Conifer Holdings, Inc.
Form 10-Q
September 14, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2015

OR

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

For the transition period from to

Commission file number 001-37536

Conifer Holdings, Inc.

(Exact name of registrant as specified in its charter)

Michigan (State or other jurisdiction of incorporation or organization)	**27-1298795** (I.R.S. Employer Identification No.)
550 West Merrill Street, Suite 200 **Birmingham, Michigan** (Address of principal executive offices)	**48009** (Zip code)

(248) 559-0840

(Registrant s telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark 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 o No x

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

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

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

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

The number of outstanding shares of the registrant s common stock, no par value, as of September 11, 2015 was 7,644,492.

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CONIFER HOLDINGS, INC. AND SUBSIDIARIES

Form 10-Q

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PART 1 - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

CONIFER HOLDINGS, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets (Unaudited)

(dollars in thousands)

	June 30, 2015	December 31, 2014
Assets		
Investment securities:		
Fixed maturity securities, at fair value (amortized cost $98,203 and $83,768 at June 30, 2015 and December 31, 2014, respectively)	$ 98,271	$ 84,405
Equity securities, at fair value (cost $3,176 and $2,965 at June 30, 2015 and December 31, 2014, respectively)	4,164	4,084
Short-term investments, at cost or amortized cost (approximates fair value)	6,237	16,749
Total investment securities	108,672	105,238
Cash	8,598	18,488
Premiums and agents balances receivable, net	15,434	14,478
Reinsurance recoverables on unpaid losses	5,022	3,224
Reinsurance recoverables on paid losses	1,249	1,915
Ceded unearned premiums	10,613	9,510
Deferred policy acquisition costs	7,659	5,679
Intangible assets, net	1,135	1,171
Goodwill	1,104	1,104
Other assets	4,192	2,931
Total assets	$ 163,678	$ 163,738
Liabilities and Equity		
Liabilities:		
Unpaid losses and loss adjustment expenses	$ 32,357	$ 31,531
Unearned premiums	44,484	43,381
Reinsurance premiums payable	2,699	7,069
Senior debt	27,462	27,562
Accounts payable and accrued expenses	4,383	2,521
Other liabilities	1,125	1,396
Total liabilities	112,510	113,460
Redeemable preferred stock, 1,000,000 shares authorized; 60,600 shares issued and outstanding at December 31, 2014		6,119
Shareholders equity:		
Preferred stock, 1,000,0000 shares authorized; 60,600 shares issued and outstanding at June 30, 2015	6,242	

Common stock, no par value, 12,240,000 shares authorized, issued and outstanding 4,050,042 shares and 3,995,013 shares at June 30, 2015 and December 31, 2014, respectively		46,443		46,119
Accumulated deficit		(2,053)		(3,095)
Accumulated other comprehensive income		459		1,158
Total shareholders equity attributable to Conifer		51,091		44,182
Noncontrolling interest		77		(23)
Total equity		51,168		44,159
Total liabilities and equity	$	163,678	$	163,738

See accompanying notes to condensed consolidated financial statements.

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CONIFER HOLDINGS, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations (Unaudited)

(dollars in thousands, except per share amounts)

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Revenue				
Gross written premiums	$ 23,059	$ 19,001	$ 44,263	$ 36,668
Ceded written premiums	(7,117)	(2,309)	(14,655)	(3,267)
Change in net unearned premiums	(827)	(2,735)		(6,769)
Net earned premiums	15,115	13,957	29,608	26,632
Net investment income	469	282	955	502
Net realized investment gains	87	81	232	172
Other income	480	505	969	1,037
Total revenue	16,151	14,825	31,764	28,343
Expenses				
Losses and loss adjustment expenses, net	8,976	9,686	17,546	20,262
Policy acquisition costs	2,639	3,519	5,234	6,750
Operating expenses	3,619	3,213	7,311	6,107
Interest expense	239	123	483	252
Total expenses	15,473	16,541	30,574	33,371
Income (loss) before income taxes	678	(1,716)	1,190	(5,028)
Income tax expense (benefit)	48	(191)	48	(309)
Net income (loss)	630	(1,525)	1,142	(4,719)
Less net income attributable to noncontrolling interest	51	11	100	46
Net income (loss) attributable to Conifer	$ 579	$ (1,536)	$ 1,042	$ (4,765)
Net income (loss) allocable to common shareholders	$ 366	$ (1,552)	$ 616	$ (4,792)
Income (loss) per share allocable to common shareholders, basic and diluted	$ 0.09	$ (0.66)	$ 0.15	$ (2.13)
Weighted average common shares outstanding, basic and diluted	4,050,042	2,357,220	4,045,482	2,248,599

See accompanying notes to condensed consolidated financial statements.

