KINGSWAY FINANCIAL SERVICES INC
Form 10-Q
November 09, 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 Quarterly Period Ended
September 30, 2018
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: 001-15204

Kingsway Financial Services Inc.
(Exact name of registrant as specified in its charter)

Ontario, Canada (State or other jurisdiction of incorporation or organization)	Not Applicable (I.R.S. Employer Identification No.)

45 St. Clair Avenue West, Suite 400 Toronto, Ontario M4V 1K9
(Address of principal executive offices and zip code)
1-416-848-1171
(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 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 o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period the registrant was required to submit and post such files). Yes x 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 definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No x
The number of shares, including restricted common shares, outstanding of the registrant's common stock as of November 9, 2018 was 22,380,178.

KINGSWAY FINANCIAL SERVICES INC.

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KINGSWAY FINANCIAL SERVICES INC.

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
Consolidated Balance Sheets
(in thousands, except share data)

	September 30, 2018 (unaudited)	December 31, 2017
Assets		
Investments:		
Fixed maturities, at fair value (amortized cost of $11,316 and $14,707, respectively)	$ 11,076	$ 14,541
Equity investments, at fair value (cost of $2,038 and $4,854, respectively)	1,334	4,476
Limited liability investments	6,230	4,922
Limited liability investment, at fair value	4,529	5,771
Other investments, at cost which approximates fair value	1,917	2,321
Short-term investments, at cost which approximates fair value	151	151
Total investments	25,237	32,182
Cash and cash equivalents	23,591	20,774
Investment in investee	2,827	5,230
Accrued investment income	194	331
Service fee receivable, net of allowance for doubtful accounts of $331 and $318, respectively	6,747	4,286
Other receivables, net of allowance for doubtful accounts of zero and zero, respectively	7,877	6,536
Deferred acquisition costs, net	6,899	6,325
Property and equipment, net of accumulated depreciation of $14,875 and $11,683, respectively	104,196	108,008
Goodwill	73,928	80,112
Intangible assets, net of accumulated amortization of $10,232 and $8,333, respectively	84,359	80,062
Other assets	2,560	4,302
Assets held for sale	133,365	136,452
Total Assets	$ 471,780	$ 484,600
Liabilities and Shareholders' Equity		
Liabilities:		
Property and casualty unpaid loss and loss adjustment expenses	$ 2,292	$ 1,329
Note payable	183,561	186,469
Bank loan	4,167	4,917
Subordinated debt, at fair value	53,614	52,105
Net deferred income tax liabilities	28,472	28,745
Deferred service fees	46,275	42,257
Income taxes payable	2,501	2,644
Accrued expenses and other liabilities	11,492	10,924
Liabilities held for sale	107,076	105,900
Total Liabilities	439,450	435,290
	5,486	5,461

Class A preferred stock, no par value; unlimited number authorized; 222,876 and 222,876 issued and outstanding at September 30, 2018 and December 31, 2017, respectively; redemption amount of $5,572		
Shareholders' Equity:		
Common stock, no par value; unlimited number authorized; 21,708,190 and 21,708,190 issued and outstanding at September 30, 2018 and December 31, 2017, respectively	—	—
Additional paid-in capital	354,141	356,021
Accumulated deficit	(369,771)	(313,487)
Accumulated other comprehensive income (loss)	36,961	(3,852)
Shareholders' equity attributable to common shareholders	21,331	38,682
Noncontrolling interests in consolidated subsidiaries	5,513	5,167
Total Shareholders' Equity	26,844	43,849
Total Liabilities, Class A preferred stock and Shareholders' Equity	$ 471,780	$ 484,600

See accompanying notes to unaudited consolidated financial statements.

KINGSWAY FINANCIAL SERVICES INC.

