

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, 2020

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)

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|--|-------------------|---|
| Common Stock, \$0.01 par value per share | KINS | Nasdaq Capital Market |

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 every Interactive Data File required to be submitted 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 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):

| | | | |
|-------------------------|--------------------------|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated filer | <input checked="" type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> | Smaller reporting company | <input checked="" type="checkbox"/> |
| | | Emerging growth company | <input type="checkbox"/> |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 9, 2020, there were 10,675,198 shares of the registrant's common stock outstanding.

KINGSTONE COMPANIES, INC.
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Forward-Looking Statements

This Quarterly Report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. 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 results or other consequences of our plans or strategies, projected or anticipated results from acquisitions to be made by us, or projections involving anticipated revenues, earnings, costs 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, which may influence the accuracy of the statements and the projections upon which the statements are based. Factors which may cause actual results and outcomes to differ materially from those contained in the forward-looking statements include, but are not limited to the risks and uncertainties discussed in Part I Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2019 and Part II, Item 1A of this Quarterly Report.

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 except as required by law.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

| | <u>September 30,</u> <u>2020</u> | <u>December 31,</u> <u>2019</u> |
|---|-------------------------------------|------------------------------------|
| | (unaudited) | |
| Assets | | |
| Fixed-maturity securities, held-to-maturity, at amortized cost (fair value of \$7,899,304 at September 30, 2020 and \$4,124,767 at December 31, 2019) | \$ 7,369,608 | \$ 3,825,952 |
| Fixed-maturity securities, available-for-sale, at fair value (amortized cost of \$145,126,859 at September 30, 2020 and \$162,202,355 at December 31, 2019) | 156,538,589 | 168,236,181 |
| Equity securities, at fair value (cost of 30,300,839 at September 30, 2020 and \$22,624,668 at December 31, 2019) | 29,623,267 | 24,661,382 |
| Other investments | 2,829,078 | 2,584,913 |
| Total investments | <u>196,360,542</u> | <u>199,308,428</u> |
| Cash and cash equivalents | 24,388,103 | 32,391,485 |
| Premiums receivable, net | 13,883,708 | 12,706,411 |
| Reinsurance receivables, net | 55,529,408 | 40,750,538 |
| Deferred policy acquisition costs | 19,916,325 | 20,634,378 |
| Intangible assets | 500,000 | 500,000 |
| Property and equipment, net | 7,788,633 | 7,620,636 |
| Deferred income taxes, net | - | 311,052 |

| | | |
|---|-----------------------|-----------------------|
| Other assets | 8,992,936 | 6,979,884 |
| Total assets | <u>\$ 327,359,655</u> | <u>\$ 321,202,812</u> |
| Liabilities | | |
| Loss and loss adjustment expense reserves | \$ 84,979,024 | \$ 80,498,611 |
| Unearned premiums | 88,167,636 | 90,383,238 |
| Advance premiums | 4,919,256 | 3,191,512 |
| Reinsurance balances payable | 10,062,649 | 11,714,724 |
| Deferred ceding commission revenue | 7,207,142 | 7,735,398 |
| Accounts payable, accrued expenses and other liabilities | 11,134,175 | 9,986,317 |
| Deferred income taxes, net | 1,972,782 | - |
| Long-term debt, net | 29,603,566 | 29,471,431 |
| Total liabilities | <u>238,046,230</u> | <u>232,981,231</u> |
| Commitments and Contingencies (Note 11) | | |
| Stockholders' Equity | | |
| Preferred stock, \$.01 par value; authorized 2,500,000 shares | - | - |
| Common stock, \$.01 par value; authorized 20,000,000 shares; issued 11,871,307 shares at September 30, 2020 and 11,824,889 at December 31, 2019; outstanding 10,675,198 shares at September 30, 2020 and 10,797,450 shares at December 31, 2019 | 118,713 | 118,248 |
| Capital in excess of par | 70,372,799 | 69,133,918 |
| Accumulated other comprehensive income | 9,017,415 | 4,768,870 |
| Retained earnings | 13,318,838 | 16,913,097 |
| Stockholder equity before treasury stock | 92,827,765 | 90,934,133 |
| Treasury stock, at cost, 1,196,109 shares at September 30, 2020 and 1,027,439 shares at December 31, 2019 | (3,514,340) | (2,712,552) |
| Total stockholders' equity | <u>89,313,425</u> | <u>88,221,581</u> |
| Total liabilities and stockholders' equity | <u>\$ 327,359,655</u> | <u>\$ 321,202,812</u> |

See accompanying notes to condensed consolidated financial statements.

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KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

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

| | For the Three Months Ended | | For the Nine Months Ended | |
|---|----------------------------|--------------------|---------------------------|--------------------|
| | 2020 | 2019 | 2020 | 2019 |
| Revenues | | | | |
| Net premiums earned | \$ 27,521,081 | \$ 34,220,010 | \$ 81,099,387 | \$ 95,017,178 |
| Ceding commission revenue | 3,448,774 | 1,029,582 | 10,760,087 | 2,982,960 |
| Net investment income | 1,494,086 | 1,856,553 | 4,771,936 | 5,200,034 |
| Net gains (losses) on investments | 2,107,876 | 998,162 | (1,638,674) | 3,712,180 |
| Other income | 250,654 | 343,391 | 772,672 | 998,927 |
| Total revenues | <u>34,822,471</u> | <u>38,447,698</u> | <u>95,765,408</u> | <u>107,911,279</u> |
| Expenses | | | | |
| Loss and loss adjustment expenses | 20,117,975 | 24,781,318 | 49,317,427 | 71,587,850 |
| Commission expense | 8,036,298 | 7,722,825 | 23,652,765 | 21,866,420 |
| Other underwriting expenses | 6,346,846 | 6,430,734 | 19,434,110 | 17,983,174 |
| Other operating expenses | 1,038,453 | 609,924 | 3,364,483 | 2,647,221 |
| Depreciation and amortization | 710,181 | 646,201 | 2,070,435 | 1,876,202 |
| Interest expense | 456,545 | 456,545 | 1,369,635 | 1,369,635 |
| Total expenses | <u>36,706,298</u> | <u>40,647,547</u> | <u>99,208,855</u> | <u>117,330,502</u> |
| Loss from operations before income taxes | (1,883,827) | (2,199,849) | (3,443,447) | (9,419,223) |
| Income tax benefit | (655,971) | (474,687) | (1,379,578) | (1,998,251) |
| Net loss | <u>(1,227,856)</u> | <u>(1,725,162)</u> | <u>(2,063,869)</u> | <u>(7,420,972)</u> |
| Other comprehensive income, net of tax | | | | |
| Gross change in unrealized gains on available-for-sale-securities | 1,778,478 | 1,323,626 | 5,938,600 | 9,191,817 |
| Reclassification adjustment for (gains) losses included in net loss | (606,969) | 46,841 | (560,696) | 81,636 |
| Net change in unrealized gains | 1,171,509 | 1,370,467 | 5,377,904 | 9,273,453 |
| Income tax expense related to items of other comprehensive income | (246,017) | (287,798) | (1,129,359) | (1,947,424) |
| Other comprehensive income, net of tax | <u>925,492</u> | <u>1,082,669</u> | <u>4,248,545</u> | <u>7,326,029</u> |

