

KINGSTONE COMPANIES, INC.

Form 10-Q

November 13, 2014

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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 September 30, 2014  
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

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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     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 November 13, 2014, there were 7,295,364 shares of the registrant’s common stock outstanding

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KINGSTONE COMPANIES, INC.  
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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, 2013 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

	September 30, 2014 (unaudited)	December 31, 2013
<b>Assets</b>		
Fixed-maturity securities, held-to-maturity, at amortized cost (fair value of \$5,334,056 at September 30, 2014 and \$2,425,261 at December 31, 2013)	\$ 5,125,285	\$ 2,399,482
Fixed-maturity securities, available-for-sale, at fair value (amortized cost of \$46,948,102 at September 30, 2014 and \$28,079,902 at December 31, 2013)	47,998,898	28,436,022
Equity securities, available-for-sale, at fair value (cost of \$8,857,992 at September 30, 2014 and \$6,690,338 at December 31, 2013)	9,160,744	6,796,673
Total investments	62,284,927	37,632,177
Cash and cash equivalents	5,028,005	19,922,506
Premiums receivable, net of provision for uncollectible amounts	9,324,796	7,590,074
Receivables - reinsurance contracts	1,750,989	974,989
Reinsurance receivables, net of provision for uncollectible amounts	35,324,074	37,560,825
Deferred policy acquisition costs	8,644,105	6,860,263
Intangible assets, net	2,352,458	2,709,244
Property and equipment, net of accumulated depreciation	2,475,651	2,038,755
Other assets	1,745,303	1,494,989
<b>Total assets</b>	<b>\$ 128,930,308</b>	<b>\$ 116,783,822</b>
<b>Liabilities</b>		
Loss and loss adjustment expense reserves	\$ 36,922,289	\$ 34,503,229
Unearned premiums	39,652,812	32,335,614
Advance premiums	1,263,129	776,099
Reinsurance balances payable	2,057,549	2,566,729
Deferred ceding commission revenue	5,688,973	6,984,166
Accounts payable, accrued expenses and other liabilities	3,240,296	3,215,487
Deferred income taxes	1,103,492	693,087
<b>Total liabilities</b>	<b>89,928,540</b>	<b>81,074,411</b>

## Commitments and Contingencies

Stockholders' Equity		
Preferred stock, \$.01 par value; authorized 2,500,000 shares	-	-
Common stock, \$.01 par value; authorized 20,000,000 shares; issued 8,221,702 shares at September 30, 2014 and 8,186,031 shares at December 31, 2013; outstanding 7,295,364 shares at September 30, 2014 and 7,266,573 shares at December 31, 2013	82,217	81,860
Capital in excess of par	32,825,045	32,692,568
Accumulated other comprehensive income	893,340	305,219
Retained earnings	6,805,339	4,187,209
	40,605,941	37,266,856
Treasury stock, at cost, 926,338 shares at September 30, 2014 and 919,458 shares at December 31, 2013	(1,604,173 )	(1,557,445 )
Total stockholders' equity	39,001,768	35,709,411
Total liabilities and stockholders' equity	\$ 128,930,308	\$ 116,783,822

See accompanying notes to condensed consolidated financial statements.

## KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

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

	For the Three Months Ended		For the Nine Months Ended	
	September 30		September 30	
	2014	2013	2014	2013
<b>Revenues</b>				
Net premiums earned	\$ 9,895,000	\$ 6,125,584	\$ 22,250,684	\$ 15,425,081
Ceding commission revenue	3,278,319	3,611,544	10,365,651	8,239,686
Net investment income	463,513	294,348	1,294,216	852,666
Net realized gains on sales of investments	115,176	94,456	438,126	449,474
Other income	263,726	213,205	742,191	671,020
Total revenues	14,015,734	10,339,137	35,090,868	25,637,927
<b>Expenses</b>				
Loss and loss adjustment expenses	4,538,167	2,439,132	11,871,060	8,150,570
Commission expense	3,106,064	2,563,055	8,592,364	6,757,959
Other underwriting expenses	2,845,708	2,611,736	7,656,532	6,756,692
Other operating expenses	485,959	279,214	1,074,373	750,357
Depreciation and amortization	248,888	165,524	641,943	472,495
Interest expense	-	19,188	-	58,293
Total expenses	11,224,786	8,077,849	29,836,272	22,946,366
Income from operations before taxes	2,790,948	2,261,288	5,254,596	2,691,561
Income tax expense	907,267	599,064	1,689,280	770,228
Net income	1,883,681	1,662,224	3,565,316	1,921,333
<b>Other comprehensive income (loss), net of tax</b>				
Gross change in unrealized (losses) gains on available-for-sale-securities	(525,622 )	(123,848 )	891,093	(938,712 )
Income tax benefit (expense) related to items of other comprehensive income (loss)	178,711	42,041	(302,972 )	319,095
Comprehensive income	\$ 1,536,770	\$ 1,580,417	\$ 4,153,437	\$ 1,301,716
<b>Earnings per common share:</b>				
Basic	\$ 0.26	\$ 0.44	\$ 0.49	\$ 0.50
Diluted	\$ 0.26	\$ 0.43	\$ 0.48	\$ 0.49
<b>Weighted average common shares outstanding</b>				
Basic	7,294,913	3,811,243	7,283,244	3,826,510
Diluted	7,378,097	3,887,840	7,360,294	3,903,427
Dividends declared and paid per common share	\$ 0.05	\$ 0.04	\$ 0.13	\$ 0.12

See accompanying notes to condensed consolidated financial statements.





## KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

Condensed Consolidated  
Statement of Stockholders' Equity  
Nine months ended  
September 30, 2014  
(unaudited)

	Preferred Stock Shares	Amount	Common Stock Shares	Stock Amount	Capital in Excess of Par	Accumulated Other Comprehensive Income	Retained Earnings	Treasury Stock		Total
								Shares	Amount	
Balance, January 1, 2014	-	\$-	8,186,031	\$81,860	\$32,692,568	\$305,219	\$4,187,209	919,458	\$(1,557,445)	\$35,709,411
Stock-based compensation	-	-	-	-	118,582	-	-	-	-	118,582
Shares deducted from exercise of stock options for payment of withholding taxes	-	-	(9,309)	(93)	(66,002)	-	-	-	-	(66,095)
Excess tax benefit from exercise of stock options	-	-	-	-	74,471	-	-	-	-	74,471
Exercise of stock options	-	-	44,980	450	5,426	-	-	-	-	5,876
Acquisition of treasury stock	-	-	-	-	-	-	-	6,880	(46,728)	(46,728)
Dividends	-	-	-	-	-	-	(947,186)	-	-	(947,186)
Net income	-	-	-	-	-	-	3,565,316	-	-	3,565,316
Change in unrealized gains on available- for-sale securities, net of tax	-	-	-	-	-	588,121	-	-	-	588,121
Balance, September 30, 2014	-	\$-	8,221,702	\$82,217	\$32,825,045	\$893,340	\$6,805,339	926,338	\$(1,604,173)	\$39,001,768

See accompanying notes to condensed consolidated financial statements.

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## KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)  
 Nine months ended September 30,

	2014	2013
Cash flows provided by operating activities:		
Net income	\$ 3,565,316	\$ 1,921,333
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized gains on sale of investments	(438,126 )	(449,474 )
Depreciation and amortization	641,943	472,495
Amortization of bond premium, net	205,107	135,352
Stock-based compensation	118,582	40,297
Excess tax benefit from exercise of stock options	(74,471 )	-
Deferred income tax expense	107,433	(608,825 )
(Increase) decrease in operating assets:		
Premiums receivable, net	(1,734,722 )	(435,903 )
Receivables - reinsurance contracts	(776,000 )	-
Reinsurance receivables, net	2,236,751	2,778,227
Deferred policy acquisition costs	(1,783,842 )	(1,046,288)
Other assets	(198,361 )	907,483
Increase (decrease) in operating liabilities:		
Loss and loss adjustment expense reserves	2,419,060	(968,479 )
Unearned premiums	7,317,198	5,448,255
Advance premiums	487,030	434,752
Reinsurance balances payable	(509,180 )	1,396,703
Advance payments from catastrophe reinsurers	-	(7,358,391)
Deferred ceding commission revenue	(1,295,193 )	1,703,364
Accounts payable, accrued expenses and other liabilities	24,809	804,203
Net cash flows provided by operating activities	10,313,334	5,175,104
Cash flows used in investing activities:		
Purchase - fixed-maturity securities held-to-maturity	(2,715,540 )	(842,317 )
Purchase - fixed-maturity securities available-for-sale	(24,041,145)	(5,253,804)
Purchase - equity securities available-for-sale	(7,453,247 )	(5,081,161)
Sale or maturity - fixed-maturity securities available-for-sale	5,092,195	5,274,520
Sale - equity securities available-for-sale	5,537,511	3,747,729
Recovery of loss from failed bank	51,587	-
Other investing activities	(699,534 )	(243,785 )
Net cash flows used in investing activities	(24,228,173)	(2,398,818)
Cash flows used in financing activities:		
Proceeds from line of credit	-	310,000
Principal payments on line of credit	-	(550,000 )
Principal payments on notes payable (includes \$378,000 to related parties)	-	-
Proceeds from exercise of stock options	5,876	-
Withholding taxes paid on net exercise of stock options	(66,095 )	-
Excess tax benefit from exercise of stock options	74,471	-
Purchase of treasury stock	(46,728 )	(129,900 )

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Dividends paid	(947,186 )	(459,738 )
Net cash flows used in financing activities	(979,662 )	(829,638 )

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See accompanying notes to condensed consolidated financial statements.