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CONIFER HOLDINGS, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

(dollars in thousands)

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Net income (loss)	$ 630	$ (1,525)	$ 1,142	$ (4,719)
Other comprehensive income (loss), net of tax:				
Unrealized investment gains (losses):				
Unrealized investment gains (losses) during the period	(977)	879	(274)	1,414
Income tax expense		299		481
Unrealized investment gains (losses), net of tax	(977)	580	(274)	933
Less: reclassification adjustments to:				
Net realized investment gains included in net income (loss)	208	318	425	506
Income tax expense (benefit)		108		172
Total reclassifications included in net income (loss), net of tax	208	210	425	334
Other comprehensive income (loss)	(1,185)	370	(699)	599
Total comprehensive income (loss)	(555)	(1,155)	443	(4,120)
Less comprehensive income attributable to noncontrolling interest	51	11	100	46
Comprehensive income (loss) attributable to Conifer	$ (606)	$ (1,166)	$ 343	$ (4,166)

See accompanying notes to condensed consolidated financial statements.

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CONIFER HOLDINGS, INC. AND SUBSIDIARIES

Condensed Consolidated Statement of Changes in Redeemable Preferred Stock and Equity (Unaudited)

(dollars in thousands)

	Redeemable Preferred Stock Shares	Redeemable Preferred Stock Amount	Preferred Stock Shares	Preferred Stock Amount	No Par, Common Stock Shares	No Par, Common Stock Amount	Retained Earnings (Accumulated deficit)	Accumulated Other Comprehensive Income (Loss)	Total Conifer Holdings Shareholders' Equity	Noncontrolling Interest	Total Equity
Balances at December 31, 2014	60,600	$ 6,119		$	3,995,013	$ 46,119	$ (3,095)	$ 1,158	$ 44,182	$ (23)	$ 44,159
Net income							1,042		1,042	100	1,142
Proceeds from issuance of common stock (Note 11)					55,029	750			750		750
Paid-in-kind dividends		61		62		(123)			(61)		(61)
Cash dividends paid on preferred stock						(303)			(303)		(303)
Reclassification of redeemable preferred stock to permanent equity (Note 12)	(60,600)	(6,180)	60,600	6,180					6,180		6,180
Other comprehensive income (loss)								(699)	(699)		(699)
Balances at June 30, 2015		$	60,600	$ 6,242	4,050,042	$ 46,443	$ (2,053)	$ 459	$ 51,091	$ 77	$ 51,168
Balances at December 31, 2013		$		$	1,749,626	$ 16,883	$ 3,851	$ 536	$ 21,270	$ (19)	$ 21,251
Net income (loss)							(4,765)		(4,765)	46	(4,719)
Issuance of common stock in capital raising activities (Note 11)					682,349	8,295			8,295		8,295
Conversion of note payable into shares of common stock (Note 16)					82,252	1,000			1,000		1,000
Issuance of shares of preferred stock (Note 11)			64,000	640					640		640
Cash dividends paid on preferred stock						(16)	(11)		(27)		(27)
Other comprehensive income								599	599		599
Balances at June 30, 2014		$	64,000	$ 640	2,514,227	$ 26,162	$ (925)	$ 1,135	$ 27,012	$ 27	$ 27,039

See accompanying notes to condensed consolidated financial statements.

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CONIFER HOLDINGS, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)

(dollars in thousands)

	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Cash Flows from Operating Activities		
Net income (loss)	$ 1,142	$ (4,719)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization of property and equipment, and intangibles	208	191
Amortization of bond premium and discount, net	279	258
Gains on investments	(232)	(172)
Deferred income taxes		(309)
Changes in operating assets and liabilities:		
Premiums and agents balances receivable	(956)	(478)
Reinsurance recoverables	(1,132)	(2,148)
Ceded unearned premiums	(1,103)	144
Deferred policy acquisition costs	(1,980)	(1,257)
Other assets	(189)	(317)
Unpaid losses and loss adjustment expenses	825	2,925
Unearned premiums	1,103	6,084
Reinsurance premiums payable	(4,370)	(989)
Accounts payable and accrued expenses	1,862	777
Other liabilities	(312)	(1,484)
Net cash used in operating activities	(4,855)	(1,494)
Cash Flows From Investing Activities		
Purchase of investments:		
Fixed maturity securities	(19,059)	(16,049)
Equity securities	(759)	(612)
Short-term investments	(44,191)	(24,036)
Proceeds from maturities and redemptions of investments:		
Fixed maturity securities	1,203	152
Proceeds from sales of investments:		
Fixed maturity securities	3,206	2,035
Equity securities	717	556
Short-term investments	54,703	27,671
Purchases of property and equipment	(91)	(288)
Net cash used in investing activities	(4,271)	(10,571)
Cash Flows From Financing Activities		
Proceeds received from issuance of shares of common stock	750	8,295
Proceeds from issuance of shares of preferred stock		640
Borrowings under Revolver	900	
Repayment of borrowings under Revolver	(250)	
Principal payments under term notes	(750)	(500)
Dividends paid to preferred shareholders	(152)	(11)
Payout of contingent consideration	(113)	(113)

Payment of debt issuance costs		(35)		
Payment of deferred offering costs		(1,114)		
Net cash provided by (used in) financing activities		(764)		8,311
Net decrease in cash		(9,890)		(3,754)
Cash at beginning of period		18,488		11,296
Cash at end of period	$	8,598	$	7,542

See accompanying notes to condensed consolidated financial statements.