Consolidated Statements of Operations
(in thousands, except per share data)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Revenues:				
Service fee and commission income	$9,104	$7,670	$28,938	$20,738
Rental income	3,341	3,345	10,033	10,041
Net investment (loss) income	(84)	1,289	(697)	126
Net realized losses	(414)	—	(405)	(1)
Gain on change in fair value of equity investments	337	—	951	—
Other income	15	692	1,323	1,261
Total revenues	12,299	12,996	40,143	32,165
Operating expenses:				
Claims authorized on vehicle service agreements	1,442	1,387	4,206	4,066
Loss and loss adjustment expenses	(19)	266	1,628	266
Commissions	971	525	2,843	2,154
Cost of services sold	2,033	1,951	5,749	4,546
General and administrative expenses	5,410	6,515	20,078	18,740
Leased real estate segment interest expense	1,540	1,563	4,638	4,706
Total operating expenses	11,377	12,207	39,142	34,478
Operating income (loss)	922	789	1,001	(2,313)
Other expenses (revenues), net:				
Interest expense not allocated to segments	1,571	1,261	4,476	3,636
Amortization of intangible assets	1,356	286	1,899	866
Contingent consideration benefit	—	—	—	(212)
Loss on change in fair value of debt	1,450	1,178	2,511	5,769
Gain on disposal of subsidiary	—	—	(17)	—
Equity in net loss (income) of investee	339	897	623	(1,343)
Total other expenses, net	4,716	3,622	9,492	8,716
Loss from continuing operations before income tax (benefit) expense	(3,794)	(2,833)	(8,491)	(11,029)
Income tax (benefit) expense	(147)	120	291	1,636
Loss from continuing operations	(3,647)	(2,953)	(8,782)	(12,665)
Income from discontinued operations, net of taxes	740	1,391	2,069	960
(Loss) gain on disposal of discontinued operations, net of taxes	(1,172)	—	(7,800)	1,017
Net loss	(4,079)	(1,562)	(14,513)	(10,688)
Less: net income attributable to noncontrolling interests in consolidated subsidiaries	110	79	353	284
Less: dividends on preferred stock, net of tax	132	(115)	391	213
Net loss attributable to common shareholders	$(4,321)	$(1,526)	$(15,257)	$(11,185)
Loss per share - continuing operations:				
Basic:	$(0.18)	$(0.14)	$(0.44)	$(0.61)
Diluted:	$(0.18)	$(0.14)	$(0.44)	$(0.61)
(Loss) earnings per share - discontinued operations:				

Basic:	$(0.02)	$0.06	$(0.26)	$0.09
Diluted:	$(0.02)	$0.06	$(0.26)	$0.09
Loss per share – net loss attributable to common shareholders:				
Basic:	$(0.20)	$(0.07)	$(0.70)	$(0.52)
Diluted:	$(0.20)	$(0.07)	$(0.70)	$(0.52)
Weighted-average shares outstanding (in ‘000s):				
Basic:	21,708	21,559	21,708	21,492
Diluted:	21,708	21,559	21,708	21,492

See accompanying notes to unaudited consolidated financial statements.

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KINGSWAY FINANCIAL SERVICES INC.

Consolidated Statements of Comprehensive Loss
(in thousands)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Net loss	$(4,079)	$(1,562)	$(14,513)	$(10,688)
Other comprehensive income (loss), net of taxes[1]:				
Unrealized (losses) gains on available-for-sale investments:				
Unrealized losses arising during the period	(44)	(3,262)	(481)	(4,489)
Reclassification adjustment for amounts included in net loss	6	764	(5)	735
Change in fair value of debt attributable to instrument-specific credit risk	658	—	1,002	—
Equity in other comprehensive income (loss) of limited liability investment	19	—	(205)	—
Other comprehensive income (loss)	639	(2,498)	311	(3,754)
Comprehensive loss	(3,440)	(4,060)	(14,202)	(14,442)
Less: comprehensive income attributable to noncontrolling interests in consolidated subsidiaries	109	79	346	287
Comprehensive loss attributable to common shareholders	$(3,549)	$(4,139)	$(14,548)	$(14,729)

(1) Net of income tax (benefit) expense of $0 and $0 for the three and nine months ended September 30, 2018 and September 30, 2017, respectively.