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## KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

## Condensed Consolidated Statements of Cash Flows (Unaudited)

Nine months ended September 30,	2014	2013
(Decrease) increase in cash and cash equivalents	\$(14,894,501)	\$1,946,648
Cash and cash equivalents, beginning of period	19,922,506	2,240,012
Cash and cash equivalents, end of period	\$5,028,005	\$4,186,660
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid for income taxes	\$1,712,400	\$747,000
Cash paid for interest	\$-	\$76,100
<b>Supplemental schedule of non-cash investing and financing activities:</b>		
Value of shares deducted from exercise of stock options for payment of withholding taxes	\$66,095	\$-

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. KICO has also obtained a license to write insurance in the Commonwealth of Pennsylvania; however, KICO has only nominally commenced writing business in Pennsylvania. Kingstone, through its wholly owned subsidiary, Payments, Inc., a licensed premium finance company in the State of New York, receives 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, 2013 and notes thereto included in the Company's Annual Report on Form 10-K filed on March 31, 2014. 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 nine months and three months ended September 30, 2014 may not be indicative of the results that may be expected for the year ending December 31, 2014.

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. This ASU is effective for interim and annual reporting periods beginning after December 15, 2014. The Company is evaluating whether the adoption of ASU 2014-08 will have a significant impact 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 September 30, 2014 and December 31, 2013 are summarized as follows:

Category	September 30, 2014					Fair Value	Net Unrealized Gains/ (Losses)
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses Less than 12 Months	Gross Unrealized Losses More than 12 Months			
<b>Fixed-Maturity Securities:</b>							
Political subdivisions of States, Territories and Possessions	\$ 13,807,507	\$ 430,058	\$(38,144 )	\$(6,818 )	\$ 14,192,603	\$ 385,096	
<b>Corporate and other bonds</b>							
Industrial and miscellaneous	33,140,595	823,439	(106,702 )	(51,037 )	33,806,295	665,700	
<b>Total fixed-maturity securities</b>	<b>46,948,102</b>	<b>1,253,497</b>	<b>(144,846 )</b>	<b>(57,855 )</b>	<b>47,998,898</b>	<b>1,050,796</b>	
<b>Equity Securities:</b>							
Preferred stocks	3,172,632	15,581	(6,022 )	(82,377 )	3,099,814	(72,818 )	
Common stocks	5,685,360	427,462	(51,892 )	-	6,060,930	375,570	

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Total equity securities	8,857,992	443,043	(57,914 )	(82,377 )	9,160,744	302,752
Total	\$55,806,094	\$1,696,540	\$(202,760 )	\$(140,232 )	\$57,159,642	\$1,353,548

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December 31, 2013

Category	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	\$7,000,222	\$162,616	\$(49,491 )	\$(45,140 )	\$7,068,207	\$67,985
<b>Corporate and other bonds</b>						
Industrial and miscellaneous	21,079,680	569,139	(179,810 )	(101,194 )	21,367,815	288,135
Total fixed-maturity securities	28,079,902	731,755	(229,301 )	(146,334 )	28,436,022	356,120
<b>Equity Securities:</b>						
Preferred stocks	2,899,301	2,503	(251,525 )	(62,551 )	2,587,728	(311,573 )
Common stocks	3,791,037	470,606	(38,785 )	(13,913 )	4,208,945	417,908
Total equity securities	6,690,338	473,109	(290,310 )	(76,464 )	6,796,673	106,335
<b>Total</b>	<b>\$34,770,240</b>	<b>\$1,204,864</b>	<b>\$(519,611 )</b>	<b>\$(222,798 )</b>	<b>\$35,232,695</b>	<b>\$462,455</b>

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 September 30, 2014 and December 31, 2013 is shown below:

Remaining Time to Maturity	September 30, 2014		December 31, 2013	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Less than one year	\$484,779	\$490,726	\$758,281	\$768,954
One to five years	10,288,457	10,698,522	9,025,386	9,466,973
Five to ten years	30,053,300	30,570,369	14,070,003	14,114,271
More than 10 years	6,121,566	6,239,281	4,226,232	4,085,824
<b>Total</b>	<b>\$46,948,102</b>	<b>\$47,998,898</b>	<b>\$28,079,902</b>	<b>\$28,436,022</b>

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 September 30, 2014 and December 31, 2013 are summarized as follows:

Category	September 30, 2014					Fair Value	Net Unrealized Gains/ (Losses)
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses Less than 12 Months	More than 12 Months			
U.S. Treasury securities	\$606,344	\$126,344	\$-	\$-	\$732,688	\$126,344	
Political subdivisions of States, Territories and Possessions	1,412,284	42,046	-	(10,068 )	1,444,262	31,978	
Corporate and other bonds							
Industrial and miscellaneous	3,106,657	74,332	(23,880 )	-	3,157,106	50,449	
<b>Total</b>	<b>\$5,125,285</b>	<b>\$242,722</b>	<b>\$(23,880 )</b>	<b>\$(10,068 )</b>	<b>\$5,334,056</b>	<b>\$208,771</b>	

Category	December 31, 2013					Fair Value	Net Unrealized Gains/ (Losses)
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses Less than 12 Months	More than 12 Months			
U.S. Treasury securities	\$606,138	\$46,915	\$-	\$-	\$653,053	\$46,915	
Political subdivisions of States, Territories and Possessions	208,697	-	(25,359 )	-	183,338	(25,359 )	
Corporate and other bonds							
Industrial and miscellaneous	1,584,647	4,223	-	-	1,588,870	4,223	
<b>Total</b>	<b>\$2,399,482</b>	<b>\$51,138</b>	<b>\$(25,359 )</b>	<b>\$-</b>	<b>\$2,425,261</b>	<b>\$25,779</b>	

Held-to-maturity securities U.S. Treasury securities are held in trust pursuant to the New York State Department of Financial Services' minimum funds requirement.

A summary of the amortized cost and fair value of the Company's investments in held-to-maturity securities by contractual maturity as of September 30, 2014 and December 31, 2013 is shown below:

Remaining Time to Maturity	September 30, 2014		December 31, 2013	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Less than one year	\$-	\$-	\$-	\$-
One to five years	-	-	-	-
Five to ten years	3,318,492	3,358,874	1,793,344	1,772,208
More than 10 years	1,806,793	1,975,182	606,138	653,053
Total	\$5,125,285	\$5,334,056	\$2,399,482	\$2,425,261

#### Investment Income

Major categories of the Company's net investment income are summarized as follows:

	Three months ended		Nine months ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
<b>Income:</b>				
Fixed-maturity securities	\$433,028	\$241,286	\$1,182,083	\$736,298
Equity securities	116,683	117,916	372,901	297,760
Cash and cash equivalents	232	1	23,672	30
Other	-	(1,066 )	594	10,751
Total	549,943	358,137	1,579,250	1,044,839
<b>Expenses:</b>				
Investment expenses	86,430	63,789	285,034	192,173
Net investment income	\$463,513	\$294,348	\$1,294,216	\$852,666

Proceeds from the sale and maturity of fixed-maturity securities were \$5,092,195 and \$5,274,520 for the nine months ended September 30, 2014 and 2013, respectively.

Proceeds from the sale of equity securities were \$5,537,511 and \$3,747,729 for the nine months ended September 30, 2014 and 2013, respectively.