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CONIFER HOLDINGS, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

(dollars in thousands, except per share amounts)

1. DESCRIPTION OF BUSINESS

Conifer Holdings, Inc. and its subsidiaries (collectively, the Company) are engaged in the sale of property and casualty insurance products and has organized its principal operations into two types of insurance businesses: commercial lines and personal lines. The Company underwrites a variety of specialty insurance products, including property, general liability, commercial multi-peril, liquor liability, automobile, and homeowners and dwelling policies. The Company markets and sells its insurance products through a network of independent agents, including managing general agents, whereby policies are written in 49 states in the United States (U.S.). The Company s corporate headquarters are located in Birmingham, Michigan with additional office facilities in Florida, Texas and Pennsylvania.

In January 2015, the Company discontinued offering and writing new nonstandard personal automobile policies and stopped writing renewal policies by June, 2015. The Company will continue to service existing policies, pay claims and perform other administrative services until existing policies expire and all claims are paid (a process referred to as run-off). The run-off is expected to be substantially complete by the end of 2016.

Initial Public Offering

In August 2015, the Company completed its initial public offering (IPO) whereby it issued and sold 3,300,000 shares of common stock, which included 100,000 shares issued and sold to the Company s Chief Executive Officer, at a public offering price of $10.50 per share. The Company received net proceeds of $30,625 after deducting underwriting discounts and commissions of $2,426 and other offering expenses of $1,599. A portion of the net proceeds was used to repay indebtedness, including accrued interest, under the revolving credit facility Revolver) of $17,038, repurchase outstanding shares of preferred stock and pay accrued preferred dividends, totaling $6,356.

Concurrent with the closing of the IPO, the Company closed on a private placement transaction as further discussed in Note 12. In this separate transaction, the Company received proceeds of $3,092 from the sale of 294,481 shares of common stock to former holders of preferred stock. The Company plans to use the proceeds from the sale of shares of common stock, along with the remaining IPO proceeds of $7,231, to fund future growth and for general corporate purposes.

Immediately prior to the IPO, the Company amended its articles of incorporation to change its authorized capital stock to consist of (i) 100,000,000 shares of common stock, no par value per share, and (ii) 10,000,000 shares of preferred stock, 60,600 designated as redeemable preferred stock. Following the IPO and the repurchase of all outstanding shares of preferred stock, the Company further amended its articles of incorporation to remove the preferred stock designations.

2. BASIS OF PRESENTATION

Unaudited Condensed Consolidated Financial Statements

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and the applicable rules and regulations of the Securities and Exchange Commission (SEC) regarding interim financial reporting. Accordingly, these unaudited condensed consolidated financial statements do not include all of the information and notes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments, consisting of items of a normal recurring nature, necessary for a fair presentation of the unaudited condensed consolidated financial statements, have been included. The results of operations for the three and six months ended June 30, 2015, are not necessarily indicative of the results that may be expected for any other interim period or for the year ended December 31, 2015. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes for the year ended December 31, 2014, included in the Company s final prospectus filed pursuant to Rule 424(b) under the Securities Act of 1933, as amended, with the SEC on August 13, 2015. The condensed consolidated balance sheet at December 31, 2014, was derived from the audited financial statements.

Stock Split

On July 22, 2015, the board of directors approved a stock split in the form of a stock dividend of 10.2 shares for each share of common stock which was effectuated immediately prior to the effectiveness of the IPO. Accordingly, all common share and per share amounts for all periods presented in these unaudited condensed consolidated financial statements and notes thereto, were adjusted retroactively to reflect the stock split.

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CONIFER HOLDINGS, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

(dollars in thousands, except per share amounts)

Principles of Consolidation

The condensed consolidated financial statements include the accounts of Conifer Holdings, Inc. and its wholly owned subsidiaries, and a 50%-owned entity that the Company controls due to its majority representation on the entity s board of directors. All intercompany transactions and accounts have been eliminated.

Noncontrolling interest in a consolidated subsidiary in the consolidated balance sheets represents the noncontrolling shareholder s proportionate share of the 50%-owned entity s equity. Consolidated net income or loss is allocated to the Company and noncontrolling interest in proportion to their percentage ownership interests.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported therein. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may be based upon amounts that differ from these estimates.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company has made no material changes to its significant accounting policies as reported in the Company s final prospectus filed pursuant to Rule 424(b) under the Securities Act of 1933, as amended, with the SEC on August 13, 2015. The following accounting policy has been added during the three months ended June 30, 2015:

Deferred Offering Costs

Offering costs, consisting of legal, accounting, printing and other incremental expenses, incurred in connection with the Company s IPO are deferred and will be charged to common stock against the proceeds received from the offering in the third quarter of 2015. Such deferred costs, included in other assets in the condensed consolidated balance sheet, amounted to $1,114, at June 30, 2015.