| | | | | |
|---|---------------------|---------------------|---------------------|--------------------|
| Comprehensive (loss) income | <u>\$ (302,364)</u> | <u>\$ (642,493)</u> | <u>\$ 2,184,676</u> | <u>\$ (94,943)</u> |
| Earnings (loss) per common share: | | | | |
| Basic | <u>\$ (0.12)</u> | <u>\$ (0.16)</u> | <u>\$ (0.19)</u> | <u>\$ (0.69)</u> |
| Diluted | <u>\$ (0.12)</u> | <u>\$ (0.16)</u> | <u>\$ (0.19)</u> | <u>\$ (0.69)</u> |
| Weighted average common shares outstanding | | | | |
| Basic | <u>10,673,077</u> | <u>10,779,641</u> | <u>10,737,853</u> | <u>10,769,817</u> |
| Diluted | <u>10,673,077</u> | <u>10,779,641</u> | <u>10,737,853</u> | <u>10,769,817</u> |
| Dividends declared and paid per common share | <u>\$ 0.0400</u> | <u>\$ 0.0625</u> | <u>\$ 0.1425</u> | <u>\$ 0.2625</u> |

See accompanying notes to condensed consolidated financial statements.

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KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Stockholders' Equity (Unaudited)

Three months ended September 30, 2020 and 2019

| | Preferred Stock | | Common Stock | | Capital in Excess of Par | Accumulated Other Comprehensive Income | Retained Earnings | Treasury Stock | | Total |
|---|-----------------|-------------|-------------------|-------------------|--------------------------------|---|----------------------|------------------|-----------------------|----------------------|
| | Shares | Amount | Shares | Amount | | | | Shares | Amount | |
| Balance, July 1, 2019 | - | \$ - | 11,802,087 | \$ 118,020 | \$ 68,373,590 | \$ 3,359,047 | \$ 18,531,657 | 1,027,439 | \$ (2,712,552) | 87,669,762 |
| Stock-based compensation | - | - | - | - | 407,714 | - | - | - | - | 407,714 |
| Vesting of restricted stock awards | - | - | 12,050 | 120 | (120) | - | - | - | - | - |
| Shares deducted from restricted stock awards for payment of withholding taxes | - | - | (3,126) | (30) | (25,408) | - | - | - | - | (25,438) |
| Dividends | - | - | - | - | - | - | (637,927) | - | - | (637,927) |
| Net loss | - | - | - | - | - | - | (1,725,162) | - | - | (1,725,162) |
| Change in unrealized gains on available-for-sale securities, net of tax | - | - | - | - | - | 1,082,669 | - | - | - | 1,082,669 |
| Balance, September 30, 2019 | <u>-</u> | <u>\$ -</u> | <u>11,811,011</u> | <u>\$ 118,110</u> | <u>\$ 68,755,776</u> | <u>\$ 4,441,716</u> | <u>\$ 16,168,568</u> | <u>1,027,439</u> | <u>\$ (2,712,552)</u> | <u>\$ 86,771,618</u> |

| | Preferred Stock | | Common Stock | | Capital in Excess of Par | Accumulated Other Comprehensive Income | Retained Earnings | Treasury Stock | | Total |
|---|-----------------|-------------|-------------------|-------------------|--------------------------------|---|----------------------|------------------|-----------------------|----------------------|
| | Shares | Amount | Shares | Amount | | | | Shares | Amount | |
| Balance, July 1, 2020 | - | \$ - | 11,866,254 | \$ 118,662 | \$ 69,951,549 | \$ 8,091,923 | \$ 14,973,684 | 1,196,109 | \$ (3,514,340) | \$ 89,621,478 |
| Stock-based compensation | - | - | - | - | 430,896 | - | - | - | - | 430,896 |
| Vesting of restricted stock awards | - | - | 6,790 | 69 | (69) | - | - | - | - | - |
| Shares deducted from restricted stock awards for payment of withholding taxes | - | - | (1,737) | (18) | (9,577) | - | - | - | - | (9,595) |
| Dividends | - | - | - | - | - | - | (426,990) | - | - | (426,990) |
| Net loss | - | - | - | - | - | - | (1,227,856) | - | - | (1,227,856) |
| Change in unrealized gains on available-for-sale securities, net of tax | - | - | - | - | - | 925,492 | - | - | - | 925,492 |
| Balance, September 30, 2020 | <u>-</u> | <u>\$ -</u> | <u>11,871,307</u> | <u>\$ 118,713</u> | <u>\$ 70,372,799</u> | <u>\$ 9,017,415</u> | <u>\$ 13,318,838</u> | <u>1,196,109</u> | <u>\$ (3,514,340)</u> | <u>\$ 89,313,425</u> |

See accompanying notes to condensed consolidated financial statements.

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KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Stockholders' Equity (Unaudited)

Nine months ended September 30, 2020 and 2019

| | Preferred Stock | | Common Stock | | Capital in Excess of Par | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Treasury Stock | | Total |
|---|-----------------|--------|--------------|------------|--------------------------------|--|----------------------|----------------|----------------|---------------|
| | Shares | Amount | Shares | Amount | | | | Shares | Amount | |
| Balance, January 1, 2019 | - | \$ - | 11,775,148 | \$ 117,751 | \$ 67,763,940 | \$ (2,884,313) | \$ 26,380,816 | 1,027,439 | \$ (2,712,552) | 88,665,642 |
| Stock-based compensation | - | - | - | - | 1,116,921 | - | - | - | - | 1,116,921 |
| Vesting of restricted stock awards | - | - | 43,596 | 434 | (434) | - | - | - | - | - |
| Shares deducted from restricted stock awards for payment of withholding taxes | - | - | (10,733) | (105) | (148,173) | - | - | - | - | (148,278) |
| Exercise of stock options | - | - | 3,000 | 30 | 23,522 | - | - | - | - | 23,552 |
| Dividends | - | - | - | - | - | - | (2,827,276) | - | - | (2,827,276) |
| Net loss | - | - | - | - | - | - | (7,420,972) | - | - | (7,420,972) |
| Change in unrealized gains on available-for-sale securities, net of tax | - | - | - | - | - | 7,326,029 | - | - | - | 7,326,029 |
| Balance, September 30, 2019 | - | \$ - | 11,811,011 | \$ 118,110 | \$ 68,755,776 | \$ 4,441,716 | \$ 16,132,568 | 1,027,439 | \$ (2,712,552) | \$ 86,735,618 |