The Company's net realized gains on investments are summarized as follows:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2014	2013	2014	2013
<b>Fixed-maturity securities:</b>				
Gross realized gains	\$25,870	\$56,669	\$183,349	\$237,886
Gross realized losses	(20,436 )	-	(48,729 )	(56,471 )
	5,434	56,669	134,620	181,415
<b>Equity securities:</b>				
Gross realized gains	77,535	79,593	294,786	369,582
Gross realized losses	(19,380 )	(41,806 )	(42,867 )	(101,523 )
	58,155	37,787	251,919	268,059
Cash and short term investments (1)	51,587	-	51,587	-
Net realized gains	\$115,176	\$94,456	\$438,126	\$449,474

(1) Realized gain on cash and short term investments is a partial recovery from the FDIC of an amount previously written off in 2009 due to the failure of Waterfield Bank.

#### Impairment Review

Impairment of investment securities results in a charge to operations when a market decline to below cost is deemed to be other-than-temporary. The Company regularly reviews its fixed-maturity securities and equity securities portfolios to evaluate the necessity of recording impairment losses for other-than-temporary declines in the fair value of investments. In evaluating potential impairment, GAAP specifies (i) if the Company does not have the intent to sell a debt security prior to recovery and (ii) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired unless there is a credit loss. When the Company does not intend to sell the security and it is more likely than not that the Company will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an other-than-temporary impairment ("OTTI") of a debt security in earnings and the remaining portion in other comprehensive income. The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as projected based on cash flow projections. For held-to-maturity debt securities, the amount of OTTI recorded in other comprehensive income for the noncredit portion of a previous OTTI is amortized prospectively over the remaining life of the security on the basis of timing of future estimated cash flows of the security.

OTTI losses are recorded in the condensed consolidated statements of income and comprehensive income as net realized losses on investments and result in a permanent reduction of the cost basis of the underlying investment. The determination of OTTI is a subjective process and different judgments and assumptions could affect the timing of loss realization. At September 30, 2014, there were 38 securities that accounted for the gross unrealized loss. The Company determined that none of the unrealized losses were deemed to be OTTI for its portfolio of fixed-maturity securities and equity securities for the nine months ended September 30, 2014 and 2013. Significant factors influencing the Company's determination that unrealized losses were temporary included the magnitude of the unrealized losses in relation to each security's cost, the nature of the investment and management's intent and ability to retain the investment for a period of time sufficient to allow for an anticipated recovery of fair value to the Company's

cost basis.

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The Company held securities with unrealized losses representing declines that were considered temporary at September 30, 2014 and December 31, 2013 as follows:

Category	Less than 12 months			September 30, 2014 12 months or more			Total	
	Fair Value	Unrealized Losses	No. of Positions Held	Fair Value	Unrealized Losses	No. of Positions Held	Aggregate Fair Value	Unrealized Losses
Fixed-Maturity Securities:								
Political subdivisions of States, Territories and Possessions	\$2,149,022	\$(38,144 )	7	\$541,806	\$(6,818 )	2	\$2,690,828	\$(44,962 )
Corporate and other bonds industrial and miscellaneous	6,040,156	(106,702)	12	993,653	(51,037 )	3	7,033,809	(157,739)
Total fixed-maturity securities	\$8,189,178	\$(144,846)	19	\$1,535,459	\$(57,855 )	5	\$9,724,637	\$(202,701)
Equity Securities:								
Preferred stocks	\$652,950	\$(6,022 )	1	\$1,688,024	\$(82,377 )	7	\$2,340,974	\$(88,399 )
Common stocks	1,541,225	(51,892 )	6	-	-	-	1,541,225	(51,892 )
Total equity securities	\$2,194,175	\$(57,914 )	7	\$1,688,024	\$(82,377 )	7	\$3,882,199	\$(140,291)
Total	\$10,383,353	\$(202,760)	26	\$3,223,483	\$(140,232)	12	\$13,606,836	\$(342,992)



Category	Less than 12 months			December 31, 2013 12 months or more			Total	
	Fair Value	Unrealized Losses	No. of Positions Held	Fair Value	Unrealized Losses	No. of Positions Held	Aggregate Fair Value	Unrealized Losses
Fixed-Maturity Securities:								
Political subdivisions of States, Territories and Possessions								
	\$2,015,437	\$(49,491 )	6	\$415,866	\$(45,140 )	2	\$2,431,303	\$(94,631 )
Corporate and other bonds industrial and miscellaneous								
	6,447,605	(179,810)	24	1,430,377	(101,194)	5	7,877,982	(281,004)
Total fixed-maturity securities								
	\$8,463,042	\$(229,301 )	30	\$1,846,243	\$(146,334)	7	\$10,309,285	\$(375,635)
Equity Securities:								
Preferred stocks								
	\$1,835,958	\$(251,525 )	8	\$444,100	\$(62,551 )	2	\$2,280,058	\$(314,076)
Common stocks								
	879,525	(38,785 )	4	145,625	(13,913 )	1	1,025,150	(52,698 )
Total equity securities								
	\$2,715,483	\$(290,310)	12	\$589,725	\$(76,464 )	3	\$3,305,208	\$(366,774)
Total								
	\$11,178,525	\$(519,611)	42	\$2,435,968	\$(222,798)	10	\$13,614,493	\$(742,409)

Note 4 - Fair Value Measurements

The Company follows GAAP guidance regarding fair value measurements. The valuation technique used to fair value the financial instruments is the market approach which uses prices and other relevant information generated by market transactions involving identical or comparable assets.

This guidance establishes a three-level hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the assets or liabilities fall within different levels of the hierarchy, the classification is based on the lowest level input that is significant to the fair value measurement of the asset or liability. Classification of assets and liabilities within the hierarchy considers the markets in which the assets and liabilities are traded, including during period of market disruption, and the reliability and transparency of the assumptions used to determine fair value. The hierarchy requires the use of observable market data when available. The levels of the hierarchy and those investments included in each are as follows:

Level 1—Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities traded in active markets. Included are those investments traded on an active exchange, such as the NASDAQ Global Select Market, U.S. Treasury securities and obligations of U.S. government agencies, together with corporate debt securities that are generally investment grade.

Level 2—Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and market-corroborated inputs. Municipal and corporate bonds that are traded in less active markets are classified as Level 2. These securities are valued using market price quotations for recently executed transactions.

Level 3—Inputs to the valuation methodology are unobservable for the asset or liability and are significant to the fair value measurement. Material assumptions and factors considered in pricing investment securities and other assets may include appraisals, projected cash flows, market clearing activity or liquidity circumstances in the security or similar securities that may have occurred since the prior pricing period.

The availability of observable inputs varies and is affected by a wide variety of factors. When the valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires significantly more judgment. The degree of judgment exercised by management in determining fair value is greatest for investments categorized as Level 3. For investments in this category, the Company considers prices and inputs that are current as of the measurement date. In periods of market dislocation, as characterized by current market conditions, the ability to observe prices and inputs may be reduced for many instruments. This condition could cause a security to be reclassified between levels.

The Company's investments are allocated among pricing input levels at September 30, 2014 and December 31, 2013 as follows:

(\$ in thousands)	September 30, 2014			Total
	Level 1	Level 2	Level 3	
Fixed-maturity securities available for sale				
Political subdivisions of States, Territories and Possessions	\$-	\$14,193	\$-	\$14,193
Corporate and other				
bonds industrial and				
miscellaneous	26,169	7,637	-	33,806
Total fixed maturities	26,169	21,830	-	47,999
Equity securities	9,161	-	-	9,161
Total investments	\$35,330	\$21,830	\$-	\$57,160

(\$ in thousands)	December 31, 2013			Total
	Level 1	Level 2	Level 3	
Fixed-maturity securities available for sale				
Political subdivisions of States, Territories and Possessions	\$-	\$7,068	\$-	\$7,068
Corporate and other				
bonds industrial and				
miscellaneous	20,731	637	-	21,368
Total fixed maturities	20,731	7,705	-	28,436
Equity securities	6,797	-	-	6,797
Total investments	\$27,528	\$7,705	\$-	\$35,233

#### Note 5 - Fair Value of Financial Instruments

GAAP requires all entities to disclose the fair value of financial instruments, both assets and liabilities recognized and not recognized in the balance sheet, for which it is practicable to estimate fair value. The Company uses the following methods and assumptions in estimating its fair value disclosures for financial instruments:

Equity securities and fixed income securities available-for-sale: Fair value disclosures for these investments are included in "Note 3 - Investments."

Cash and cash equivalents: The carrying values of cash and cash equivalents approximate their fair values because of the short-term nature of these instruments.