Recently Issued Accounting Guidance

In May 2015, the Financial Accounting Standards Board issued Accounting Standards Update No. 2015-09, *Disclosures about Short-Duration Contracts (Topic 944)*, which improves disclosure requirements for insurance entities with short-duration insurance contracts. The standard does not change the existing recognition and measurement guidance for short-duration insurance contracts. This standard will provide additional disclosures about our liability for unpaid losses and loss adjustment expenses, increase transparency of significant estimates made in measuring those liabilities, and provide financial statement users with additional information to facilitate analysis of the amount, timing and uncertainty of cash flows and development of loss reserves. This standard is effective for annual periods beginning after December 15, 2015, and interim reporting periods thereafter and must be applied retrospectively by providing comparative disclosures for each period presented, except for those requirements that apply only to the current period. Early adoption is permitted. The enhanced disclosures under the new guidance will be provided by the Company for the year ended December 31, 2016, as required.

4. Investments

The cost or amortized cost, gross unrealized gain or loss, and fair value of the fixed maturity and equity securities, by major security type, that are classified as available-for-sale securities, were as follows:

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CONIFER HOLDINGS, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

(dollars in thousands, except per share amounts)

	June 30, 2015			
	Cost or Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Fixed maturity securities:				
U.S. Government obligations	$ 4,991	$ 68	$ (5)	$ 5,054
State and local government	14,586	122	(173)	14,535
Corporate debt	33,763	180	(105)	33,838
Commercial mortgage and asset-backed	44,863	257	(276)	44,844
Total fixed maturity securities	98,203	627	(559)	98,271
Equity securities, common stock	3,176	1,045	(57)	4,164
Total	$ 101,379	$ 1,672	$ (616)	$ 102,435

	December 31, 2014			
	Cost or Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Fixed maturity securities:				
U.S. Government obligations	$ 5,872	$ 85	$ (16)	$ 5,941
State and local government	10,755	210	(4)	10,961
Corporate debt	30,818	237	(106)	30,949
Commercial mortgage and asset-backed	36,323	348	(117)	36,554
Total fixed maturity securities	83,768	880	(243)	84,405
Equity securities, common stock	2,965	1,158	(39)	4,084
Total	$ 86,733	$ 2,038	$ (282)	$ 88,489

The following table summarizes the aggregate fair value and gross unrealized losses, by security type, of the available-for-sale securities in unrealized loss positions. The table segregates the holdings based on the length of time that individual securities have been in a continuous unrealized loss position, as follows:

	June 30, 2015					
	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed maturity securities:						

U.S. Government obligations	$	126	$	(1)	$	1,330	$	(4)	$	1,456	$	(5)
State and local government		8,435		(173)						8,435		(173)
Corporate debt		14,865		(94)		862		(11)		15,727		(105)
Commercial mortgage and asset-backed		21,143		(231)		1,074		(45)		22,217		(276)
Total fixed maturity securities		44,569		(499)		3,266		(60)		47,835		(559)
Equity securities, common stock		659		(57)						659		(57)
Total	$	45,228	$	(556)	$	3,266	$	(60)	$	48,494	$	(616)

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CONIFER HOLDINGS, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

(dollars in thousands, except per share amounts)

	December 31, 2014					
	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed maturity securities:						
U.S. Government obligations	$	$	$ 1,319	$ (16)	$ 1,319	$ (16)
State and local government	552	(1)	825	(3)	1,377	(4)
Corporate debt	18,835	(98)	489	(8)	19,324	(106)
Commercial mortgage and asset-backed	12,060	(34)	4,999	(83)	17,059	(117)
Total fixed maturity securities	31,447	(133)	7,632	(110)	39,079	(243)
Equity securities, common stock	347	(39)			347	(39)
Total	$ 31,794	$ (172)	$ 7,632	$ (110)	$ 39,426	$ (282)

Substantially all of the Company s fixed maturity securities are of investment grade with an average credit quality of AA. The fixed maturity securities are short in duration; approximately 3.5 years.

The Company reviews its impaired securities for possible other-than-temporary impairment at each quarter end. A security has an impairment loss when its fair value is less than its cost or amortized cost at the balance sheet date. After considering its review procedures, the Company does not consider the $616 of gross unrealized losses in the portfolio at June 30, 2015, to be other-than-temporary impairments because (i) as of that date, all contractual interest and principal payments on the fixed maturity securities has been received, (ii) there is no intent to sell the securities, (iii) it is more likely than not that the Company will not be required to sell the securities before recovery of their amortized cost or cost bases and (iv) the unrealized loss relates to non-credit factors, such as interest rate changes and fluctuations due to market conditions. The Company did not recognize any other-than-temporary impairment losses during the periods presented.