| | Preferred Stock | | Common Stock | | Capital in Excess of Par | Accumulated Other Comprehensive Income | Retained Earnings | Treasury Stock | | Total |
|---|-----------------|--------|--------------|------------|--------------------------------|---|----------------------|----------------|----------------|---------------|
| | Shares | Amount | Shares | Amount | | | | Shares | Amount | |
| Balance, January 1, 2020 | - | \$ - | 11,824,889 | \$ 118,248 | \$ 69,133,918 | \$ 4,768,870 | \$ 16,913,097 | 1,027,439 | \$ (2,712,552) | \$ 88,221,581 |
| Stock-based compensation | - | - | - | - | 1,373,283 | - | - | - | - | 1,373,283 |
| Vesting of restricted stock awards | - | - | 67,686 | 676 | (676) | - | - | - | - | - |
| Shares deducted from restricted stock awards for payment of withholding taxes | - | - | (21,268) | (211) | (133,726) | - | - | - | - | (133,937) |
| Acquisition of treasury stock | - | - | - | - | - | - | - | 168,670 | (801,788) | (801,788) |
| Dividends | - | - | - | - | - | - | (1,530,390) | - | - | (1,530,390) |
| Net loss | - | - | - | - | - | - | (2,063,869) | - | - | (2,063,869) |
| Change in unrealized gains on available-for-sale securities, net of tax | - | - | - | - | - | 4,248,545 | - | - | - | 4,248,545 |
| Balance, September 30, 2020 | - | \$ - | 11,871,307 | \$ 118,713 | \$ 70,372,799 | \$ 9,017,415 | \$ 13,318,838 | 1,196,109 | \$ (3,514,340) | \$ 89,313,425 |

See accompanying notes to condensed consolidated financial statements.

Condensed Consolidated Statements of Cash Flows (Unaudited)

Nine months ended September 30,

| | 2020 | 2019 |
|---|----------------------|----------------------|
| Cash flows from operating activities: | | |
| Net loss | \$ (2,063,869) | \$ (7,420,972) |
| Adjustments to reconcile net loss to net cash flows (used in) provided by operating activities: | | |
| Net (gains) losses on sale of investments | (857,650) | 54,759 |
| Net unrealized losses (gains) on equity investments | 2,740,489 | (3,196,260) |
| Net unrealized gains of other investments | (244,165) | (570,679) |
| Depreciation and amortization | 2,070,435 | 1,876,202 |
| Bad debts | 70,666 | - |
| Amortization of bond premium, net | 518,146 | 283,620 |
| Amortization of discount and issuance costs on long-term debt | 132,135 | 132,135 |
| Stock-based compensation | 1,373,283 | 1,116,921 |
| Deferred income tax expense (benefit) | 1,154,475 | (2,133,486) |
| (Increase) decrease in operating assets: | | |
| Premiums receivable, net | (1,247,963) | (390,922) |
| Reinsurance receivables, net | (14,778,870) | (213,334) |
| Deferred policy acquisition costs | 718,053 | (2,583,831) |
| Other assets | (2,010,253) | (882,320) |
| Increase (decrease) in operating liabilities: | | |
| Loss and loss adjustment expense reserves | 4,480,413 | 21,212,317 |
| Unearned premiums | (2,215,602) | 11,036,552 |
| Advance premiums | 1,727,744 | 1,629,862 |
| Reinsurance balances payable | (1,652,075) | (1,123,540) |
| Deferred ceding commission revenue | (528,256) | (857,805) |
| Accounts payable, accrued expenses and other liabilities | 1,147,858 | 1,568,746 |
| Net cash flows (used in) provided by operating activities | (9,465,006) | 19,537,965 |
| Cash flows from investing activities: | | |
| Purchase - fixed-maturity securities held-to-maturity | (4,041,750) | - |
| Purchase - fixed-maturity securities available-for-sale | (12,447,259) | (15,373,113) |
| Purchase - equity securities | (15,614,675) | (6,657,676) |
| Sale and redemption - fixed-maturity securities held-to-maturity | 500,000 | 400,000 |
| Sale or maturity - fixed-maturity securities available-for-sale | 29,666,158 | 9,835,464 |
| Sale - equity securities | 8,103,697 | 2,941,492 |
| Acquisition of property and equipment | (2,238,432) | (3,231,483) |
| Net cash flows provided by (used in) investing activities | 3,927,739 | (12,085,316) |
| Cash flows from financing activities: | | |
| Proceeds from exercise of stock options | - | 23,552 |
| Withholding taxes paid on vested restricted stock awards | (133,937) | (148,278) |
| Purchase of treasury stock | (801,788) | - |
| Dividends paid | (1,530,390) | (2,827,276) |
| Net cash flows used in financing activities | (2,466,115) | (2,952,002) |
| (Decrease) increase in cash and cash equivalents | \$ (8,003,382) | \$ 4,500,647 |
| Cash and cash equivalents, beginning of period | 32,391,485 | 21,138,403 |
| Cash and cash equivalents, end of period | \$ 24,388,103 | \$ 25,639,050 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid for income taxes | \$ - | \$ 388,000 |
| Cash paid for interest | \$ 825,000 | \$ 825,000 |

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 exclusively through retail and wholesale agents and brokers. KICO is a licensed insurance company in the States of New York, New Jersey, Rhode Island, Massachusetts, Pennsylvania, Connecticut, Maine and New Hampshire. KICO is currently offering its

property and casualty insurance products in New York, New Jersey, Rhode Island, Massachusetts, and Connecticut. Although New Jersey, Rhode Island, Massachusetts and Connecticut continue to be growing markets for the Company, 80.6% and 79.9% of KICO's direct written premiums for the three months and nine months ended September 30, 2020, respectively, came from the New York policies. Kingstone, through its wholly owned subsidiary, Cosi Agency, Inc. ("Cosi"), a multi-state licensed general agency, accesses alternate forms of distribution outside of the independent agent and broker network, through which KICO currently distributes its various products. Kingstone (through Cosi) now has the opportunity to partner with name-brand carriers and access nationwide insurance agencies.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). The principles for condensed interim financial information do not require the inclusion of all the information and footnotes required by GAAP for complete financial statements. Therefore, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements as of and for the year ended December 31, 2019 and notes thereto included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on March 16, 2020. 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 presentation of the Company's financial position and results of operations. The results of operations for the nine months ended September 30, 2020 may not be indicative of the results that may be expected for the year ending December 31, 2020.

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. Actual results could differ from these estimates and assumptions, which include the reserves for losses and loss adjustment expenses, and are subject to estimation errors due to the inherent uncertainty in projecting ultimate claim amounts that will be reported and settled over a period of many years. In addition, estimates and assumptions associated with receivables under reinsurance contracts related to contingent ceding commission revenue require judgments by management. On an ongoing basis, management reevaluates its assumptions and the methods for calculating these estimates. Actual results may differ significantly from the estimates and assumptions used in preparing the consolidated financial statements.

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Principles of Consolidation

The accompanying condensed consolidated financial statements consist of Kingstone and its following wholly owned subsidiaries: (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) Cosi. All significant intercompany account balances and transactions have been eliminated in consolidation.

Accounting Changes

The Company has determined that it was not subject to any new accounting pronouncements that became effective during the nine months ended September 30, 2020.

Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2016-13 - Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"). The revised accounting guidance requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. In addition, ASU 2016-13 amends the accounting for credit losses of available-for-sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 will be effective for the Company on January 1, 2023. The Company is currently evaluating the effect the updated guidance will have on its condensed consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, Income Taxes - Simplifying the Accounting for Income Taxes ("ASU 2019-12"). Among other items, the amendments in ASU 2019-12 simplify the accounting treatment of tax law changes and year-to-date losses in interim periods. An entity generally recognizes the effects of a change in tax law in the period of enactment; however, there is an exception for tax laws with delayed effective dates. Under current guidance, an entity may not adjust its annual effective tax rate for a tax law change until the period in which the law is effective. This exception was removed under ASU 2019-12, thereby providing that all effects of a tax law change are recognized in the period of enactment, including adjustment of the estimated annual effective tax rate. Regarding year-to-date losses in interim periods, an entity is required to estimate its annual effective tax rate for the full fiscal year at the end of each interim period and use that rate to calculate its income taxes on a year-to-date basis. However, current guidance provides an exception that when a loss in an interim period exceeds the anticipated loss for the year, the income tax benefit is limited to the amount that would be recognized if the year-to-date loss were the anticipated loss for the full year. ASU 2019-12 removes this exception and provides that, in this situation, an entity would compute its income tax benefit at each interim period based on its estimated annual effective tax rate. ASU 2019-12 is effective for fiscal years beginning after December 15, 2020, including interim periods within those annual periods. Early adoption is permitted. The Company is currently evaluating the impact of this guidance on its financial condition and results of operations.

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.

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Note 3 - Investments

Fixed-Maturity Securities

The amortized cost, estimated fair value, and unrealized gains and losses on investments in fixed-maturity securities classified as available-for-sale as of September 30, 2020 and December 31, 2019 are summarized as follows:

| Category | September 30, 2020 | | | | | |
|---|------------------------|------------------------|-------------------------|---------------------|-----------------------|----------------------|
| | Cost or Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | | Estimated Fair Value | Net Unrealized Gains |
| | | | Less than 12 Months | More than 12 Months | | |
| Fixed-Maturity Securities: | | | | | | |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | \$ 3,026,477 | \$ 42,853 | \$ - | \$ - | \$ 3,069,330 | \$ 42,853 |
| Political subdivisions of States, Territories and Possessions | 5,593,778 | 322,297 | - | - | 5,916,075 | 322,297 |
| Corporate and other bonds | | | | | | |
| Industrial and miscellaneous | 112,504,206 | 10,698,206 | (1,654) | - | 123,200,758 | 10,696,552 |
| Residential mortgage and other asset backed securities (1) | 24,002,398 | 535,772 | (38,491) | (147,253) | 24,352,426 | 350,028 |
| Total | <u>\$ 145,126,859</u> | <u>\$ 11,599,128</u> | <u>\$ (40,145)</u> | <u>\$ (147,253)</u> | <u>\$ 156,538,589</u> | <u>\$ 11,411,730</u> |

- (1) KICO has placed certain residential mortgage backed securities as eligible collateral in a designated custodian account related to its membership in the Federal Home Loan Bank of New York ("FHLBNY") (see Note 7). The eligible collateral would be pledged to FHLBNY if KICO draws an advance from the FHLBNY credit line. As of September 30, 2020, the estimated fair value of the eligible investments was approximately \$6,685,000. KICO will retain all rights regarding all securities if pledged as collateral. As of September 30, 2020, there was no outstanding balance on the FHLBNY credit line.

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| Category | December 31, 2019 | | | | | |
|---|------------------------|------------------------|-------------------------|---------------------|-----------------------|----------------------|
| | Cost or Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | | Estimated Fair Value | Net Unrealized Gains |
| | | | Less than 12 Months | More than 12 Months | | |
| Fixed-Maturity Securities: | | | | | | |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | \$ 7,037,856 | \$ 23,244 | \$ - | \$ - | \$ 7,061,100 | \$ 23,244 |
| Political subdivisions of States, Territories and Possessions | 9,151,293 | 181,835 | (11,316) | - | 9,321,812 | 170,519 |
| Corporate and other bonds | | | | | | |
| Industrial and miscellaneous | 119,874,573 | 5,777,624 | (16,685) | (13,473) | 125,622,039 | 5,747,466 |
| Residential mortgage and other asset backed securities (1) | 26,138,633 | 437,841 | (68,793) | (276,451) | 26,231,230 | 92,597 |
| Total | <u>\$ 162,202,355</u> | <u>\$ 6,420,544</u> | <u>\$ (96,794)</u> | <u>\$ (289,924)</u> | <u>\$ 168,236,181</u> | <u>\$ 6,033,826</u> |

- (1) KICO has placed certain residential mortgage backed securities as eligible collateral in a designated custodian account related to its membership in the FHLBNY (see Note 7). The eligible collateral would be pledged to FHLBNY if KICO draws an advance from the FHLBNY credit line. As of December 31, 2019, the estimated fair value of the eligible investments was approximately \$7,284,000. KICO will retain all rights regarding all securities if pledged as collateral. As of December 31, 2019, there was no outstanding balance on the FHLBNY credit line.

A summary of the amortized cost and estimated fair value of the Company's investments in available-for-sale fixed-maturity securities by contractual maturity as of September 30, 2020 and December 31, 2019 is shown below:

| Remaining Time to Maturity | September 30, 2020 | | December 31, 2019 | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| | Amortized Cost | Estimated Fair Value | Amortized Cost | Estimated Fair Value |
| Less than one year | \$ 8,879,582 | \$ 8,986,248 | \$ 11,986,401 | \$ 12,025,804 |
| One to five years | 46,530,097 | 49,878,416 | 49,715,422 | 51,000,025 |
| Five to ten years | 57,021,277 | 64,194,995 | 69,850,104 | 74,410,275 |
| More than 10 years | 8,693,505 | 9,126,504 | 4,511,795 | 4,568,847 |
| Residential mortgage and other asset backed securities | 24,002,398 | 24,352,426 | 26,138,633 | 26,231,230 |
| Total | <u>\$ 145,126,859</u> | <u>\$ 156,538,589</u> | <u>\$ 162,202,355</u> | <u>\$ 168,236,181</u> |

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

[Table of Contents](#)[Equity Securities](#)

The cost and estimated fair value of, and gross unrealized gains and losses on, investments in equity securities as of September 30, 2020 and December 31, 2019 are as follows:

| Category | September 30, 2020 | | | |
|--|----------------------|------------------------|-------------------------|----------------------|
| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| Equity Securities: | | | | |
| Preferred stocks | \$ 14,260,019 | \$ 325,070 | \$ (339,125) | \$ 14,245,964 |
| Common stocks, mutual funds, and exchange traded funds | 16,040,820 | 777,813 | (1,441,330) | 15,377,303 |
| Total | \$ 30,300,839 | \$ 1,102,883 | \$ (1,780,455) | \$ 29,623,267 |

| Category | December 31, 2019 | | | |
|--|----------------------|------------------------|-------------------------|----------------------|
| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| Equity Securities: | | | | |
| Preferred stocks | \$ 8,374,424 | \$ 339,257 | \$ (11,794) | \$ 8,701,887 |
| Common stocks, mutual funds, and exchange traded funds | 14,250,244 | 1,982,878 | (273,627) | 15,959,495 |
| Total | \$ 22,624,668 | \$ 2,322,135 | \$ (285,421) | \$ 24,661,382 |