Premiums receivable and reinsurance receivables: The carrying values reported in the accompanying condensed consolidated balance sheets for these financial instruments approximate their fair values due to the short-term nature of the assets.



Real estate: The fair value of the land and building included in property and equipment, which is used in the Company's operations, approximates the carrying value. The fair value was based on an appraisal prepared using the sales comparison approach, and accordingly the real estate is a Level 3 asset under the fair value hierarchy.

Reinsurance balances payable: The carrying value reported in the condensed consolidated balance sheets for these financial instruments approximates fair value.

The estimated fair values of the Company's financial instruments are as follows:

	September 30, 2014		December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Fixed-maturity securities held-to-maturity	\$5,125,285	\$5,334,056	\$2,399,482	\$2,425,261
Cash and cash equivalents	5,028,005	5,028,005	19,922,506	19,922,506
Premiums receivable	9,324,796	9,324,796	7,590,074	7,590,074
Receivables - reinsurance contracts	1,750,989	1,750,989	974,989	974,989
Reinsurance receivables	35,324,074	35,324,074	37,560,825	37,560,825
Real estate, net of accumulated depreciation	1,775,839	1,816,122	1,777,942	1,816,122
Reinsurance balances payable	2,057,549	2,057,549	2,566,729	2,566,729

Note 6 – Property and Casualty Insurance Activity

Premiums Earned

Premiums written, ceded and earned are as follows:

	Direct	Assumed	Ceded	Net
Nine months ended September 30, 2014				
Premiums written	\$56,729,057	\$39,263	\$(24,013,732)	\$32,754,588
Change in unearned premiums	(7,311,116)	(6,082)	(3,186,706)	(10,503,904)
Premiums earned	\$49,417,941	\$33,181	\$(27,200,438)	\$22,250,684
Nine months ended September 30, 2013				
Premiums written	\$44,651,570	\$36,999	\$(26,567,984)	\$18,120,585
Change in unearned premiums	(5,465,632)	17,377	2,752,751	(2,695,504)
Premiums earned	\$39,185,938	\$54,376	\$(23,815,233)	\$15,425,081
Three months ended September 30, 2014				
Premiums written	\$20,131,112	\$22,961	\$(2,485,929)	\$17,668,144
Change in unearned premiums	(2,438,306)	(12,433)	(5,322,405)	(7,773,144)
Premiums earned	\$17,692,806	\$10,528	\$(7,808,334)	\$9,895,000
Three months ended September 30, 2013				
Premiums written	\$15,925,613	\$16,952	\$(8,786,730)	\$7,155,835
Change in unearned premiums	(2,013,499)	(11,192)	994,440	(1,030,251)
Premiums earned	\$13,912,114	\$5,760	\$(7,792,290)	\$6,125,584

Premium receipts in advance of the policy effective date are recorded as advance premiums. The balance of advance premiums as of September 30, 2014 and December 31, 2013 was approximately \$1,263,000 and \$776,000, respectively.

## Loss and Loss Adjustment Expense Reserves

The following table provides a reconciliation of the beginning and ending balances for unpaid losses and loss adjustment expense (“LAE”) reserves:

	Nine months ended September 30,	
	2014	2013
Balance at beginning of period	\$34,503,229	\$30,485,532
Less reinsurance recoverables	(17,363,975)	(18,419,694)
Net balance, beginning of period	17,139,254	12,065,838
Incurred related to:		
Current year	11,043,919	7,467,756
Prior years	827,141	682,814
Total incurred	11,871,060	8,150,570
Paid related to:		
Current year	4,725,526	2,458,940
Prior years	4,834,120	3,498,333
Total paid	9,559,646	5,957,273
Net balance at end of period	19,450,668	14,259,135
Add reinsurance recoverables	17,471,621	15,257,918
Balance at end of period	\$36,922,289	\$29,517,053

Incurred losses and LAE are net of reinsurance recoveries under reinsurance contracts of \$11,881,366 and \$12,170,056 for the nine months ended September 30, 2014 and 2013, respectively.

Prior year incurred loss and LAE development is based upon estimates by line of business and accident year. The Company’s management continually monitors claims activity to assess the appropriateness of carried case and incurred but not reported (“IBNR”) reserves, giving consideration to Company and industry trends.

The reserving process for loss adjustment expense reserves provides for the Company’s best estimate at a particular point in time of the ultimate unpaid cost of all losses and loss adjustment expenses incurred, including settlement and administration of losses, and is based on facts and circumstances then known and including losses that have been incurred but not yet been reported. The process includes using actuarial methodologies to assist in establishing these estimates, judgments relative to estimates of future claims severity and frequency, the length of time before losses will develop to their ultimate level and the possible changes in the law and other external factors that are often beyond the Company’s control. Several actuarial reserving methodologies are used to estimate required loss reserves. The process produces carried reserves set by management based upon the actuaries’ best estimate and is the result of numerous best estimates made by line of business, accident year, and loss and loss adjustment expense. The amount of loss and loss adjustment expense reserves for reported claims (“case reserve”) is based primarily upon a case-by-case evaluation of coverage, liability, injury severity, and any other information considered pertinent to estimating the exposure presented by the claim. The amounts of loss and loss adjustment expense reserves for unreported claims and development on known claims (incurred but not reported reserves) are determined using historical information by line of insurance as adjusted to current conditions. Since this process produces loss reserves set by management based upon the actuaries’ best estimate, there is no explicit or implicit provision for uncertainty in the carried loss reserves.





Due to the inherent uncertainty associated with the reserving process, the ultimate liability may differ, perhaps substantially, from the original estimate. Such estimates are regularly reviewed and updated and any resulting adjustments are included in the current year's results. Reserves are closely monitored and are recomputed periodically using the most recent information on reported claims and a variety of statistical techniques. On at least a quarterly basis, the Company reviews by line of business existing reserves, new claims, changes to existing case reserves and paid losses with respect to the current and prior years. Several methods are used, varying by product line and accident year, in order to select the estimated year-end loss reserves. These methods include the following:

**Paid Loss Development** – historical patterns of paid loss development are used to project future paid loss emergence in order to estimate required reserves.

**Incurred Loss Development** – historical patterns of incurred loss development, reflecting both paid losses and changes in case reserves, are used to project future incurred loss emergence in order to estimate required reserves.

**Paid Bornhuetter-Ferguson (“BF”)** – an estimated loss ratio for a particular accident year is determined, and is weighted against the portion of the accident year claims that have been paid, based on historical paid loss development patterns. The estimate of required reserves assumes that the remaining unpaid portion of a particular accident year will pay out at a rate consistent with the estimated loss ratio for that year. This method can be useful for situations where an unusually high or low amount of paid losses exists at the early stages of the claims development process.

**Incurred Bornhuetter-Ferguson (“BF”)** - an estimated loss ratio for a particular accident year is determined, and is weighted against the portion of the accident year claims that have been reported, based on historical incurred loss development patterns. The estimate of required reserves assumes that the remaining unreported portion of a particular accident year will pay out at a rate consistent with the estimated loss ratio for that year. This method can be useful for situations where an unusually high or low amount of reported losses exists at the early stages of the claims development process.

Management's best estimate of required reserves is generally based on an average of the methods above, with appropriate weighting of the various methods based on the line of business and accident year being projected. In some cases, additional methods or historical data from industry sources are employed to supplement the projections derived from the methods listed above.

Two key assumptions that materially affect the estimate of loss reserves are the loss ratio estimate for the current accident year used in the BF methods described above, and the loss development factor selections used in the loss development methods described above. The loss ratio estimates used in the BF methods are selected after reviewing historical accident year loss ratios adjusted for rate changes, trend, and mix of business.

The Company is not aware of any claims trends that have emerged or that would cause future adverse development that have not already been considered in existing case reserves and in its current loss development factors.

In New York State, lawsuits for negligence are subject to certain limitations and must be commenced within three years from the date of the accident or are otherwise barred. Accordingly, the Company's exposure to 'pure' IBNR for accident years 2010 and prior is limited although there remains the possibility of adverse development on reported claims ('case development' IBNR).

The Company was previously a one-third participant in a pool arrangement. Effective November 1, 1997, the Company withdrew from its participation in the pool arrangement. Accordingly, the Company will only be participating in losses and allocated loss adjustment expenses that occurred prior to that date.

