

KINGSTONE COMPANIES, INC.  
Form 10-Q  
May 13, 2015

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q

(Mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended March 31, 2015  
OR

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 0-1665

KINGSTONE COMPANIES, INC.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

36-2476480  
(I.R.S. Employer  
Identification Number)

15 Joys Lane  
Kingston, NY 12401  
(Address of principal executive offices)

(845) 802-7900

(Registrant's telephone number, including area code)

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  No

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

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

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

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

As of May 12, 2015, there were 7,341,664 shares of the registrant's common stock outstanding.

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## Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements as that term is defined in the federal securities laws. The events described in forward-looking statements contained in this Quarterly Report may not occur. Generally, these statements relate to business plans or strategies, projected or anticipated benefits or other consequences of our plans or strategies, projected or anticipated benefits from acquisitions to be made by us, or projections involving anticipated revenues, earnings or other aspects of our operating results. The words "may," "will," "expect," "believe," "anticipate," "project," "plan," "intend," "estimate," and "continue," and their opposites and similar expressions are intended to identify forward-looking statements. We caution you that these statements are not guarantees of future performance or events and are subject to a number of uncertainties, risks and other influences, many of which are beyond our control that may influence the accuracy of the statements and the projections upon which the statements are based. Factors which may affect our results include, but are not limited to, the risks and uncertainties discussed in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2014 under "Factors That May Affect Future Results and Financial Condition."

Any one or more of these uncertainties, risks and other influences could materially affect our results of operations and whether forward-looking statements made by us ultimately prove to be accurate. Our actual results, performance and achievements could differ materially from those expressed or implied in these forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether from new information, future events or otherwise.

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements.

## KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

## Condensed Consolidated Balance Sheets

	March 31, 2015 (unaudited)	December 31, 2014
<b>Assets</b>		
Fixed-maturity securities, held-to-maturity, at amortized cost (fair value of \$5,465,196 at March 31, 2015 and \$5,395,054 at December 31, 2014)	\$5,132,238	\$5,128,735
Fixed-maturity securities, available-for-sale, at fair value (amortized cost of \$52,564,513 at March 31, 2015 and \$50,083,441 at December 31, 2014)	54,301,176	51,120,859
Equity securities, available-for-sale, at fair value (cost of \$8,766,866 at March 31, 2015 and \$7,621,309 at December 31, 2014)	9,237,109	8,017,729
Total investments	68,670,523	64,267,323
Cash and cash equivalents	6,283,655	9,906,878
Premiums receivable, net of provision for uncollectible amounts	9,428,166	8,946,899
Receivables - reinsurance contracts	1,436,205	1,301,549
Reinsurance receivables, net of provision for uncollectible amounts	36,551,604	35,575,276
Deferred policy acquisition costs	9,035,966	8,985,981
Intangible assets, net	2,114,601	2,233,530
Property and equipment, net of accumulated depreciation	2,497,138	2,448,042
Other assets	1,371,410	1,330,944
<b>Total assets</b>	<b>\$137,389,268</b>	<b>\$134,996,422</b>
<b>Liabilities</b>		
Loss and loss adjustment expense reserves	\$42,151,264	\$39,912,683
Unearned premiums	40,926,461	40,458,041
Advance premiums	1,414,096	1,006,582
Reinsurance balances payable	2,018,556	2,096,363
Deferred ceding commission revenue	5,902,562	5,956,540
Accounts payable, accrued expenses and other liabilities	2,670,444	3,928,137
Deferred income taxes	1,390,167	1,137,180
<b>Total liabilities</b>	<b>96,473,550</b>	<b>94,495,526</b>
<b>Commitments and Contingencies</b>		
<b>Stockholders' Equity</b>		
Preferred stock, \$.01 par value; authorized 2,500,000 shares	-	-
Common stock, \$.01 par value; authorized 20,000,000 shares; issued 8,286,452 shares at March 31, 2015 and 8,235,095 shares at December 31, 2014; outstanding 7,343,775 shares at March 31, 2015 and 7,308,757 shares at December 31, 2014	82,865	82,351
Capital in excess of par	32,889,235	32,873,383
Accumulated other comprehensive income	1,456,557	946,332
Retained earnings	8,219,997	8,203,003
Treasury stock, at cost, 942,677 shares at March 31, 2015 and 926,338 shares	42,648,654	42,105,069

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at December 31, 2014	(1,732,936 )	(1,604,173 )
Total stockholders' equity	40,915,718	40,500,896
Total liabilities and stockholders' equity	\$ 137,389,268	\$ 134,996,422

See accompanying notes to condensed consolidated financial statements.

## KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

## Condensed Consolidated Statements of Income and Comprehensive Income (Unaudited)

Three months ended March 31,	2015	2014
<b>Revenues</b>		
Net premiums earned	\$10,385,799	\$5,926,311
Ceding commission revenue	3,089,404	3,381,283
Net investment income	574,656	378,788
Net realized (losses) gains on sales of investments	(67,494 )	188,348
Other income	631,191	227,557
<b>Total revenues</b>	<b>14,613,556</b>	<b>10,102,287</b>
<b>Expenses</b>		
Loss and loss adjustment expenses	7,063,217	4,324,954
Commission expense	3,412,327	2,582,508
Other underwriting expenses	2,999,155	2,281,749
Other operating expenses	328,498	250,035
Depreciation and amortization	235,662	183,120
<b>Total expenses</b>	<b>14,038,859</b>	<b>9,622,366</b>
Income from operations before taxes	574,697	479,921
Income tax expense	192,198	152,788
<b>Net income</b>	<b>382,499</b>	<b>327,133</b>
<b>Other comprehensive income, net of tax</b>		
Gross change in unrealized gains on available-for-sale-securities	705,574	868,744
Reclassification adjustment for losses (gains) included in net income	67,494	(188,348 )
Net change in unrealized gains	773,068	680,396
Income tax expense related to items of other comprehensive income	(262,843 )	(231,335 )
<b>Other comprehensive income, net of tax</b>	<b>510,225</b>	<b>449,061</b>
<b>Comprehensive income</b>	<b>\$892,724</b>	<b>\$776,194</b>
<b>Earnings per common share:</b>		
Basic	\$0.05	\$0.05
Diluted	\$0.05	\$0.04
<b>Weighted average common shares outstanding</b>		
Basic	7,318,271	7,266,573
Diluted	7,344,563	7,372,149
<b>Dividends declared and paid per common share</b>	<b>\$0.05</b>	<b>\$0.04</b>

See accompanying notes to condensed consolidated financial statements.





KINGSTONE COMPANIES, INC. AND SUBSIDIARIES  
Condensed Consolidated Statement of Stockholders' Equity  
Three months ended March 31, 2015 (unaudited)

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Capital in Excess of Par	Accumulated Other Comprehensive Income	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount	Total
Balance, January 1, 2015	-	\$-	8,235,095	\$82,351	\$32,873,383	\$946,332	\$8,203,003	926,338	\$(1,604,173)	\$40,500,896
Stock-based compensation	-	-	-	-	38,892	-	-	-	-	38,892
Shares deducted from exercise of stock options for payment of withholding taxes	-	-	(30,755 )	(308 )	(243,354 )	-	-	-	-	(243,662)
Excess tax benefit from exercise of stock options	-	-	-	-	221,136	-	-	-	-	221,136
Exercise of stock options	-	-	82,112	822	(822 )	-	-	-	-	-
Acquisition of treasury stock	-	-	-	-	-	-	-	16,339	(128,763 )	(128,763)
Dividends	-	-	-	-	-	-	(365,505 )	-	-	(365,505)
Net income	-	-	-	-	-	-	382,499	-	-	382,499
Change in unrealized gains on available- for-sale securities, net of tax	-	-	-	-	-	510,225	-	-	-	510,225
Balance, March 31, 2015	-	\$-	8,286,452	\$82,865	\$32,889,235	\$1,456,557	\$8,219,997	942,677	\$(1,732,936)	\$40,915,718

See accompanying notes to condensed consolidated financial statements.

## KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

## Condensed Consolidated Statements of Cash Flows (Unaudited)

Three months ended March 31,

2015

2014

Cash flows provided by operating activities:		
Net income	\$382,499	\$327,133
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Net realized losses (gains) on sale of investments	67,494	(188,348 )
Depreciation and amortization	235,662	183,120
Amortization of bond premium, net	80,220	82,997
Stock-based compensation	38,892	13,391
Excess tax benefit from exercise of stock options	(221,136 )	-
Deferred income tax expense	(9,856 )	(56,141 )
(Increase) decrease in operating assets:		
Premiums receivable, net	(481,267 )	(512,538 )
Receivables - reinsurance contracts	(134,656 )	116,422
Reinsurance receivables, net	(976,328 )	(5,970,503 )
Deferred policy acquisition costs	(49,985 )	(333,038 )
Other assets	177,501	46,785
Increase (decrease) in operating liabilities:		
Loss and loss adjustment expense reserves	2,238,581	5,540,025
Unearned premiums	468,420	1,130,874
Advance premiums	407,514	389,772
Reinsurance balances payable	(77,807 )	415,493
Deferred ceding commission revenue	(53,978 )	133,476
Accounts payable, accrued expenses and other liabilities	(1,257,693)	(914,292 )
Net cash flows provided by operating activities	834,077	404,628
Cash flows used in investing activities:		
Purchase - fixed-maturity securities held-to-maturity	-	(1,566,354 )
Purchase - fixed-maturity securities available-for-sale	(3,349,181)	(10,396,843)
Purchase - equity securities available-for-sale	(1,145,558)	(2,662,152 )
Sale or maturity - fixed-maturity securities available-for-sale	716,892	2,176,834
Sale - equity securities available-for-sale	-	1,287,326
Other investing activities	(162,659 )	(312,215 )
Net cash flows used in investing activities	(3,940,506)	(11,473,404)
Cash flows used in financing activities:		
Withholding taxes paid on net exercise of stock options	(243,662 )	-
Excess tax benefit from exercise of stock options	221,136	-
Purchase of treasury stock	(128,763 )	-
Dividends paid	(365,505 )	(290,664 )
Net cash flows used in financing activities	(516,794 )	(290,664 )
Decrease in cash and cash equivalents	\$(3,623,223)	\$(11,359,440)
Cash and cash equivalents, beginning of period	9,906,878	19,922,506
Cash and cash equivalents, end of period	\$6,283,655	\$8,563,066