[Other Investments](#)

The cost and estimated fair value of, and gross unrealized gains on, the Company's other investments as of September 30, 2020 and December 31, 2019 are as follows:

| Category | September 30, 2020 | | | December 31, 2019 | | |
|---------------------------|---------------------|------------------------|----------------------|---------------------|------------------------|----------------------|
| | Cost | Gross Unrealized Gains | Estimated Fair Value | Cost | Gross Unrealized Gains | Estimated Fair Value |
| Other Investments: | | | | | | |
| Hedge fund | \$ 1,999,381 | \$ 829,697 | \$ 2,829,078 | \$ 1,999,381 | \$ 585,532 | \$ 2,584,913 |
| Total | \$ 1,999,381 | \$ 829,697 | \$ 2,829,078 | \$ 1,999,381 | \$ 585,532 | \$ 2,584,913 |

[Table of Contents](#)[Held-to-Maturity Securities](#)

The cost or amortized cost and estimated fair value of, and unrealized gross gains and losses on, investments in held-to-maturity fixed-maturity securities as of September 30, 2020 and December 31, 2019 are summarized as follows:

| Category | September 30, 2020 | | | | | |
|---|------------------------|------------------------|-------------------------|---------------------|----------------------|----------------------|
| | Cost or Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | | Estimated Fair Value | Net Unrealized Gains |
| | | | Less than 12 Months | More than 12 Months | | |
| Held-to-Maturity Securities: | | | | | | |
| U.S. Treasury securities | \$ 729,583 | \$ 162,442 | \$ - | \$ - | \$ 892,025 | \$ 162,442 |
| Political subdivisions of States, Territories and Possessions | 998,480 | 56,700 | - | - | 1,055,180 | 56,700 |
| Corporate and other bonds | | | | | | |
| Industrial and miscellaneous | 5,641,545 | 334,412 | (23,858) | - | 5,952,099 | 310,554 |
| Total | \$ 7,369,608 | \$ 553,554 | \$ (23,858) | \$ - | \$ 7,899,304 | \$ 529,696 |

| Category | December 31, 2019 | | | | | |
|----------|------------------------|------------------------|-------------------------|---------------------|----------------------|----------------------|
| | Cost or Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | | Estimated Fair Value | Net Unrealized Gains |
| | | | Less than 12 Months | More than 12 Months | | |
| | | | | | | |

Held-to-Maturity Securities:

| | | | | | | |
|--|---------------------|-------------------|-----------------|-------------|---------------------|-------------------|
| U.S. Treasury securities | \$ 729,550 | \$ 151,002 | \$ - | \$ - | \$ 880,552 | \$ 151,002 |
| Political subdivisions of States, Territories and Possessions | 998,619 | 51,021 | - | - | 1,049,640 | 51,021 |
| Corporate and other bonds | | | | | | |
| Industrial and miscellaneous | 2,097,783 | 97,627 | (835) | - | 2,194,575 | 96,792 |
| Total | \$ 3,825,952 | \$ 299,650 | \$ (835) | \$ - | \$ 4,124,767 | \$ 298,815 |

Held-to-maturity U.S. Treasury securities are held in trust pursuant to various states' minimum funds requirements.

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A summary of the amortized cost and estimated fair value of the Company's investments in held-to-maturity securities by contractual maturity as of September 30, 2020 and December 31, 2019 is shown below:

| Remaining Time to Maturity | September 30, 2020 | | December 31, 2019 | |
|-----------------------------------|---------------------------|-----------------------------|--------------------------|-----------------------------|
| | Amortized Cost | Estimated Fair Value | Amortized Cost | Estimated Fair Value |
| Less than one year | \$ - | \$ - | \$ 500,000 | \$ 499,165 |
| One to five years | 2,597,739 | 2,793,089 | 2,099,268 | 2,215,640 |
| Five to ten years | 1,499,837 | 1,710,586 | 620,134 | 655,923 |
| More than 10 years | 3,272,032 | 3,395,629 | 606,550 | 754,039 |
| Total | \$ 7,369,608 | \$ 7,899,304 | \$ 3,825,952 | \$ 4,124,767 |

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

Investment Income

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|------------------------------|---|---------------------|--|---------------------|
| | 2020 | 2019 | 2020 | 2019 |
| Income: | | | | |
| Fixed-maturity securities | \$ 1,264,633 | \$ 1,499,135 | \$ 4,106,404 | \$ 4,500,346 |
| Equity securities | 290,834 | 253,594 | 787,702 | 666,247 |
| Cash and cash equivalents | 1,834 | 75,253 | 89,993 | 288,334 |
| Total | 1,557,301 | 1,827,982 | 4,984,099 | 5,454,927 |
| Expenses: | | | | |
| Investment expenses | 63,215 | (28,571) | 212,163 | 254,893 |
| Net investment income | \$ 1,494,086 | \$ 1,856,553 | \$ 4,771,936 | \$ 5,200,034 |

Proceeds from the sale and redemption of fixed-maturity securities held-to-maturity were \$500,000 and \$400,000 for the nine months ended September 30, 2020 and 2019, respectively.

Proceeds from the sale or maturity of fixed-maturity securities available-for-sale were \$29,666,158 and \$9,835,464 for the nine months ended September 30, 2020 and 2019, respectively.

Proceeds from the sale of equity securities were \$8,103,697 and \$2,941,492 for the nine months ended September 30, 2020 and 2019, respectively.

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The Company's net gains (losses) on investments are summarized as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|-----------------------------------|---|-------------|--|-------------|
| | 2020 | 2019 | 2020 | 2019 |
| Realized Gains (Losses) | - | - | - | - |
| Fixed-maturity securities: | | | | |
| Gross realized gains | \$ 714,162 | \$ 10 | \$ 967,573 | \$ 10,954 |
| Gross realized losses | (107,193) | (46,851) | (304,118) | (92,591) |
| | 606,969 | (46,841) | 560,696 | (81,637) |
| Equity securities: | | | | |

| | | | | |
|-----------------------------------|--------------|------------|----------------|--------------|
| Gross realized gains | 199,439 | 38,477 | 644,111 | 83,737 |
| Gross realized losses | (209,069) | - | (449,916) | (56,859) |
| | (9,630) | 38,477 | 194,195 | 26,878 |
| Net realized (losses) gains | 597,339 | (8,364) | 857,650 | (54,759) |
| Unrealized Gains (Losses) | | | | |
| Equity securities: | | | | |
| Gross gains | 1,223,779 | 916,496 | - | 3,196,260 |
| Gross losses | - | - | (2,740,489) | - |
| | 1,223,779 | 916,496 | (2,740,489) | 3,196,260 |
| Other investments: | | | | |
| Gross gains | 286,758 | 90,030 | 244,165 | 570,679 |
| Gross losses | - | - | - | - |
| | 286,758 | 90,030 | 244,165 | 570,679 |
| Net unrealized gains (losses) | 1,510,537 | 1,006,526 | (2,496,324) | 3,766,939 |
| Net gains (losses) on investments | \$ 2,107,876 | \$ 998,162 | \$ (1,638,674) | \$ 3,712,180 |

Impairment Review

Impairment of investment securities results in a charge to operations when a market decline below cost is deemed to be other-than-temporary. The Company regularly reviews its fixed-maturity securities to evaluate the necessity of recording impairment losses for other-than-temporary declines in the estimated 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 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 comprehensive loss 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 operations and comprehensive income (loss) 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, 2020 and December 31, 2019, there were 19 and 39 fixed-maturity securities, respectively, 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 investments for the nine months ended September 30, 2020 and 2019. 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 estimated fair value to the Company's cost basis.