See accompanying notes to unaudited consolidated financial statements

KINGSWAY FINANCIAL SERVICES INC.

Consolidated Statements of Cash Flows
(in thousands)
(Unaudited)

	Nine months ended September 30, 2018	2017
Cash provided by (used in):		
Operating activities:		
Net loss	$ (14,513)	$ (10,688)
Adjustments to reconcile net loss to net cash used in operating activities:		
Income from discontinued operations, net of taxes	(2,069)	(960)
Loss (gain) on disposal of discontinued operations, net of taxes	7,800	(1,017)
Equity in net loss (income) of investee	623	(1,343)
Dividend received from investee	780	—
Equity in net (income) loss of limited liability investments	(275)	258
Loss on change in fair value of limited liability investment	1,492	372
Depreciation and amortization expense	5,149	4,089
Contingent consideration benefit	—	(212)
Stock-based compensation (benefit) expense, net of forfeitures	(1,881)	887
Net realized losses	405	1
Gain on change in fair value of equity investments	(951)	—
	2,511	5,769

Loss on change in fair value of debt				
Deferred income taxes	(273	)	1,123	
Amortization of fixed maturities premiums and discounts	47		72	
Amortization of note payable premium	(707	)	(722	)
Gain on disposal of subsidiary	17		—	
Changes in operating assets and liabilities:				
Service fee receivable, net	(2,461	)	(1,311	)
Other receivables, net	(1,341	)	(2,663	)
Deferred acquisition costs, net	(574	)	(414	)
Unpaid loss and loss adjustment expenses	963		(708	)
Deferred service fees	4,018		1,603	
Other, net	(2,617	)	3,623	
Cash used in operating activities - continuing operations	(3,857	)	(2,241	)
Cash used in operating activities - discontinued operations	(12,670	)	(11,283	)
Net cash used in operating activities	(16,527	)	(13,524	)
Investing activities:				
Proceeds from sales and maturities of fixed maturities	5,241		982	
Proceeds from sales of equity investments	4,966		—	
Purchases of fixed maturities	(1,885	)	(192	)
Purchases of equity investments	(857	)	(4,654	)
Net acquisitions of limited liability investments	(1,489	)	(1,650	)
Net proceeds from other investments	404		3	
Net proceeds from short-term investments	—		250	
Proceeds from sale of investee	1,001		—	

Proceeds from disposal of subsidiary	565	—
Net proceeds from sale of discontinued operations	1,129	860
Net disposals of property and equipment	550	34
Cash provided by (used in) investing activities - continuing operations	9,625	(4,367)
Cash provided by investing activities - discontinued operations	7,270	13,981
Net cash provided by investing activities	16,895	9,614
Financing activities:		
Principal payments on bank loan	(750)	—
Principal payments on note payable	(2,201)	(1,951)
Cash used in financing activities - continuing operations	(2,951)	(1,951)
Cash used in financing activities - discontinued operations	—	—
Net cash used in financing activities	(2,951)	(1,951)
Net increase (decrease) in cash and cash equivalents from continuing operations	2,817	(8,559)
Cash and cash equivalents at beginning of period	44,286	36,475
Less: cash and cash equivalents of discontinued operations at begininng of period	23,512	4,524
Cash and cash equivalents of continuing operations at beginning of period	20,774	31,951
Cash and cash equivalents of continuing operations	$ 23,591	$ 23,392

at end of period

See accompanying notes to unaudited consolidated financial statements.

KINGSWAY FINANCIAL SERVICES INC.
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2018

NOTE 1 BUSINESS

Kingsway Financial Services Inc. (the "Company" or "Kingsway") was incorporated under the Business Corporations Act (Ontario) on September 19, 1989. Kingsway is a Canadian holding company with operating subsidiaries located in the United States. The Company owns or controls subsidiaries primarily in the extended warranty, asset management and real estate industries.