The Company s sources of net investment income are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Fixed maturity securities	$ 532	$ 306	$ 1,063	$ 550
Equity securities	22	20	45	35
Cash and short-term investments	2	1	4	4

Total investment income		556		327		1,112		589
Investment expenses		(87)		(45)		(157)		(87)
Net investment income	$	469	$	282	$	955	$	502

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CONIFER HOLDINGS, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

(dollars in thousands, except per share amounts)

The following table summarizes the gross realized gains and losses from sales or maturities of available-for-sale fixed maturity and equity securities, as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	**2014**	**2015**	**2014**
Fixed maturity securities:				
Gross realized gains	$	$ 21	$ 68	$ 22
Gross realized losses	(1)	(4)	(4)	(28)
	(1)	17	64	(6)
Equity securities:				
Gross realized gains	104	78	203	193
Gross realized losses	(16)	(14)	(35)	(15)
	88	64	168	178
Net realized investment gains	$ 87	$ 81	$ 232	$ 172

The following table summarizes the fair value and amortized cost of available-for-sale fixed maturity securities by contractual maturity at June 30, 2015, as follows:

	Amortized Cost	Fair Value
Due in one year or less	$ 3,922	$ 3,935
Due after one year through five years	32,338	32,484
Due after five years through ten years	7,550	7,602
Due after ten years	9,530	9,406
Securities with contractual maturities	53,340	53,427
Commercial mortgage and asset-backed	44,863	44,844
Total fixed maturity securities	$ 98,203	$ 98,271

Actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

At June 30, 2015 and December 31, 2014, the insurance companies had an aggregate of $7.0 million on deposit in a number of trust accounts to meet the deposit requirements of various state insurance departments. There are withdrawal and other restrictions on these deposits, including the type of investments that may be held, however the Company may generally invest in high-grade bonds and short-term investments and earn interest on the funds.

5. Fair Value Measurements

The Company s financial instruments include assets and liabilities carried at fair value, as well as assets and liabilities carried at cost or amortized cost but disclosed at fair value in these condensed consolidated financial statements. Fair value is defined as the price that would be received for an asset or paid to transfer a liability in the principal most advantageous market for the asset or liability in an orderly transaction between market participants. In determining fair value, the Company applies the market approach, which uses prices and other relevant data based on market transactions involving identical or comparable assets and liabilities. The inputs to valuation techniques used to measure fair value are prioritized into a three-level hierarchy. The hierarchy gives the highest priority to quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 Inputs are based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 Inputs are other than quoted prices that are observable for the asset or liabilities, either directly or indirectly, for substantially the full term of the asset or liability.

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CONIFER HOLDINGS, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

(dollars in thousands, except per share amounts)

Level 3 Unobservable inputs that are supported by little or no market activity. The unobservable inputs represent the Company s best assumption of how market participants would price the assets or liabilities.

The following tables present the fair value of the Company s financial instruments that were carried or disclosed at fair value. Unless indicated, these items were carried at fair value on the consolidated balance sheets.

	June 30, 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Fixed maturity securities:				
U.S. Government obligations	$	$ 5,054	$	$ 5,054
State and local government		14,535		14,535
Corporate debt		33,838		33,838
Commercial mortgage and asset-backed		44,844		44,844
Total fixed maturity securities		98,271		98,271
Equity securities, common stock	4,164			4,164
Short-term investments*	6,237			6,237
Total assets measured at fair value	$ 10,401	$ 98,271	$	$ 108,672
Senior debt*	$	$ 27,462	$	$ 27,462
Contingent consideration			58	58
Interest rate swap		13		13
Total liabilities measured at fair value	$	$ 27,475	$ 58	$ 27,533

* Carried at cost or amortized cost on the condensed consolidated balance sheet

	December 31, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Fixed maturity securities:				
U.S. Government obligations	$	$ 5,941	$	$ 5,941
State and local government		10,961		10,961
Corporate debt		30,949		30,949
Commercial mortgage and asset-backed		36,554		36,554
Total fixed maturity securities		84,405		84,405
Equity securities, common stock	4,084			4,084
Short-term investments*	16,749			16,749
Total assets measured at fair value	$ 20,833	$ 84,405	$	$ 105,238
Senior debt*	$	$ 27,562	$	$ 27,562

Contingent consideration			168	168
Interest rate swap		9		9
Total liabilities measured at fair value	$	$ 27,571	$ 168	$ 27,739

* Carried at cost or amortized cost on the condensed consolidated balance sheet

Level 1 investments consist of equity securities traded in an active exchange market. The Company uses unadjusted quoted prices for identical instruments to measure fair value. Level 1 also includes money market funds and other interest-bearing deposits at banks, which are reported as short-term investments.

Level 2 investments include fixed maturity securities, which consist of U.S. government agency securities, state and local municipal bonds (including those held as restricted securities), corporate debt securities, mortgage-backed and asset-backed securities. Fair value is measured for the majority of Level 2 investments using matrix pricing and observable market data, including benchmark securities or yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, bids, offers, default rates, loss severity and other economic measures.

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The Company obtains pricing for each security from independent pricing services, investment managers or consultants to assist in determining fair value for its Level 2 investments. To validate that these quoted prices are reasonable estimates of fair value, the Company performs various quantitative and qualitative procedures, including (i) evaluation of the underlying methodologies, (ii) analysis of recent sales activity, (iii) analytical review of our fair values against current market prices and (iv) comparison of the pricing services   fair value to other pricing services fair value for the same investment. No markets for the investments were determined to be inactive at period-ends. Based on these procedures, the Company did not adjust the prices or quotes provided from independent pricing services, investment managers or consultants.