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The Company held available-for-sale securities with unrealized losses representing declines that were considered temporary at September 30, 2020 as follows:

| Category | September 30, 2020 | | | | | | | |
|---|----------------------|--------------------|-----------------------|----------------------|---------------------|-----------------------|----------------------|---------------------|
| | Less than 12 months | | | 12 months or more | | | Total | |
| | Estimated Fair Value | Unrealized Losses | No. of Positions Held | Estimated Fair Value | Unrealized Losses | No. of Positions Held | Estimated Fair Value | Unrealized Losses |
| Fixed-Maturity Securities: | | | | | | | | |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | \$ - | \$ - | - | \$ - | \$ - | - | \$ - | \$ - |
| Political subdivisions of States, Territories and Possessions | - | - | - | - | - | - | - | - |
| Corporate and other bonds industrial and miscellaneous | 522,450 | (1,654) | 1 | - | - | - | 522,450 | (1,654) |
| Residential mortgage and other asset backed securities | 4,003,377 | (38,491) | 6 | 5,020,026 | (147,253) | 12 | 9,023,403 | (185,744) |
| Total fixed-maturity securities | \$ 4,525,827 | \$ (40,145) | 7 | \$ 5,020,026 | \$ (147,253) | 12 | \$ 9,545,853 | \$ (187,398) |

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The Company held available-for-sale securities with unrealized losses representing declines that were considered temporary at December 31, 2019 as follows:

| Category | December 31, 2019 | | | | | | | |
|---|----------------------|--------------------|-----------------------|----------------------|---------------------|-----------------------|----------------------|---------------------|
| | Less than 12 months | | | 12 months or more | | | Total | |
| | Estimated Fair Value | Unrealized Losses | No. of Positions Held | Estimated Fair Value | Unrealized Losses | No. of Positions Held | Estimated Fair Value | Unrealized Losses |
| Fixed-Maturity Securities: | | | | | | | | |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | \$ - | \$ - | - | \$ - | \$ - | - | \$ - | \$ - |
| Political subdivisions of States, Territories and Possessions | 3,067,428 | (11,316) | 3 | - | - | - | 3,067,428 | (11,316) |
| Corporate and other bonds industrial and miscellaneous | 3,730,478 | (16,685) | 7 | 1,300,915 | (13,473) | 3 | 5,031,393 | (30,158) |
| Residential mortgage and other asset backed securities | 5,862,636 | (68,793) | 5 | 13,534,768 | (276,451) | 21 | 19,397,404 | (345,244) |
| Total fixed-maturity securities | \$12,660,542 | \$ (96,794) | 15 | \$14,835,683 | \$ (289,924) | 24 | \$27,496,225 | \$ (386,718) |

[Table of Contents](#)**Note 4 - Fair Value Measurements**

The following table presents information about the Company's investments that are measured at fair value on a recurring basis at September 30, 2020 and December 31, 2019 indicating the fair value hierarchy of the valuation inputs the Company utilized to determine such fair value:

| | September 30, 2020 | | | |
|---|----------------------|----------------------|-------------|----------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Fixed-maturity securities available-for-sale | | | | |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | \$ 3,069,330 | \$ - | \$ - | \$ 3,069,330 |
| Political subdivisions of States, Territories and Possessions | - | 5,916,075 | - | 5,916,075 |
| Corporate and other bonds industrial and miscellaneous | 121,119,461 | 2,081,297 | - | 123,200,758 |
| Residential mortgage backed securities | - | 24,352,426 | - | 24,352,426 |
| Total fixed maturities | 124,188,791 | 32,349,798 | - | 156,538,589 |
| Equity securities | 29,623,267 | - | - | 29,623,267 |
| Total investments | \$153,812,058 | \$ 32,349,798 | \$ - | \$186,161,856 |
| | December 31, 2019 | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| Fixed-maturity securities available-for-sale | | | | |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | \$ 7,061,100 | \$ - | \$ - | \$ 7,061,100 |
| Political subdivisions of States, Territories and Possessions | - | 9,321,812 | - | 9,321,812 |

| | | | | |
|--|----------------------|----------------------|-------------|----------------------|
| Corporate and other bonds industrial and miscellaneous | 123,010,772 | 2,611,267 | - | 125,622,039 |
| Residential mortgage backed securities | - | 26,231,230 | - | 26,231,230 |
| Total fixed maturities | 130,071,872 | 38,164,309 | - | 168,236,181 |
| Equity securities | 24,661,382 | - | - | 24,661,382 |
| Total investments | <u>\$154,733,254</u> | <u>\$ 38,164,309</u> | <u>\$ -</u> | <u>\$192,897,563</u> |

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The following table sets forth the Company's investment in a hedge fund measured at Net Asset Value ("NAV") per share as of September 30, 2020 and December 31, 2019. The Company measures this investment at fair value on a recurring basis. Fair value using NAV per share is as follows as of the dates indicated:

| Category | September 30, 2020 | December 31, 2019 |
|---------------------------|---------------------|---------------------|
| Other Investments: | | |
| Hedge fund | \$ 2,829,078 | \$ 2,584,913 |
| Total | <u>\$ 2,829,078</u> | <u>\$ 2,584,913</u> |

The investment is generally redeemable with at least 45 days prior written notice. The hedge fund investment is accounted for as a limited partnership by the Company. Income is earned based upon the Company's allocated share of the partnership's changes in unrealized gains and losses to its partners. Such amounts have been recorded in the condensed consolidated statements of operations and comprehensive income (loss) within net gains (losses) on investments.