NOTE 2 BASIS OF PRESENTATION

The accompanying unaudited consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements of the Company. In the opinion of management, all adjustments necessary for a fair presentation have been included and are of a normal recurring nature. Interim results are not necessarily indicative of the results that may be expected for the year.
Certain prior year amounts have been reclassified to conform to current year presentation. Such reclassifications had no impact on previously reported net loss or total shareholders' equity.
The accompanying unaudited consolidated interim financial statements and footnotes should be read in conjunction with the audited consolidated financial statements and footnotes included within our Annual Report on Form 10-K ("2017 Annual Report") for the year ended December 31, 2017.
The unaudited consolidated interim financial statements include the accounts of the Company and its subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation.
The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts and classifications of assets and liabilities, revenues and expenses, and the related disclosures of contingent assets and liabilities in the consolidated financial statements and accompanying notes. 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 unaudited consolidated interim financial statements include the provision for unpaid loss and loss adjustment expenses; valuation of fixed maturities and equity investments; impairment assessment of investments; valuation of limited liability investment, at fair value; valuation of deferred income taxes; valuation and impairment assessment of intangible assets; goodwill recoverability; deferred acquisition costs; and fair value assumptions for subordinated debt obligations.
The fair values of the Company's investments in fixed maturities and equity investments, limited liability investment, at fair value and subordinated debt are estimated using a fair value hierarchy to categorize the inputs it uses in

valuation techniques. Fair values for other investments approximate their unpaid principal balance. The carrying amounts reported in the consolidated balance sheets approximate fair values for cash, short-term investments and certain other assets and other liabilities because of their short-term nature.

The Company's financial results contained herein are reported in U.S. dollars unless otherwise indicated.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

There have been no material changes to our significant accounting policies as reported in our 2017 Annual Report.

NOTE 4 RECENTLY ISSUED ACCOUNTING STANDARDS

(a) Adoption of New Accounting Standards:

Effective January 1, 2018, the Company adopted Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"), and the related amendments, utilizing the modified retrospective approach, which created a new comprehensive revenue recognition standard that serves as the single source of revenue guidance for all contracts with customers to transfer goods or services or contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards. The core principle of ASU 2014-09 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Insurance contracts, lease contracts and investments are not within the scope of ASU 2014-09. ASU 2014-09 is applicable to the Company's service fee and commission income. Service fee and commission income represents vehicle service agreement fees, maintenance support service fees, warranty product commissions, homebuilder warranty service fees and homebuilder warranty commissions based on terms of various agreements with credit unions, consumers, businesses and homebuilders. With the exception of homebuilder warranty service fees, which is discussed further below, the adoption of ASU 2014-09 did not change the way the Company recognized revenue for the three and nine months ended September 30, 2018.

The new guidance affects Professional Warranty Service Corporation's ("PWSC") homebuilder warranty service fees, which will be recognized more slowly as compared to the historic revenue recognition pattern prior to the Company's adoption of ASU 2014-09. During the third quarter of 2018, the Company corrected its initial adoption of ASU 2014-09 and applied the expected cost plus a margin approach to develop models to estimate the standalone selling price for each of PWSC's performance obligations in order to allocate the transaction price to the two separate performance obligations identified. Prior to applying this approach, the Company used a different methodology to allocate the transaction price to the two separate performance obligations. This expected cost plus a margin approach will result in the Company recognizing homebuilder warranty service fees more slowly compared to the previously calculated revenue recognition pattern initially utilized during the six months ended June 30, 2018. During the third quarter of 2018, the Company recorded an adjustment to decrease service fee and commission income by $1.0 million and increase deferred service fees by $1.0 million related to the correction of our prior accounting for PWSC's homebuilder warranty service fees during the six months ended June 30, 2018. The effect of this adjustment on our previously reported revenues, loss from continuing operations, net loss and loss per share for the three months ended March 31, 2018 and the three and six months ended June 30, 2018, is as follows:

(in thousands)	Three months ended March 31, 2018			Three months ended June 30, 2018			Six months ended June 30, 2018		
	As Reported (1)	Adjustment	As Adjusted	As Reported	Adjustment	As Adjusted	As Reported	Adjustment	As Adjusted
Total revenues	$14,000	$ (497)	$13,503	$13,670	$ (493)	$13,177	$27,670	$ (990)	$26,680
Loss from continuing operations	(2,435)	(497)	(2,932)	(2,706)	(493)	(3,199)	(5,141)	(990)	(6,131)
Net loss	(2,028)	(497)	(2,525)	(8,406)	(493)	(8,899)	(10,434)	(990)	(11,424)
Loss per share - continuing operations:									
Basic	$(0.12)	$ (0.03)	$(0.15)	$(0.14)	$ (0.02)	$(0.16)	$(0.26)	$ (0.05)	$(0.31)
Diluted	$(0.12)	$ (0.03)	$(0.15)	$(0.14)	$ (0.02)	$(0.16)	$(0.26)	$ (0.05)	$(0.31)
Loss per share - net loss attributable to common shareholders:									
Basic	$(0.11)	$ (0.02)	$(0.13)	$(0.40)	$ (0.02)	$(0.42)	$(0.50)	$ (0.05)	$(0.55)

Diluted	$(0.11)	$ (0.02)	$(0.13)	$(0.40)	$ (0.02)	$(0.42)	$(0.50)	$ (0.05)	$(0.55)

(1) The Company did not report discontinued operations in its Quarterly Report on Form 10-Q for the period ended March 31, 2018, as filed with the Securities and Exchange Commission on May 14, 2018; however, the Company is presenting the As Reported column for the three months ended March 31, 2018 as if it had reported total revenues from continuing operations, loss from continuing operations and loss per share from continuing operations to be comparable to the three and six-month periods ended June 30, 2018 as presented in the table above.

As a result of the adoption of ASU 2014-09, the Company also recorded a cumulative effect adjustment to increase accumulated deficit by $0.5 million and increase deferred service fees by $0.5 million. Prior periods have not been restated to conform to the current presentation. Refer to Note 14, "Revenue from Contracts with Customers," for further details.

Effective January 1, 2018, the Company adopted ASU 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"). The amendments in ASU 2016-01 address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Most significantly, ASU 2016-01 requires (1) equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of an investee) to be measured at fair value with changes in fair value recognized in net income (loss); and (2) an entity to present separately in other comprehensive income (loss) the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. Previously, the Company recorded its equity investments at fair value with net unrealized gains or losses reported in accumulated other comprehensive income (loss) and recorded its subordinated debt at fair value with the total change in fair value reported in net income (loss). As a result of the adoption of ASU 2016-01, at January 1, 2018 cumulative net unrealized losses on equity investments of $0.0 million were reclassified from accumulated other comprehensive income (loss) into accumulated deficit and a cumulative $40.5 million change in fair value of subordinated debt attributable to instrument-specific credit risk was reclassified from accumulated deficit to accumulated other comprehensive income (loss). Prior periods have not been restated to conform to the current presentation.

Effective January 1, 2018, the Company adopted ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments ("ASU 2016-15"). The objective of ASU 2016-15 is to reduce diversity in the classification of cash receipts and payments for specific

KINGSWAY FINANCIAL SERVICES INC.
Notes to Consolidated Financial Statements
(Unaudited)
September 30, 2018

cash flow issues, including debt prepayment or debt extinguishment costs, contingent consideration payments made after a business combination and proceeds from the settlement of insurance claims. The adoption of the standard did not affect the Company's consolidated statements of cash flows.