The Level 2 financial instruments also include our senior debt and an interest rate swap. The fair value of borrowings under the senior debt, consisting of the revolving credit facility and term loans, approximates its carrying amount because interest is based on a short-term, variable, market-based rate. At June 30, 2015 and December 31, 2014, the fair value of the interest rate swap was $13 and $9 (notional amounts of $3,250 and $3,750), respectively.

The Level 3 financial instruments include the fair value of the Company   s contingent consideration arrangements that were entered into at the date of the respective acquisitions, which are classified within other liabilities in the consolidated balance sheets. The fair value of these liabilities were determined based on internally developed models that use assumptions or other data that are not readily observable from objective sources.

The following table sets forth a roll-forward of the Level 3 measurements:

		Contingent Consideration Liabilities
Balance at December 31, 2013	$	339
Change in fair value		11
Payout of contingent consideration		(182)
Balance at December 31, 2014		168
Change in fair value		3
Payout of contingent consideration		(113)
Balance at June 30, 2015	$	58

6. Deferred Policy Acquisition Costs

The Company defers costs incurred which are incremental and directly related to the successful acquisition of new or renewal insurance business, net of corresponding amounts of ceded reinsurance commissions. Net deferred policy acquisition costs are amortized and charged to expense in proportion to premium earned over the estimated policy term. The Company anticipates that its deferred policy acquisition costs will be fully recoverable. The activity in deferred policy acquisition costs, net of reinsurance transactions, is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Balance at beginning of period	$ 6,120	$ 6,322	$ 5,679	$ 5,747
Deferred policy acquisition costs	4,178	4,201	7,214	8,007
Amortization of policy acquisition costs	(2,639)	(3,519)	(5,234)	(6,750)
Net change	1,539	682	1,980	1,257
Balance at end of period	$ 7,659	$ 7,004	$ 7,659	$ 7,004

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7. Intangible Assets

The following table reflects intangible assets and related accumulated amortization:

	As of June 30, 2015			
	Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Nonamortizing indefinite-lived, intangible assets state insurance licenses		$ 900	$	$ 900
Amortizing definite-lived, intangible assets customer lists	5 years	368	133	235
Total		$ 1,268	$ 133	$ 1,135

	As of December 31, 2014			
	Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Nonamortizing indefinite-lived intangible assets state insurance licenses		$ 900	$	$ 900
Amortizing definite-lived, intangible assets customer lists	5 years	368	97	271
Total		$ 1,268	$ 97	$ 1,171

Amortization of intangible assets was $18 and $36 for the three and six months ended June 30, 2015 and 2014, respectively. Future amortization of definite-lived intangibles is as follows: remainder of 2015: $38, 2016: $74, 2017: $74 and 2018: $49.

8. Unpaid Losses and Loss Adjustment Expenses

The Company establishes a liability for unpaid losses and loss adjustment expenses which represents the estimated ultimate cost of all losses incurred that were both reported and unreported (i.e. incurred but not yet reported losses) and loss adjustment expenses incurred that remain unpaid at the balance sheet date. The estimation of the ultimate liability for unpaid losses and loss adjustment expenses is a complex, imprecise and inherently uncertain process, and therefore involves a considerable degree of judgment and expertise. 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. The Company s evaluation of the adequacy of loss and loss adjustment expense reserves includes a re-estimation of such liabilities relating to each preceding financial year compared to the liability that was previously established.

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The table below provides the changes in the liability for unpaid losses and loss adjustment expenses, net of recoverables from reinsurers (referred to as reserves), for the periods indicated as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Gross reserves beginning of period	$ 32,987	$ 32,783	$ 31,531	$ 28,908
Less reinsurance recoverables on unpaid losses	4,590	6,255	3,224	3,953
Net reserves beginning of period	28,397	26,528	28,307	24,955
Add: incurred losses and loss adjustment expenses, net of reinsurance:				
Current period	8,805	10,216	17,340	21,234
Prior periods	171	(530)	206	(972)
Total net incurred losses and loss adjustment expenses	8,976	9,686	17,546	20,262
Deduct: loss and loss adjustment expense payments, net of reinsurance:				
Current period	5,029	4,934	6,794	8,462
Prior periods	5,009	3,654	11,724	9,129
Total net loss and loss adjustment expense payments	10,038	8,588	18,518	17,591
Net reserves end of period	27,335	27,626	27,335	27,626
Plus: reinsurance recoverables on unpaid losses	5,022	4,207	5,022	4,207
Gross reserves end of period	$ 32,357	$ 31,833	$ 32,357	$ 31,833

The Company s incurred losses during the three and six months ended June 30, 2015, reflect prior-year adverse reserve development of $171 and $206, respectively. In the second quarter of 2015, there was $340 and $262 of adverse reserve development in the commercial automobile and personal automobile lines, respectively. This adverse development was partially offset by favorable reserve development in other lines, including $270 and $95 of favorable reserve development in the commercial multi-peril and other liability lines, respectively. For the six months ended June 30, 2015, there was a similar result, with the adverse development being generated by the personal and commercial automobiles lines, totaling $331 and $535, respectively. This adverse development was partially offset by favorable development in other lines, including $274, $136 and $248 in the commercial multi-peril, other liability and workers compensation lines, respectively.