The estimated fair value and the level of the fair value hierarchy of the Company's long-term debt as of September 30, 2020 and December 31, 2019 not measured at fair value is as follows:

| | September 30, 2020 | | | |
|-----------------------|--------------------|---------------|---------|---------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Long-term debt | | | | |
| Senior Notes due 2022 | \$ - | \$ 27,279,652 | \$ - | \$ 27,279,652 |

| | December 31, 2019 | | | |
|-----------------------|-------------------|---------------|---------|---------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Long-term debt | | | | |
| Senior Notes due 2022 | \$ - | \$ 27,313,994 | \$ - | \$ 27,313,994 |

Note 5 - Fair Value of Financial Instruments and Real Estate

The estimated fair values of the Company's financial instruments and real estate as of September 30, 2020 and December 31, 2019 are as follows:

| | September 30, 2020 | | December 31, 2019 | |
|--|--------------------|----------------------|-------------------|----------------------|
| | Carrying Value | Estimated Fair Value | Carrying Value | Estimated Fair Value |
| Fixed-maturity securities-held-to maturity | \$ 7,369,608 | \$ 7,899,304 | \$ 3,825,952 | \$ 4,124,767 |
| Cash and cash equivalents | \$ 24,388,103 | \$ 24,388,103 | \$ 32,391,485 | \$ 32,391,485 |
| Premiums receivable, net | \$ 13,883,708 | \$ 13,883,708 | \$ 12,706,411 | \$ 12,706,411 |
| Reinsurance receivables, net | \$ 55,529,408 | \$ 55,529,408 | \$ 40,750,538 | \$ 40,750,538 |
| Real estate, net of accumulated depreciation | \$ 2,238,435 | \$ 2,705,000 | \$ 2,292,743 | \$ 2,705,000 |
| Reinsurance balances payable | \$ 10,062,649 | \$ 10,062,649 | \$ 11,714,724 | \$ 11,714,724 |

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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, 2020 | | | | |
| Premiums written | \$125,089,571 | \$ - | \$(43,813,468) | \$ 81,276,103 |
| Change in unearned premiums | 2,215,602 | - | (2,392,318) | (176,716) |

| | | | | |
|--|---------------|--------|----------------|---------------|
| Premiums earned | \$127,305,173 | \$ - | \$(46,205,786) | \$ 81,099,387 |
| Nine months ended September 30, 2019 | | | | |
| Premiums written | \$128,333,117 | \$ 938 | \$(20,914,074) | \$107,419,981 |
| Change in unearned premiums | (11,035,993) | (559) | (1,366,251) | (12,402,803) |
| Premiums earned | \$117,297,124 | \$ 379 | \$(22,280,325) | \$ 95,017,178 |
| Three months ended September 30, 2020 | | | | |
| Premiums written | \$ 45,742,165 | \$ - | \$(15,747,215) | \$ 29,994,950 |
| Change in unearned premiums | (3,161,356) | - | 687,487 | (2,473,869) |
| Premiums earned | \$ 42,580,809 | \$ - | \$(15,059,728) | \$ 27,521,081 |
| Three months ended September 30, 2019 | | | | |
| Premiums written | \$ 46,023,290 | \$ 861 | \$(5,586,278) | \$ 40,437,873 |
| Change in unearned premiums | (4,579,777) | (761) | (1,637,325) | (6,217,863) |
| Premiums earned | \$ 41,443,513 | \$ 100 | \$(7,223,603) | \$ 34,220,010 |

Premium receipts in advance of the policy effective date are recorded as advance premiums. The balance of advance premiums as of September 30, 2020 and December 31, 2019 was \$4,919,256 and \$3,191,512, respectively.

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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 | |
| | 2020 | 2019 |
| Balance at beginning of period | \$ 80,498,611 | \$ 56,197,106 |
| Less reinsurance recoverables | (15,728,224) | (15,671,247) |
| Net balance, beginning of period | <u>64,770,387</u> | <u>40,525,859</u> |
| Incurred related to: | | |
| Current year | 49,597,154 | 60,401,821 |
| Prior years | (279,727) | 11,186,029 |
| Total incurred | <u>49,317,427</u> | <u>71,587,850</u> |
| Paid related to: | | |
| Current year | 29,845,049 | 31,515,656 |
| Prior years | 24,068,492 | 18,600,946 |
| Total paid | <u>53,913,541</u> | <u>50,116,602</u> |
| Net balance at end of period | 60,174,273 | 61,997,107 |
| Add reinsurance recoverables | 24,804,751 | 15,412,316 |
| Balance at end of period | <u>\$ 84,979,024</u> | <u>\$ 77,409,423</u> |

Incurred losses and LAE are net of reinsurance recoveries under reinsurance contracts of \$23,826,986 and \$8,849,440 for the nine months ended September 30, 2020 and 2019, respectively.

Prior year incurred loss and LAE development is based upon estimates by line of business and accident year. Prior year loss and LAE development incurred during the nine months ended September 30, 2020 and 2019 was \$279,727 favorable and \$11,186,029 unfavorable, respectively. During the nine months ended September 30, 2019, the Company increased case reserves for certain older open liability claims, which primarily affected the ultimate loss projections for commercial lines business. This was in response to management’s detailed review of open liability claims that resulted in new assessments of carried case and incurred but not reported (“IBNR”) reserve levels, giving consideration to both Company and industry trends.

Loss and LAE reserves

The reserving process for loss and LAE reserves provides for the Company’s best estimate at a particular point in time of the ultimate unpaid cost of all losses and LAE incurred, including settlement and administration of losses, and is based on facts and circumstances then known including losses that have occurred but that have not yet been reported. The process relies on standard actuarial reserving methodologies, judgments relative to estimates of ultimate claim severity and frequency, the length of time before losses will develop to their ultimate level (‘tail’ factors), and the likelihood of changes in the law or other external factors that are 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 cumulative combination of the best estimates made by line of business, accident year, and loss and LAE. The amount of loss and LAE reserves for individual reported claims (the “case reserve”) is determined by the claims department and changes over time as new information is gathered. Such information is critical to the review of appropriate IBNR reserves and includes a review of coverage applicability, comparative liability on the part of the insured, injury severity, property damage, replacement cost estimates, and any other information considered pertinent to estimating the exposure presented by the claim. The amounts of loss and LAE reserves for unreported claims and development on known claims (IBNR reserves) are determined using historical information aggregated by line of insurance as adjusted to current conditions.

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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 period'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 periods. Several methods are used, varying by line of business and accident year, in order to select the estimated period-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.

Incremental Claim-Based Methods – historical patterns of incremental incurred losses and paid LAE during various stages of development are reviewed and assumptions are made regarding average loss and LAE development applied to remaining claims inventory. Such methods more properly reflect changes in the speed of claims closure and the relative adequacy of case reserve levels at various stages of development. These methods may provide a more accurate estimate of IBNR for lines of business with relatively few remaining open claims but for which significant recent settlement activity has occurred.

Frequency / Severity Based Methods – historical measurements of claim frequency and average paid claim size (severity) are reviewed for more mature accident years where a majority of claims have been reported and/or closed. These historical averages are trended forward to more recent periods in order to estimate ultimate losses for newer accident years that are not yet fully developed. These methods are useful for lines of business with slow and/or volatile loss development patterns, such as liability lines where information pertaining to individual cases may not be completely known for many years. The claim frequency and severity information for older periods can then be used as reasonable measures for developing a range of estimates for more recent immature periods.