#### Reinsurance

The Company's quota share reinsurance treaties in effect for the nine months ended September 30, 2014 for its Personal Lines business, which primarily consists of homeowners' policies, were covered under the July 1, 2013/June 30, 2014 and July 1, 2014/June 30, 2015 treaty years. The Company's quota share reinsurance treaty in effect for the nine months ended September 30, 2014 for its Commercial Lines business was covered under the July 1, 2013/June 30, 2014 treaty year. The Company did not renew its expiring Commercial Lines quota share reinsurance treaty on July 1, 2014. The Company's quota share reinsurance treaties in effect for the nine months ended September 30, 2013 for both its Personal Lines business and Commercial Lines business were covered under the July 1, 2012/June 30, 2013 and July 1, 2013/June 30, 2014 treaty years. The Company's personal lines quota share treaty that covered the July 1, 2013/June 30, 2014 treaty year is a two year treaty expiring on June 30, 2015. Effective as of July 1, 2014, the Company had the option to increase the quota share percentage from 75% to a maximum of 85% or decrease the quota share percentage from 75% to a minimum of 55% by giving no less than 30 days advance notice. On May 12, 2014, the Company notified the personal lines reinsurers of its election to reduce the ceding percentage in the personal lines quota share treaty from 75% to 55% effective July 1, 2014. In addition to the change in the personal lines quota share treaty discussed above, the Company entered into new annual treaties with different terms effective July 1, 2014. The Company's treaties for the July 1, 2012/June 30, 2013, July 1, 2013/ June 30, 2014 and July 1, 2014/June 30, 2015 treaty years provide for the following material terms:

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Line of Business	July 1, 2014 to June 30, 2015		Treaty Year July 1, 2013 to June 30, 2014		July 1, 2012 to June 30, 2013	
<b>Personal Lines:</b>						
Homeowners, dwelling fire and canine legal liability						
Quota share treaty:						
Percent ceded	55	%	75	%	75	%
Risk retained	\$360,000		\$300,000		\$250,000	
Losses per occurrence subject to quota share reinsurance coverage	\$800,000		\$1,200,000		\$1,000,000	
Excess of loss coverage above quota share coverage	\$3,200,000		\$1,700,000		\$1,900,000	
	in excess of		in excess of		in excess of	
	\$800,000		\$1,200,000		\$1,000,000	
Total reinsurance coverage per occurrence	\$3,640,000		\$2,600,000		\$2,650,000	
Losses per occurrence subject to reinsurance coverage	\$4,000,000		\$2,900,000		\$2,900,000	
Expiration date	June 30, 2015		June 30, 2015		June 30, 2013	
<b>Personal Umbrella</b>						
Quota share treaty:						
Percent ceded - first million dollars of coverage	90	%	90	%	90	%
Percent ceded - excess of one million dollars of coverage	100	%	100	%	100	%
Total reinsurance coverage per occurrence	\$2,900,000		\$1,900,000		\$1,900,000	
Losses per occurrence subject to quota share reinsurance coverage	\$3,000,000		\$2,000,000		\$2,000,000	
Expiration date	June 30, 2015		June 30, 2014		June 30, 2013	
<b>Commercial Lines:</b>						
General liability commercial policies, except for commercial auto						
Quota share treaty:						
Percent ceded (terminated effective July 1, 2014)	None		25	%	40	%
Risk retained	\$400,000		\$300,000		\$300,000	
Losses per occurrence subject to quota share reinsurance coverage	None		\$400,000		\$500,000	
Excess of loss coverage above quota share coverage	\$3,600,000		\$2,500,000		\$2,400,000	
	in excess of		in excess of		in excess of	
	\$400,000		\$400,000		\$500,000	
Total reinsurance coverage per occurrence	\$3,600,000		\$2,600,000		\$2,600,000	
Losses per occurrence subject to reinsurance coverage	\$4,000,000		\$2,900,000		\$2,900,000	
<b>Commercial Auto:</b>						
Excess of loss coverage in excess of risk retained	\$1,700,000		\$1,700,000		\$1,750,000	
	in excess of		in excess of		in excess of	
	\$300,000		\$300,000		\$250,000	
<b>Catastrophe Reinsurance:</b>						
Initial loss subject to personal lines quota share treaty	\$4,000,000		\$4,000,000		\$3,000,000	
Risk retained per catastrophe occurrence (1)	\$1,800,000		\$1,000,000		\$750,000	
Catastrophe loss coverage in excess of quota share coverage (2) (3)	\$137,000,000		\$86,000,000		\$70,000,000	

- (1) Plus losses in excess of catastrophe coverage.
- (2) Effective July 1, 2014, the Company's catastrophe treaty also covers losses caused by severe winter weather during any consecutive 28 day period. Effective July 1, 2014, the duration of a catastrophe occurrence from windstorm, hail, tornado, hurricane and cyclone has been extended to 96 consecutive hours from 72 consecutive hours.
- (3) Catastrophe coverage is limited on an annual basis to two times the per occurrence amounts.

The single maximum risks per occurrence to which the Company is subject under the treaties that expired on June 30, 2014 and the new treaties effective July 1, 2014 are as follows:

Treaty	July 1, 2014 - June 30, 2015		July 1, 2013 - June 30, 2014	
	Extent of Loss	Risk Retained	Extent of Loss	Risk Retained
Personal Lines	Initial \$800,000	\$360,000	Initial \$1,200,000	\$300,000
	\$800,000 - \$4,000,000	None(1)	\$1,200,000 - \$2,900,000	None(1)
	Over \$4,000,000	100%	Over \$2,900,000	100%
Personal Umbrella	Initial \$1,000,000	\$100,000	Initial \$1,000,000	\$100,000
	\$1,000,000 - \$3,000,000	None(1)	\$1,000,000 - \$2,000,000	None(1)
	Over \$3,000,000	100%	Over \$2,000,000	100%
Commercial Lines	Initial \$400,000	\$400,000	Initial \$400,000	\$300,000
	\$400,000 - \$4,000,000	None(1)	\$400,000 - \$2,900,000	None(1)
	Over \$4,000,000	100%	Over \$2,900,000	100%
Commercial Auto	Initial \$300,000	\$300,000	Initial \$300,000	\$300,000
	\$300,000 - \$2,000,000	None(1)	\$300,000 - \$2,000,000	None(1)
	Over \$2,000,000	100%	Over \$2,000,000	100%
Catastrophe (2)	Initial \$4,000,000	\$1,800,000	Initial \$4,000,000	\$1,000,000
	\$4,000,000 - \$141,000,000	None	\$4,000,000 - \$90,000,000	None
	Over \$141,000,000	100%	Over \$90,000,000	100%

(1) Covered by excess of loss treaties.

(2) Catastrophe coverage is limited on an annual basis to two times the per occurrence amounts.

The Company's reinsurance program is structured to enable the Company to significantly grow its premium volume while maintaining regulatory capital and other financial ratios generally within or below the expected ranges used for regulatory oversight purposes. The reinsurance program also provides income as a result of ceding commissions earned pursuant to the quota share reinsurance contracts. The Company's participation in reinsurance arrangements does not relieve the Company of its obligations to policyholders.

Ceding Commission Revenue

The Company earns ceding commission revenue under its quota share reinsurance agreements based on: (i) a fixed provisional commission rate at which provisional ceding commissions are earned, and (ii) a sliding scale of commission rates and ultimate treaty year loss ratios on the policies reinsured under each of these agreements based upon which contingent ceding commissions are earned. The sliding scale includes minimum and maximum commission rates in relation to specified ultimate loss ratios. The commission rate and contingent ceding commissions earned increases when the estimated ultimate loss ratio decreases and, conversely, the commission rate and contingent ceding commissions earned decreases when the estimated ultimate loss ratio increases.

The Company's estimated ultimate treaty year loss ratios for treaties in effect for the nine months and three months ended September 30, 2014 are attributable to contracts for the July 1, 2014/June 30, 2015 treaty year ("2014/2015 Treaties") and the July 1, 2013/June 30, 2014 treaty year ("2013/2014 Treaties"). The Company's estimated ultimate treaty year loss ratios for treaties in effect for the nine months and three months ended September 30, 2013 are attributable to contracts for the July 1, 2012/June 30, 2013 treaty year ("2012/2013 Treaties") and the 2013/2014 Treaties.

Treaties in effect for the nine months and three months ended September 30, 2014

The Company's estimated ultimate loss ratios ("Loss Ratios") for the period July 1, 2014 through September 30, 2014, which are attributable to contracts for the 2014/2015 Treaties were lower than the contractual Loss Ratios at which the provisional ceding commissions are earned. Accordingly, for the three months ended September 30, 2014, the Company recorded contingent ceding commission earned with respect to the 2014/2015 Treaties.