The Company s incurred losses during the three and six months ended June 30, 2014 reflect prior-year favorable reserve development of $530 and $972, respectively. In second quarter of 2014, there was $739 and $241 of favorable reserve development in the commercial multi-peril and other liability lines, respectively. This was partially offset by $307 of adverse development in our low-value dwelling line. For the six months ended June 30, 2014, there was a similar result, with the favorable development being generated primarily by the commercial multi-peril and other liability lines, totaling $786 and $390, respectively. This favorable development was partially offset by adverse development of $432 in the low-value dwelling line.

9. Reinsurance

In the normal course of business, the Company seeks to minimize the loss that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with reinsurers. Although reinsurance does not discharge the direct insurer from liability to its policyholder, the insurance companies participate in such treaty and facultative reinsurance agreements in order to limit their loss exposure, protect them against catastrophic losses and diversify their business. The Company primarily ceded all specific risks in excess of $500 in 2015, and $300 in 2014. Failure of reinsurers to honor their obligations could result in losses to the Company. The Company evaluates the financial condition of its reinsurers and monitors the concentration of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. To date, the Company has not experienced any significant difficulties in collecting reinsurance recoverables.

Effective December 31, 2014, the Company entered into a quota share reinsurance agreement in which it cedes 25% of the subject premium, net of other reinsurance, and cedes 25% of the related losses within the Company s retention which is between $0 and $500. The subject premium represents substantially all product lines other than the Florida homeowners and personal automobile policies. The Company recorded $4,123 and $8,957 of ceded written premiums during the three and six months ended June 30, 2015, respectively, under the quota share reinsurance agreement. This agreement was terminated by the Company in August 2015. The

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purpose of the quota share arrangement was to reduce the capital requirements necessary to support the premium growth initiatives. With the anticipation of the IPO, which was expected to provide sufficient capital to support the current growth initiatives, the quota share was no longer necessary.

Beginning in December 2014, the Company assumed written premium of $5,483 under a policy assumption agreement with Citizens Property and Casualty Corporation (Citizens). Citizens is a Florida government-sponsored insurer that provides homeowners insurance to Florida residences that cannot find coverage in the voluntary market. Upon assuming this premium, the Company becomes the primary insurer to the policyholders. The Company is responsible for claims occurring on or after the effective date of the assumption.

In the first quarter of 2015, another assumption from Citizens took place for $1,419, which was mostly offset by a return of $1,334 of assumed premiums from the 2014 assumption, as policyholders opted out. In the second quarter of 2015, the Company recorded a return of written premium of $662 to Citizens relating to the policyholders opting out of the first quarter assumption.

In the second quarter of 2015, the Company assumed $2,211 of written premiums under insurance fronting arrangements with other insurers to write on behalf of the Company in markets that require a higher A.M. Best rating than the Company s rating, the business is written in a state where the Company is not licensed or for other strategic reasons.

The following table presents the effects of such reinsurance and assumption transactions on premiums, losses and loss adjustment expenses, and policy acquisition costs:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	**2014**	**2015**	**2014**
Written premiums:				
Direct	$ 21,510	$ 19,001	$ 42,629	$ 36,668
Assumed	1,549		1,634	
Ceded	(7,117)	(2,309)	(14,655)	(3,267)
Net written premiums	$ 15,942	$ 16,692	$ 29,608	$ 33,401
Earned premiums:				
Direct	$ 20,050	$ 16,139	$ 39,351	$ 30,620
Assumed	2,137		3,810	
Ceded	(7,072)	(2,182)	(13,553)	(3,988)
Net earned premiums	$ 15,115	$ 13,957	$ 29,608	$ 26,632

Loss and loss adjustment expenses:				
Direct	$ 10,622	$ 10,296	$ 20,544	$ 23,430
Assumed	281	(50)	805	(2)
Ceded	(1,927)	(560)	(3,803)	(3,166)
Net loss and loss adjustment expenses	$ 8,976	$ 9,686	$ 17,546	$ 20,262
Policy acquisition costs:				
Policy acquisition costs	$ 4,129	$ 3,519	$ 8,175	$ 6,750
Ceding commissions	(1,490)		(2,941)	
Net policy acquisition costs	$ 2,639	$ 3,519	$ 5,234	$ 6,750

10. Senior Debt

A summary of the outstanding senior debt is as follows:

	June 30, 2015	December 31, 2014
Revolver	$ 17,212	$ 16,562
Term Note	3,250	3,500
2014 Term Note	7,000	7,500
Total	$ 27,462	$ 27,562

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There have been no changes to the terms and conditions of the Amended Credit Agreement during the six months ended June 30, 2015, except as follows: On May 4, 2015, the Company entered into a first amendment to its Amended Credit Agreement which, among other things, revised the provision that the Company s Chairman s ownership interest be not less than 50% to not less than 33%. On June 29, 2015, the Company entered into a second amendment to its Amended Credit Agreement which, among other things, further revised the provision that the Company s Chairman s ownership interest be not less than 20% after the consummation of an IPO. The Company was in compliance with its debt covenants at June 30, 2015.

