 2006 (unaudited)	Dec. 31 2005
ASSETS		
Cash and cash equivalents	\$ 37,655	\$ 111,034
Investments	3,062,754	2,803,790
Accrued investment income	27,863	25,126
Accounts receivable and other assets	343,887	282,764
Due from reinsurers and other insurers	229,045	222,974
Deferred policy acquisition costs	170,651	148,829
Income taxes recoverable	2,718	
Future income taxes	67,558	57,939
Capital assets	100,632	71,608
Goodwill and intangible assets	69,833	71,130
	\$ 4,112,596	\$ 3,795,194
LIABILITIES AND SHAREHOLDERS EQUITY		
LIABILITIES		
Bank indebtedness	\$ 37,119	\$ 11,767
Loans payable	66,222	66,222
Accounts payable and accrued liabilities	135,450	129,666
Income taxes payable		6,817
Unearned premiums	740,287	649,228
Unpaid claims	1,942,988	1,844,211
Senior unsecured debentures	194,786	192,068
Subordinated indebtedness	90,500	90,500
	3,207,352	2,990,479
SHAREHOLDERS EQUITY		
Share capital	329,649	331,470
<i>Issued and outstanding number of common shares</i>		
<i>56,073,722 September 30, 2006</i>		
<i>56,480,453 December 31, 2005</i>		
Contributed surplus	4,418	3,237
Currency translation adjustment	20,897	9,958
Retained earnings	550,280	460,050
	905,244	804,715
	\$ 4,112,596	\$ 3,795,194

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KINGSWAY FINANCIAL SERVICES INC.**CONSOLIDATED STATEMENTS OF RETAINED EARNINGS****For the three and nine months ended September 30, 2006 and 2005****(In thousands of U.S. dollars)**

	Quarter to Sept 30:	2005	9 months to Sept 30:	
	2006	2005	2006	2005
	(unaudited)			
Retained earnings, beginning of period	\$ 517,194	\$ 397,641	\$ 460,050	\$ 334,468
Net income for the period	37,405	31,339	106,461	99,107
Dividends	(3,138)	(2,398)	(9,341)	(6,993)
Repurchase of common shares for cancellation	(1,181)		(6,890)	
Retained earnings, end of period	\$ 550,280	\$ 426,582	\$ 550,280	\$ 426,582

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KINGSWAY FINANCIAL SERVICES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three and nine months ended September 30, 2006 and 2005

(In thousands of U.S. dollars)

	Quarter to Sept		9 months to Sept	
	30:		30:	
	2006	2005	2006	2005
Cash provided by (used in):			(unaudited)	
			&n	