The Company's estimated ultimate Loss Ratios for the period January 1, 2014 through September 30, 2014 attributable to contracts for the 2013/2014 Treaties were lower than the contractual Loss Ratios at which the provisional ceding commissions are earned. Accordingly, for the nine months ended September 30, 2014, the Company recorded contingent ceding commission earned with respect to the 2013/2014 Treaties.

Treaties in effect for the nine months and three months ended September 30, 2013

The Company's estimated ultimate Loss Ratios for the period July 1, 2013 through September 30, 2013, which are attributable to contracts for the 2013/2014 Treaties, were lower than the contractual Loss Ratios at which the provisional ceding commissions were earned. Accordingly, for the three months ended September 30, 2013, the Company's recorded contingent ceding commission earned with respect to the 2013/2014 Treaties.

The Company's estimated ultimate Loss Ratios for the period January 1, 2013 through September 30, 2013 attributable to contracts for the 2012/2013 Treaties were greater than the contractual Loss Ratios at which the provisional ceding commissions were earned. Accordingly, for the nine months September 30, 2013, the Company recorded negative contingent ceding commissions earned with respect to the 2012/2013 Treaties.

In addition to the treaties that were in effect for the nine months and three months ended September 30, 2014 and 2013, the estimated ultimate loss ratios from prior years' treaties are subject to change as loss reserves from those periods increase or decrease, resulting in an increase or decrease in the commission rate and contingent ceding commissions earned.

Ceding commissions earned consists of the following:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Provisional ceding commissions earned	\$2,653,690	\$2,940,661	\$9,660,437	\$7,836,370
Contingent ceding commissions earned	624,629	670,883	705,214	403,316
	\$3,278,319	\$3,611,544	\$10,365,651	\$8,239,686

Provisional ceding commissions are settled monthly. Balances due from reinsurers for contingent ceding commissions on quota share treaties are settled annually based on the loss ratio of each treaty year that ends on June 30. As discussed above, for the nine months ended September 30, 2013, the Company recorded negative contingent ceding commissions earned with respect to the 2012/2013 Treaties, which resulted in ceding commissions payable to reinsurers. There was no net contingent ceding commissions payable to reinsurers as of September 30, 2014 and December 31, 2013.

#### Note 7 – Bank Line of Credit

On December 27, 2011, Kingstone executed a Promissory Note pursuant to a line of credit (together, the “Trustco Agreement”) with Trustco Bank (“Lender”). Under the Trustco Agreement, Kingstone may receive advances from Lender not to exceed an unpaid principal balance of \$500,000 (the “Credit Limit”). On January 25, 2013, the Credit Limit was increased to \$600,000. Advances extended under the Trustco Agreement will bear interest at a floating rate based on the Lender’s prime rate, which was 3.75% at September 30, 2014.

Interest only payments are due monthly. The principal balance is payable on demand, and must be reduced to zero for a minimum of thirty consecutive days during each year of the term of the Trustco Agreement. The line of credit is subject annual renewal at the discretion of the Lender. Lender may set off any depository accounts maintained by Kingstone that are held by Lender. Payment of amounts due pursuant to the Trustco Agreement is secured by all of Kingstone’s cash and deposit accounts, receivables, inventory and fixed assets, and is guaranteed by Kingstone’s subsidiary, Payments, Inc.

The line of credit will be used for general corporate purposes.

There were no outstanding balances under the bank line of credit as of September 30, 2014 and December 31, 2013. The weighted average interest rate on the amount outstanding during the nine months ended September 30, 2014 and 2013 was 0% and 3.75%, respectively. The weighted average interest rate on the amount outstanding during the three months ended September 30, 2014 and 2013 was 0% and 3.75%, respectively. There are no other fees in connection with this credit line. Interest expense on the line of credit for the nine months ended September 30, 2014 and 2013 was approximately \$0- and \$5,000, respectively.

#### Note 8 – Stockholders’ Equity

##### Dividend Declared

Dividends declared and paid on Common Stock were \$947,186 and \$459,738 for the nine months ended September 30, 2014 and 2013, respectively. Dividends declared and paid on Common Stock were \$364,747 and \$152,464 for the three months ended September 30, 2014 and 2013, respectively. The Company’s Board of Directors approved a quarterly dividend on November 12, 2014 of \$.05 per share payable in cash on December 12, 2014 to stockholders of record as of November 28, 2014 (see Note 13).

##### Stock Options

Pursuant to the Company’s 2005 Equity Participation Plan (the “2005 Plan”), which provides for the issuance of incentive stock options, non-statutory stock options and restricted stock, a maximum of 700,000 shares of the Company’s Common Stock are permitted to be issued pursuant to options granted and restricted stock issued. Effective August 12, 2014, the Company adopted the 2014 Equity Participation Plan (the “2014 Plan”) pursuant to which, subject to shareholder approval on or before August 12, 2015 a maximum of 700,000 shares of common stock of the Company are authorized to be issued pursuant to the grant of incentive stock options, non-statutory stock options, stock appreciation rights, restricted stock and stock bonuses. Incentive stock options granted under the 2014 Plan and 2005 Plan expire no later than ten years from the date of grant (except no later than five years for a grant to a 10% stockholder). The Board of Directors or the Stock Option Committee determines the expiration date with respect to non-statutory stock options and the vesting provisions for restricted stock granted under the 2014 Plan and 2005 Plan.





The results of operations for the nine months ended September 30, 2014 and 2013 include stock-based compensation expense totaling approximately \$119,000 and \$40,000, respectively. The results of operations for the three months ended September 30, 2014 and 2013 include stock-based compensation expense totaling approximately \$92,000 and \$27,000, respectively. Stock-based compensation expense related to stock options is net of estimated forfeitures of 20% for the nine months and three months ended September 30, 2014 and 21% for the nine months and three months ended September 30, 2013. Such amounts have been included in the condensed consolidated statements of income and comprehensive income within other operating expenses.

Stock-based compensation expense in 2014 and 2013 is the grant date estimated fair value of options amortized on a straight-line basis over the requisite service period for the entire portion of the award. The weighted average estimated fair value of stock options granted during the nine months ended September 30, 2014 and 2013 was \$1.60 per share and \$1.38 per share, respectively. The fair value of stock options at the grant date was estimated using the Black-Scholes option-pricing model. The following weighted average assumptions were used for grants during the nine months ended September 30, 2014 and 2013:

	2014		2013	
Dividend Yield	2.97	%	3.14	%
Volatility	46.53	%	46.71	%
Risk-Free Interest Rate	.92	%	.79	%
Expected Life	3.25 years		3.25 years	

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because our stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of our stock options.

A summary of option activity under the Company's 2005 Plan for the nine months ended September 30, 2014 is as follows:

Stock Options	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2014	321,365	\$3.36	2.26	\$1,257,936
Granted (1)	200,000	\$6.73	-	\$272,000
Exercised	(70,115 )	\$2.48	-	\$296,992
Forfeited	-	\$-	-	\$-
Outstanding at September 30, 2014 (1)	451,250	\$4.99	3.19	\$1,400,438
Vested and Exercisable at September 30, 2014	241,250	\$3.83	1.95	\$1,026,900

(1) On August 12, 2014, an additional 50,000 options were granted under the 2014 Plan, which is subject to shareholder approval.

The aggregate intrinsic value of options outstanding and options exercisable at September 30, 2014 is calculated as the difference between the exercise price of the underlying options and the market price of the Company's Common Stock for the options that had exercise prices that were lower than the \$8.09 closing price of the Company's Common Stock on September 30, 2014.

Participants in the 2014 Plan and 2005 Plan may exercise their outstanding vested options, in whole or in part, by having the Company reduce the number of shares otherwise issuable by a number of shares having a fair market value equal to the exercise price of the option being exercised ("Net Exercise"). A total of 70,115 options and 1,250 options were exercised during the nine months ended September 30, 2014 and 2013, respectively.

As of September 30, 2014, the fair value of unamortized compensation cost related to unvested stock option awards was approximately \$212,000. Unamortized compensation cost as of September 30, 2014 is expected to be recognized over a remaining weighted-average vesting period of 1.48 years.

#### Note 9 – Income Taxes

Income taxes for the nine months ended September 30, 2014 and 2013 were computed using the effective tax rate estimated to be applicable for the full year, which is subject to ongoing review and evaluation by management. The Company files a consolidated U.S. federal income tax return that includes all wholly owned subsidiaries. State tax returns are filed on a consolidated or separate basis depending on applicable laws. The Company records adjustments related to prior years' taxes during the period when they are identified, generally when the tax returns are filed. The effect of these adjustments on the current and prior periods (during which the differences originated) is evaluated based upon quantitative and qualitative factors and are considered in relation to the financial statements taken as a whole for the respective periods. The Company has evaluated this year's amounts in relation to the current and prior reporting periods and determined that a restatement of those prior reporting periods is not appropriate. The Company's effective tax rate from operations for the nine months ended September 30, 2014 and 2013 was 32.1% and 28.6%, respectively.