During the six months ended June 30, 2015, the Company borrowed $900 on the Revolver to fund short-term working capital needs and repaid $250. The weighted-average interest rate on borrowings under the Revolver for the six months ended June 30, 2015, and for the year ended December 31, 2014, was 3.4% and 3.2%, respectively.

As disclosed in Note 1, all outstanding borrowings under the Revolver were repaid from the proceeds received from the Company s IPO, in August 2015.

11. Shareholders Equity

Common Stock

In January 2015, the Company issued 55,029 shares of common stock to a Vice-President of the Company for cash of $750 ($13.63 per share).

During the six months ended June 30, 2014, the Company initiated certain capital-raising activities whereby shares of common stock were issued to third-party investors, members of the board of directors, executive management and employees, along with their relatives. The Company raised proceeds of $8,295 from the issuance of 682,349 shares of common stock at $12.16 per share.

Preferred Stock

During the six months ended June 30, 2014, the Company issued 64,000 shares of preferred stock at $10.00 per share to certain investors. On October 1, 2014, the then-outstanding shares of preferred stock were exchanged for shares of redeemable preferred stock.

12. Redeemable Preferred Stock

At December 31, 2014, the Company had 60,600 shares of redeemable preferred stock outstanding. The shares of redeemable preferred stock were initially recorded at fair value and thereafter increased by accrued paid-in-kind dividends. The Company classified the shares of redeemable preferred within temporary equity on its consolidated balance sheet at December 31, 2014, due to its liquidation rights. The redeemable preferred stock was redeemable in cash upon a deemed liquation event (i.e., the sale of 50% or more of the outstanding shares of voting capital stock) that is not solely within the control of the Company.

On March 25, 2015, the Company further amended its articles of incorporation with the consent of more than 80% of the holders of the preferred stock and a majority of the holders of the common stock to restrict the definition of a Liquidation Event to the liquidation, dissolution or winding up of the Company and to eliminate from that definition a change of control or a public offering of the Company. All or part of the preferred stock may be redeemed after one year from the date of issuance, at the option of the Company, by a cash payment of the original purchase price plus any accumulated and as yet unpaid preferred dividends and paid-in-kind dividends. On the effective date of the modification, the Company reclassified the carrying amount of its redeemable preferred stock from temporary equity to permanent equity as the redemption of the redeemable preferred stock was within the Company s control.

Pursuant to agreements effective on or before July 1, 2015, the holders of preferred stock agreed to allow the Company to repurchase their outstanding preferred shares at the original purchase price (i.e. $100 per share) plus all accrued and unpaid preferred dividends. In addition, the holders of 29,550 shares (or 48.8%) of preferred stock agreed to use such cash received from the Company s repurchase of their preferred stock to purchase shares of common stock at the same per share price as the common stock offered in the Company s IPO. The closing of these transactions were conditioned on the completion of the Company s IPO.

Following the closing of the Company s IPO on August 18, 2015, the Company paid $6,356 to holders of shares of preferred stock to repurchase such shares and for the payment of accrued dividends. Additionally, the Company issued 294,481 shares of

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common stock to former holders of the preferred stock for proceeds of $3,092. There are no shares of preferred stock outstanding after the closing of the IPO.

13. Other Comprehensive Income (Loss)

The following table presents changes in accumulated other comprehensive income (loss) for unrealized gains and losses on available-for-sale securities:

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Balance at beginning of period	$ 1,644	$ 765	$ 1,158	$ 536
Other comprehensive income (loss) before reclassifications	(977)	580	(274)	933
Amounts reclassified from accumulated other comprehensive income (loss)	208	210	425	334
Net current period other comprehensive income (loss)	(769)	370	(699)	599
Balance at end of period	$ 459	$ 1,135	$ 459	$ 1,135

The following table provides the impact of the reclassification adjustments to the respective line items in the statements of operations for the three and six months ended June 30, 2015 and 2014.

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Net realized investment gains	$ 208	$ 318	$ 425	$ 506
Income tax expense (benefit)		108		172
Total impact to net income (loss)	$ 208	$ 210	$ 425	$ 334

14. Income (Loss) Per Share

Basic and diluted income (loss) per share are computed by dividing net income allocable to common shareholders by the weighted average number of common shares outstanding during the period. The dividends on preferred stock are deducted from the net income to arrive at net income allocable to common shareholders. In the period of a net loss, the dividends on preferred stock are added to the net loss to arrive at net loss allocable to common shareholders.

The following table presents the calculation of basic and diluted income (loss) per common share, as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	**2014**	**2015**	**2014**
Numerator:				
Net income (loss) attributable to Conifer	$ 579	$ (1,536)	$ 1,042	$ (4,765)
Preferred stock dividends	151	16	303	27
Paid-in-kind dividends	62		123	
Net income (loss) allocable to common shareholders	$ 366	$ (1,552)	$ 616	$ (4,792)
Denominator:				
Weighted average common shares, basic and diluted	4,050,042	2,357,220	4,045,482	