Supplemental disclosures of cash flow information:

Cash paid for income taxes	\$ 300,500	\$ 400
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Supplemental schedule of non-cash investing and financing activities:

Value of shares deducted from exercise of stock options for payment of withholding taxes	\$ 243,662	\$ -
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See accompanying notes to condensed consolidated financial statements.

KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

Note 1 - Nature of Business and Basis of Presentation

Kingstone Companies, Inc. (referred to herein as "Kingstone" or the "Company"), through its wholly owned subsidiary Kingstone Insurance Company ("KICO"), underwrites property and casualty insurance to small businesses and individuals exclusively through independent agents and brokers. KICO is a licensed insurance company in the State of New York and the Commonwealth of Pennsylvania; however, KICO writes substantially all of its business in New York. Through March 31, 2015, Kingstone, through its wholly owned subsidiary, Payments, Inc., a licensed premium finance company in the State of New York, received fees for placing contracts with a third party licensed premium finance company (see Note 12 – Premium Finance Placement Fees).

The accompanying unaudited condensed consolidated financial statements included in this report have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and the instructions to Securities and Exchange Commission ("SEC") Form 10-Q and Article 8-03 of SEC Regulation S-X. The principles for condensed interim financial information do not require the inclusion of all the information and footnotes required by generally accepted accounting principles for complete financial statements. Therefore, these financial statements should be read in conjunction with the consolidated financial statements as of and for the year ended December 31, 2014 and notes thereto included in the Company's Annual Report on Form 10-K filed on March 25, 2015. The accompanying condensed consolidated financial statements have not been audited by an independent registered public accounting firm in accordance with standards of the Public Company Accounting Oversight Board (United States) but, in the opinion of management, such financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the Company's financial position and results of operations. The results of operations for the three months ended March 31, 2015 may not be indicative of the results that may be expected for the year ending December 31, 2015.

Note 2 – Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates and assumptions, which include the reserves for losses and loss adjustment expenses, are subject to considerable estimation error due to the inherent uncertainty in projecting ultimate claim amounts that will be reported and settled over a period of several years. In addition, estimates and assumptions associated with receivables under reinsurance contracts related to contingent ceding commission revenue require considerable judgment by management. On an on-going basis, management reevaluates its assumptions and the methods of calculating its estimates. Actual results may differ significantly from the estimates and assumptions used in preparing the consolidated financial statements.

## Principles of Consolidation

The consolidated financial statements consist of Kingstone and its wholly owned subsidiaries. Subsidiaries include: (1) KICO and its wholly owned subsidiaries, CMIC Properties, Inc. (“Properties”) and 15 Joys Lane, LLC (“15 Joys Lane”), which together own the land and building from which KICO operates, and (2) Payments Inc. All significant inter-company transactions have been eliminated in consolidation.

## Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-08, “Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. This ASU revised guidance to only allow disposals of components of an entity that represent a strategic shift (e.g., disposal of a major geographical area, a major line of business, a major equity method investment, or other major parts of an entity) and that have a major effect on a reporting entity’s operations and financial results to be reported as discontinued operations. The revised guidance also requires expanded disclosure in the financial statements for discontinued operations as well as for disposals of significant components of an entity that do not qualify for discontinued operations presentation. The Company adopted this guidance on January 1, 2015 and it did not have any effect on the Company’s consolidated results of operations, financial position or cash flows.

In May 2014, FASB issued guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The guidance will be effective for the Company for reporting periods beginning after December 15, 2016. The Company will apply the guidance using a modified retrospective approach. The Company does not expect these amendments to have a material effect on its financial statements.

The Company has determined that all other recently issued accounting pronouncements will not have a material impact on its consolidated financial position, results of operations and cash flows, or do not apply to its operations.