Deferred tax assets and liabilities are determined using the enacted tax rates applicable to the period the temporary differences are expected to be recovered. Accordingly, the current period income tax provision can be affected by the enactment of new tax rates. The net deferred income taxes on the balance sheet reflect temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and income tax purposes, tax effected at a various rates depending on whether the temporary differences are subject to federal taxes, state taxes, or both. Significant components of the Company's deferred tax assets and liabilities are as follows:

	September 30, 2014	December 31, 2013
Deferred tax asset:		
Net operating loss carryovers (1)	\$238,862	\$246,476
Claims reserve discount	505,447	445,384
Unearned premium	1,747,757	1,000,372
Deferred ceding commission revenue	1,934,251	2,374,616
Other	-	17,087
Total deferred tax assets	4,426,317	4,083,935
Deferred tax liability:		
Investment in KICO (2)	1,169,000	1,169,000
Deferred acquisition costs	2,938,996	2,332,489
Intangibles	799,836	921,143
Depreciation and amortization	156,493	197,223
Net unrealized appreciation of securities - available for sale	460,175	157,167
Other	5,309	-
Total deferred tax liabilities	5,529,809	4,777,022
Net deferred income tax liability	\$(1,103,492)	\$(693,087)

(1) The deferred tax assets from net operating loss carryovers ("NOL") are as follows:

Type of NOL	September 30, 2014	December 31, 2013	Expiration December 31, 2034
State only (A)	\$ 537,300	\$ 459,989	
Valuation allowance	(315,438 )	(240,713 )	
State only, net of valuation allowance	221,862	219,276	
Amount subject to Annual Limitation, federal only (B)	17,000	27,200	December 31, 2019
Total deferred tax asset from net operating loss carryovers	\$ 238,862	\$ 246,476	

(A) Kingstone generates operating losses for state purposes and has prior year NOLs available. The state NOL as of September 30, 2014 and December 31, 2013 was approximately \$6,473,000 and \$5,416,000, respectively. KICO, the Company's insurance underwriting subsidiary, is not subject to state income taxes. KICO's state tax obligations are paid through a gross premiums tax, which is included in the condensed consolidated statements of income and comprehensive income within other underwriting expenses. A valuation allowance has been recorded due to the uncertainty of generating enough state taxable income to utilize 100% of the available state NOLs over their remaining lives, which expire between 2027 and 2034.

(B) The Company has an NOL of \$50,000 that is subject to Internal Revenue Code Section 382, which places a limitation on the utilization of the federal NOL loss to approximately \$10,000 per year (“Annual Limitation”) as a result of a greater than 50% ownership change of the Company in 1999. The losses subject to the Annual Limitation will be available for future years, expiring through December 31, 2019.

(2) Deferred tax liability - investment in KICO

On July 1, 2009, the Company completed the acquisition of 100% of the issued and outstanding common stock of KICO (formerly known as Commercial Mutual Insurance Company (“CMIC”)) pursuant to the conversion of CMIC from an advance premium cooperative to a stock property and casualty insurance company. Pursuant to the plan of conversion, the Company acquired a 100% equity interest in KICO, in consideration for the exchange of \$3,750,000 principal amount of surplus notes of CMIC. In addition, the Company forgave all accrued and unpaid interest on the surplus notes as of the date of conversion. As of the date of acquisition, unpaid accrued interest on the surplus notes along with the accretion of the discount on the original purchase of the surplus notes totaled \$2,921,319 (together “Untaxed Interest”). As of the date of acquisition, the deferred tax liability on the Untaxed Interest was \$1,169,000. Under GAAP guidance for business combinations, a temporary difference with an indefinite life exists when the parent has a lower carrying value of its subsidiary for income tax purposes. The Company is required to maintain its deferred tax liability of \$1,169,000 related to this temporary difference until the stock of KICO is sold, or the assets of KICO are sold or KICO and the parent are merged.

In assessing the valuation of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. No valuation allowance against deferred tax assets has been established, except for NOL limitations, as the Company believes it is more likely than not the deferred tax assets will be realized based on the historical taxable income of KICO, or by offset to deferred tax liabilities.

The Company had no material unrecognized tax benefit and no adjustments to liabilities or operations were required. There were no interest or penalties related to income taxes that have been accrued or recognized as of and for the nine months ended September 30, 2014 and 2013. If any had been recognized these would be reported in income tax expense.

IRS Tax Audit

Generally, federal, state and local authorities may examine the Company’s tax returns for three years from the date of filing.

In March 2014, the Company received a notice that its federal income tax returns for the years ended December 31, 2011 and 2012 were selected for examination by the Internal Revenue Service. On March 31, 2014, the Company was notified that the examination was cancelled.

Note 10 - Net Income Per Common Share

Basic net earnings per common share is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding. Diluted earnings per common share reflect, in periods in which they have a dilutive effect, the impact of common shares issuable upon exercise of stock options. The computation of diluted earnings common per share excludes those options with an exercise price in excess of the average market price of the Company’s common shares during the periods presented.

The computation of diluted earnings per common share excludes outstanding options in periods where the exercise of such options would be anti-dilutive. For the nine months ended September 30, 2014 and 2013, the inclusion of 32,473 and 16,120 options, respectively, in the computation of diluted earnings per common share would have been anti-dilutive for the periods and, as a result, the weighted average number of common shares used in the calculation of diluted earnings per common share has not been adjusted for the effect of such options. For the three months ended September 30, 2014 and 2013, the inclusion of 86,522 and 16,120 options, respectively, in the computation of diluted earnings per common share would have been anti-dilutive for the periods and, as a result, the weighted average number of common shares used in the calculation of diluted earnings per common share has not been adjusted for the effect of such options.

The reconciliation of the weighted average number of common shares used in the calculation of basic and diluted earnings per common share follows:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Weighted average number of shares outstanding	7,294,913	3,811,243	7,283,244	3,826,510
Effect of dilutive securities, common share equivalents	83,184	76,597	77,050	76,917
Weighted average number of shares outstanding, used for computing diluted earnings per share	7,378,097	3,887,840	7,360,294	3,903,427

#### Note 11 - Commitments and Contingencies

##### Litigation

From time to time, the Company is involved in various legal proceedings in the ordinary course of business. For example, to the extent a claim asserted by a third party in a law suit against one of the Company's insureds covered by a particular policy, the Company may have a duty to defend the insured party against the claim. These claims may relate to bodily injury, property damage or other compensable injuries as set forth in the policy. Such proceedings are considered in estimating the liability for loss and LAE expenses. The Company is not subject to any other pending legal proceedings that management believes are likely to have a material adverse effect on the financial statements.

##### State Insurance Regulation

In the aftermath of Superstorm Sandy, the New York State Department of Financial Services ("DFS") has adopted various regulations that affect insurance companies that operate in the state of New York. Included among the regulations are accelerated claims investigation and settlement requirements and mandatory participation in non-binding mediation proceedings funded by the insurer. Further, in February 2013, the state of New York announced that the DFS commenced an investigation into the claims practices of three insurance companies, including KICO, in connection with Superstorm Sandy claims. The DFS stated that the three insurers had a much larger than average consumer complaint rate with regard to Superstorm Sandy claims and indicated that the three insurers were being investigated for (i) failure to send adjusters in a timely manner; (ii) failure to process claims in a timely manner; and (iii) inability of homeowners to contact insurance company representatives. KICO received a letter from the DFS seeking information and data with regard to the foregoing. KICO has supplied information and data, and is cooperating with the DFS in connection with its investigation. KICO has not received a response from the DFS and believes that such matter will not have any effect on the Company's financial position or results of operations.





## Employment Agreement

Effective August 12, 2014, the Company entered into an amendment to its employment agreement with Barry Goldstein, its President, Chairman of the Board and Chief Executive Officer, pursuant to which the term of the employment agreement was extended from December 31, 2014 to December 31, 2016 and, effective July 1, 2014 and continuing through the term of the agreement, Mr. Goldstein's annual base salary was increased to \$575,000 and his bonus was revised to equal 6% of the Company's consolidated income from operations before taxes, net of the Company's consolidated net investment income and net realized gains on sales of investments. In addition, in consideration of Mr. Goldstein entering into the amendment, the Company paid him a bonus in the amount of \$62,500.