Effective July 1, 2018, the Company adopted ASU 2018-07, Compensation-Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting ("ASU 2018-07"). ASU 2018-07 was issued to simplify the accounting for share-based transactions by expanding the scope of Topic 718 from only being applicable to share-based payments to employees to also include share-based payment transactions for acquiring goods and services from nonemployees. During the third quarter of 2018, the Company granted restricted common stock awards to a nonemployee. Refer to Note 17, "Stock-Based Compensation," for further details.

(b) Accounting Standards Not Yet Adopted:

In February 2016, the Financial Accounting Standards Board ("FASB") FASB issued ASU 2016-02, Leases ("ASU 2016-02"). 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 the 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 and the repayment of the principal portion of the lease liability will be classified as a financing activity while the interest component will be included in the operating section of the statement of cash flows. The accounting treatment for lessors will remain relatively unchanged. ASU 2016-02 is effective for annual and interim reporting periods beginning after December 15, 2018. Early adoption is permitted. Upon adoption, leases will be recognized and measured at the beginning of the earliest period presented using a modified retrospective approach. The Company is currently evaluating the potential effect of the adoption of ASU 2016-02 on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"). ASU 2016-13 replaces the current incurred loss model used to measure impairment losses with an expected loss model for trade, reinsurance, and other receivables as well as financial instruments measured at amortized cost. ASU 2016-13 will require a financial asset measured at amortized cost, including reinsurance balances recoverable, to be presented at the net amount expected to be collected by means of an allowance for credit losses that runs through net loss. Credit losses relating to available-for-sale debt securities will also be recorded through an allowance for credit losses. However, the amendments would limit the amount of the

allowance to the amount by which fair value is below amortized cost. The measurement of credit losses on available-for-sale investments is similar under current GAAP, but the update requires the use of the allowance account through which amounts can be reversed, rather than through an irreversible write-down. ASU 2016-13 is effective for annual periods beginning after December 15, 2019, and interim periods within those annual periods with early adoption permitted for fiscal years beginning after December 31, 2018 and interim periods within such year. The Company is currently evaluating ASU 2016-13 to determine the potential impact that adopting this standard will have on its consolidated financial statements.
In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment ("ASU 2017-04"). ASU 2017-04 was issued to simplify the subsequent measurement of goodwill. This update changes the impairment test by requiring an entity to compare the fair value of a reporting unit with its carrying amount as opposed to comparing the carrying amount of goodwill with its implied fair value. ASU 2017-04 is effective for annual and interim reporting periods beginning after December 15, 2019. Early adoption is permitted. The Company does not believe the adoption of ASU 2017-04 will have a material effect on its consolidated financial statements.

NOTE 5 ACQUISITION, DISPOSAL AND DISCONTINUED OPERATIONS

(a) Acquisition

Professional Warranty Service Corporation:

On October 12, 2017, the Company acquired 100% of the outstanding shares of PWSC for cash consideration of $10.0 million. As further discussed in Note 19, "Segmented Information," PWSC is included in the Extended Warranty segment. PWSC is based in Virginia and is a leading provider of new home warranty products and administration services to the largest tier of domestic residential construction firms in the United States. This acquisition allows the Company to grow its portfolio of warranty companies and expand into the home warranty business.

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Notes to Consolidated Financial Statements
(Unaudited)
September 30, 2018

This acquisition was accounted for as a business combination using the acquisition method of accounting. The purchase price was allocated to the assets acquired and liabilities assumed based upon their estimated fair values at the date of acquisition. During the third quarter of 2018, the Company completed its fair value analysis of the assets acquired and liabilities assumed. Goodwill of $2.9 million was recognized. The goodwill is not deductible for tax purposes. Separately identifiable intangible assets of $6.2 million were recognized resulting from the valuations of acquired customer relationships, non-compete agreement and trade name. Refer to Note 9, "Intangible Assets," for further disclosure of the intangible assets related to this acquisition.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition:

(in thousands)

	October 12, 2017
Cash and cash equivalents	$ 2,071
Other receivables	50
Service fee receivable	