## Note 3 - Investments

## Available-for-Sale Securities

The amortized cost and fair value of investments in available-for-sale fixed-maturity securities and equity securities as of March 31, 2015 and December 31, 2014 are summarized as follows:

Category	March 31, 2015					
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Fair Value	Net Unrealized Gains/ (Losses)
			Less than 12 Months	More than 12 Months		
<b>Fixed-Maturity Securities:</b>						
Political subdivisions of States, Territories and Possessions						
	\$ 13,823,312	\$ 511,766	\$(4,373 )	\$(5,216 )	\$ 14,325,489	\$ 502,177
<b>Corporate and other bonds</b>						
Industrial and miscellaneous						
	35,933,004	1,262,502	(56,447 )	(6,664 )	37,132,395	1,199,391
Residential mortgage backed securities						
	2,808,197	36,707	(1,612 )	-	2,843,292	35,095
<b>Total fixed-maturity securities</b>	<b>52,564,513</b>	<b>1,810,975</b>	<b>(62,432 )</b>	<b>(11,880 )</b>	<b>54,301,176</b>	<b>1,736,663</b>
<b>Equity Securities:</b>						
Preferred stocks						
	3,410,290	57,567	(72 )	(16,931 )	3,450,854	40,564
Common stocks						
	5,356,576	437,021	(7,342 )	-	5,786,255	429,679
<b>Total equity securities</b>	<b>8,766,866</b>	<b>494,588</b>	<b>(7,414 )</b>	<b>(16,931 )</b>	<b>9,237,109</b>	<b>470,243</b>
<b>Total</b>	<b>\$ 61,331,379</b>	<b>\$ 2,305,563</b>	<b>\$(69,846 )</b>	<b>\$(28,811 )</b>	<b>\$ 63,538,285</b>	<b>\$ 2,206,906</b>

Category	December 31, 2014					
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Fair Value	Net Unrealized Gains/ (Losses)
			Less than 12 Months	More than 12 Months		
<b>Fixed-Maturity Securities:</b>						
Political subdivisions of States, Territories and Possessions						
	\$ 13,862,141	\$ 412,490	\$( 23,813 )	\$( 6,379 )	\$ 14,244,439	\$ 382,298
<b>Corporate and other bonds</b>						
Industrial and miscellaneous						
	36,221,300	803,440	(118,092 )	(30,228 )	36,876,420	655,120
	50,083,441	1,215,930	(141,905 )	(36,607 )	51,120,859	1,037,418

Total  
fixed-maturity  
securities

Equity Securities:

Preferred stocks	3,172,632	19,180	(2,647 )	(62,886 )	3,126,280	(46,352 )
Common stocks	4,448,677	444,950	-	(2,177 )	4,891,449	442,772
Total equity securities	7,621,309	464,130	(2,647 )	(65,063 )	8,017,729	396,420
Total	\$ 57,704,750	\$ 1,680,060	\$ (144,552 )	\$ (101,670 )	\$ 59,138,588	\$ 1,433,838

A summary of the amortized cost and fair value of the Company's investments in available-for-sale fixed-maturity securities by contractual maturity as of March 31, 2015 and December 31, 2014 is shown below:

Remaining Time to Maturity	March 31, 2015		December 31, 2014	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Less than one year	\$357,260	\$361,005	\$482,833	\$487,507
One to five years	14,056,049	14,579,816	11,640,381	11,943,127
Five to ten years	30,450,200	31,434,892	32,283,921	32,865,231
More than 10 years	4,892,807	5,082,171	5,676,306	5,824,994
Residential mortgage backed securities	2,808,197	2,843,292	-	-
Total	\$52,564,513	\$54,301,176	\$50,083,441	\$51,120,859

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

#### Held-to-Maturity Securities

The amortized cost and fair value of investments in held-to-maturity fixed-maturity securities as of March 31, 2015 and December 31, 2014 are summarized as follows:

Category	Cost or Amortized Cost	Gross Unrealized Gains	March 31, 2015		Fair Value	Net Unrealized Gains/ (Losses)
			Gross Unrealized Losses Less than 12 Months	Gross Unrealized Losses More than 12 Months		
U.S. Treasury securities	\$606,362	\$205,656	\$-	\$-	\$812,018	\$205,656
Political subdivisions of States, Territories and Possessions	1,414,362	61,683	-	(26,250 )	1,449,795	35,433
Corporate and other bonds						
Industrial and miscellaneous	3,111,514	142,142	(50,273 )	-	3,203,383	91,869
Total	\$5,132,238	\$409,481	\$(50,273 )	\$(26,250 )	\$5,465,196	\$332,958



Category	December 31, 2014					Net Unrealized Gains/ (Losses)
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Fair Value	
			Less than 12 Months	More than 12 Months		
U.S. Treasury securities	\$606,353	\$183,200	\$-	\$-	\$789,553	