Concurrently with the amendment, the Company granted to Mr. Goldstein, pursuant to the 2005 Plan, a five year option for the purchase of 200,000 shares of common stock at an exercise price of \$6.73 per share, exercisable to the extent of 62,500 shares on the date of grant and each of the initial two anniversary dates of the grant and 12,500 shares on the third anniversary date of the grant. In addition, the Company granted to Mr. Goldstein, pursuant to the 2014 Plan, a five year option for the purchase of 50,000 shares of common stock at an exercise price of \$6.73 per share, exercisable on the third anniversary of the date of the grant. The 50,000 share option grant is subject to shareholder approval of the 2014 Plan. Pursuant to the stock option agreements with Mr. Goldstein, the Company agreed that, under certain circumstances following a change of control of the Company, and the termination of his employment, or in the event Mr. Goldstein's employment with the Company is terminated by the Company without cause or he resigns with good reason (each as defined in his employment agreement), all of the options granted to Mr. Goldstein would become exercisable and would remain exercisable until the first anniversary of the termination date.

## Note 12 – Premium Finance Placement Fees

The Company's wholly-owned subsidiary, Payments Inc. ("Payments"), is licensed as a premium finance agency in the state of New York. Prior to February 1, 2008, Payments provided premium financing in connection with the obtaining of insurance policies. Effective February 1, 2008, Payments sold its outstanding premium finance loan portfolio. The purchaser of the portfolio (the "Purchaser") has agreed that, during the five year period ended February 1, 2013 (which period has been extended to February 1, 2015), it will purchase, assume and service all eligible premium finance contracts originated by Payments in the state of New York (the "Agreement"). In connection with such purchases, Payments will be entitled to receive a fee generally equal to a percentage of the amount financed.

On July 17, 2014, the Purchaser terminated the Agreement effective February 1, 2015. Following any expiration or termination of the obligation of the Purchaser to purchase premium finance contracts, Payments will be entitled to receive the fees for an additional two years with regard to contracts for policies from the Company's producers. The Company's premium financing business currently consists of the placement fees that Payments earns from placing contracts. Placement fee revenue included in other income and the related direct expenses included in other operating expenses in the condensed consolidated statements of net income and comprehensive income are as follows (unaudited):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
Placement fee revenue	\$51,810	\$65,586	\$180,970	\$241,178
Direct expenses	13,966	15,884	43,002	50,267
Net income before taxes from placement fees	\$37,844	\$49,702	\$137,968	\$190,911

#### Note 13 – Subsequent Events

The Company has evaluated events that occurred subsequent to September 30, 2014 through the date these financial statements were issued for matters that required disclosure or adjustment in these condensed consolidated financial statements.

#### Dividends Declared and Paid

On November 12, 2014, the Company's Board of Directors approved a dividend of \$.05 per share payable in cash on December 12, 2014 to stockholders of record as of November 28, 2014.

#### Commercial Auto Line of Business

Effective October 1, 2014 the Company decided that it will no longer accept new commercial auto policies. The action was taken following a series of underwriting and pricing measures which were intended to improve the profitability of this line of business. The actions taken did not yield the hoped for results. The Company is selectively renewing its existing policies.

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

Overview

We offer property and casualty insurance products to small businesses and individuals in New York State through our subsidiary, Kingstone Insurance Company ("KICO"). KICO's insureds are located primarily in downstate New York, consisting of New York City, Long Island and Westchester County.

We derive 99% of our revenue from KICO, which includes revenues from earned premiums, ceding commissions from quota share reinsurance, net investment income generated from its portfolio, and net realized gains and losses on investment securities. All of KICO's insurance policies are for a one year period. Earned premiums represent premiums received from insureds, which are recognized as revenue over the period of time that insurance coverage is provided (i.e., ratably over the one year life of the policy). A significant period of time normally elapses between the receipt of insurance premiums and the payment of insurance claims. During this time, KICO invests the premiums, earns investment income and generates net realized and unrealized investment gains and losses on investments.

Our expenses include the insurance underwriting expenses of KICO and other operating expenses. Insurance companies incur a significant amount of their total expenses from losses incurred by policyholders, which are commonly referred to as claims. In settling these claims for losses, various loss adjustment expenses ("LAE") are incurred such as insurance adjusters' fees and litigation expenses. In addition, insurance companies incur policy acquisition costs. Policy acquisition costs include commissions paid to producers, premium taxes, and other expenses related to the underwriting process, including employees' compensation and benefits.

Other operating expenses include our corporate expenses as a holding company. These expenses include legal and auditing fees, occupancy costs related to our former corporate office, which was closed in May 2013, executive employment costs, and other costs directly associated with being a public company.

Product Lines

Our product lines include the following:

Personal lines. Our largest line of business is personal lines, consisting of homeowners, dwelling fire, 3-4 family dwelling package, condominium, renters, mechanical breakdown, service line and personal umbrella policies.

Commercial liability. We offer business owners policies, which consist primarily of small business retail risks without a residential exposure. We also write artisan's liability policies and special multi-peril property and liability policies.

Commercial automobile. We provide physical damage and liability coverage for light vehicles owned by small contractors and artisans.

Livery physical damage and other. We write for-hire vehicle physical damage only policies for livery and car service vehicles and taxicabs as well as canine legal liability policies.

## Key Measures

We utilize the following key measures in analyzing the results of our insurance underwriting business:

**Net loss ratio.** The net loss ratio is a measure of the underwriting profitability of an insurance company's business. Expressed as a percentage, this is the ratio of net losses and loss adjustment expenses ("LAE") incurred to net premiums earned.

**Net underwriting expense ratio.** The net underwriting expense ratio is a measure of an insurance company's operational efficiency in administering its business. Expressed as a percentage, this is the ratio of the sum of acquisition costs (the most significant being commissions paid to our producers) and other underwriting expenses less ceding commission revenue less other income to net premiums earned.

**Net combined ratio.** The net combined ratio is a measure of an insurance company's overall underwriting profit. This is the sum of the net loss and net underwriting expense ratios. If the net combined ratio is at or above 100 percent, an insurance company cannot be profitable without investment income, and may not be profitable if investment income is insufficient.

**Underwriting income.** Underwriting income is net pre-tax income attributable to our insurance underwriting business except for net investment income, net realized gains from investments, and depreciation and amortization (net premiums earned less expenses included in combined ratio). Underwriting income is a measure of an insurance company's overall operating profitability before items such as investment income, depreciation and amortization, interest expense and income taxes.

## Critical Accounting Policies and Estimates

Our condensed consolidated financial statements include the accounts of Kingstone Companies, Inc. and all majority-owned and controlled subsidiaries. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires our management to make estimates and assumptions in certain circumstances that affect amounts reported in our consolidated financial statements and related notes. In preparing these financial statements, our management has utilized information available including our past history, industry standards and the current economic environment, among other factors, in forming its estimates and judgments of certain amounts included in the consolidated financial statements, giving due consideration to materiality. It is possible that the ultimate outcome as anticipated by our management in formulating its estimates inherent in these financial statements might not materialize. However, application of the critical accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. In addition, other companies may utilize different estimates, which may affect the comparability of our results of operations to those of companies in similar businesses.

We believe that the most critical accounting policies relate to the reporting of reserves for loss and LAE, including losses that have occurred but have not been reported prior to the reporting date, amounts recoverable from third party reinsurers, deferred ceding commission revenue, deferred policy acquisition costs, deferred income taxes, the impairment of investment securities, intangible assets and the valuation of stock-based compensation. See Note 2 to the condensed consolidated financial statements - "Accounting Policies" for information related to updated accounting policies.

Consolidated Results of Operations

Nine Months Ended September 30, 2014 Compared to Nine Months Ended September 30, 2013

The following table summarizes the changes in the results of our operations (in thousands) for the periods indicated:

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(\$ in thousands)	Nine months ended September 30,			
	2014	2013	Change	Percent
<b>Revenues</b>				
Direct written premiums	\$56,729	\$44,652	\$12,077	27.0 %
Assumed written premiums	39	37	2	5.4 %
	56,768	44,689	12,079	27.0 %
<b>Ceded written premiums</b>				
Ceded to quota share treaties in force during the period	28,046	25,204	2,842	11.3 %
Return of premiums previously ceded to prior quota share treaties	(6,597 )	(764 )	(5,833 )	763.6 %
Ceded to quota share treaties	21,449	24,440	(2,991 )	(12.2 ) %
Ceded to excess of loss treaties	765	562	203	36.1 %
Ceded to catastrophe treaties				