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Management's best estimate of required reserves is generally based on an average of the methods above, with appropriate weighting of 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.

Three 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, the loss development factor selections used in the loss development methods, and the loss severity assumptions used in the frequency / severity method 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 severity assumptions used in the frequency / severity method are determined by reviewing historical average claim severity for older more mature accident periods, trended forward to less mature accident periods.

The Company is not aware of any claim trends that have emerged or that would cause future adverse development that have not already been contemplated in setting current carried reserves levels.

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 unreported claims ("pure" IBNR) for accident dates of September 30, 2017 and prior is limited, although there remains the possibility of adverse development on reported claims ("case development" IBNR). In certain rare circumstances states have retroactively revised a statute of limitations. The Company is not aware of any such effort that would have a material impact on the Company's results.

The following is information about incurred and paid claims development as of September 30, 2020, net of reinsurance, as well as the cumulative reported claims by accident year and total IBNR reserves as of September 30, 2020 included in the net incurred loss and allocated expense amounts. The historical information regarding incurred and paid claims development for the years ended December 31, 2011 to December 31, 2019 is presented as supplementary unaudited information.

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All Lines of Business

from December 15, 2019 through December 31, 2020 (“2019/2020 Treaty”). The Company’s quota share reinsurance treaties in effect during the nine months ended September 30, 2019 for its personal lines business were covered through June 30, 2019 under a treaty covering a two-year period from July 1, 2017 through June 30, 2019 (“2017/2019 Treaty”). The treaty in effect during the nine months ended September 30, 2019 was covered through June 30, 2019 under the July 1, 2018 through June 30, 2019 treaty year (“2018/2019 Treaty Year”).

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Effective July 1, 2019, the 2017/2019 Treaty and the commercial umbrella treaty expired on a run-off basis; these treaties were not renewed. The Company entered into new excess of loss and catastrophe reinsurance treaties effective July 1, 2020. Material terms for reinsurance treaties in effect for the treaty years shown below are as follows:

| Line of Business | Treaty Year | | |
|--|--|---|-------------------------------------|
| | December 15, 2019 to December 31, 2020 | July 1, 2019 to December 14, 2019 | July 1, 2018 to June 30, 2019 |
| Personal Lines: Homeowners, dwelling fire and and canine legal liability Quota share treaty: Percent ceded | 25% | None | 10% |

| Line of Business | Treaty Year | | | | |
|--|--|---|--|---|-------------------------------------|
| | January 1, 2021 to June 30, 2021 | July 1, 2020 to December 31, 2020 | December 15, 2019 to June 30, 2020 | July 1, 2019 to December 14, 2019 | July 1, 2018 to June 30, 2019 |
| Personal Lines: Homeowners, dwelling fire and and canine legal liability Quota share treaty: Risk retained on initial \$1,000,000 of losses | NA (7) | \$ 750,000 | \$ 750,000 | \$ 1,000,000 | \$ 900,000 |
| Losses per occurrence subject to quota share reinsurance coverage | NA (7) | \$ 1,000,000 | \$ 1,000,000 | None | \$ 1,000,000 |
| Expiration date | | December 31, 2020 | December 31, 2020 | | June 30, 2019 |
| Excess of loss coverage and facultative facility coverage (1) | \$ 8,000,000 | \$ 8,000,000 | \$ 9,000,000 | \$ 9,000,000 | \$ 9,000,000 |
| | in excess of | in excess of | in excess of | in excess of | in excess of |
| | \$ 1,000,000 | \$ 1,000,000 | \$ 1,000,000 | \$ 1,000,000 | \$ 1,000,000 |
| Total reinsurance coverage per occurrence (7) | \$ 8,000,000 | \$ 8,250,000 | \$ 9,250,000 | \$ 9,000,000 | \$ 9,100,000 |
| Losses per occurrence subject to reinsurance coverage | \$ 8,000,000 | \$ 9,000,000 | \$ 10,000,000 | \$ 10,000,000 | \$ 10,000,000 |
| Expiration date (7) | June 30, 2021 | June 30, 2021 | June 30, 2020 | June 30, 2020 | June 30, 2019 |

| | | | | | |
|--|----------------|----------------|----------------|----------------|----------------|
| Catastrophe Reinsurance: Initial loss subject to personal lines quota share treaty | NA (7) | \$ 7,500,000 | \$ 7,500,000 | None | \$ 5,000,000 |
| Risk retained per catastrophe occurrence (2) (7) | \$ 10,000,000 | \$ 8,125,000 | \$ 5,625,000 | \$ 7,500,000 | \$ 4,500,000 |
| Catastrophe loss coverage in excess of quota share coverage (3) (7) | \$ 475,000,000 | \$ 475,000,000 | \$ 602,500,000 | \$ 602,500,000 | \$ 445,000,000 |
| Reinstatement premium protection (4) (5) (6) | Yes | Yes | Yes | Yes | Yes |

- (1) For personal lines, includes the addition of an automatic facultative facility allowing KICO to obtain homeowners single risk coverage up to \$10,000,000 in total insured value, which covers direct losses from \$3,500,000 to \$10,000,000.
- (2) Plus losses in excess of catastrophe coverage. Effective July 1, 2020, no reinsurance coverage for the \$2,500,000 gap between quota share limit of \$7,500,000 and first \$10,000,000 layer of catastrophe coverage (see note (7) below).
- (3) Catastrophe coverage is limited on an annual basis to two times the per occurrence amounts. Duration of 168 consecutive hours for a catastrophe occurrence from windstorm, hail, tornado, hurricane and cyclone.
- (4) Effective July 1, 2018, reinstatement premium protection for \$210,000,000 of catastrophe coverage in excess of \$5,000,000.
- (5) Effective July 1, 2019, reinstatement premium protection for \$292,500,000 of catastrophe coverage in excess of \$7,500,000.
- (6) Effective July 1, 2020, reinstatement premium protection for \$70,000,000 of catastrophe coverage in excess of \$10,000,000.
- (7) Quota share expires December 31, 2020; reinsurance coverage from January 1, 2021 through June 30, 2021 is only for excess of loss and catastrophe reinsurance.

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| Line of Business | Treaty Year | | |
|---|---------------------|---------------------|---------------------|
| | July 1, 2020 | July 1, 2019 | July 1, 2018 |
| | to June 30, 2021 | to June 30, 2020 | to June 30, 2019 |
| Personal Lines: | | | |
| Personal Umbrella | | | |
| Quota share treaty: | | | |
| Percent ceded - first \$1,000,000 of coverage | 90% | 90% | 90% |
| Percent ceded - excess of \$1,000,000 of coverage | 95% | 100% | 100% |
| Risk retained | \$ 300,000 | \$ 100,000 | \$ 100,000 |
| Total reinsurance coverage per occurrence | \$ 4,700,000 | \$ 4,900,000 | \$ 4,900,000 |
| Losses per occurrence subject to quota share reinsurance coverage | \$ 5,000,000 | \$ 5,000,000 | \$ 5,000,000 |
| Expiration date | June 30, 2021 | June 30, 2020 | June 30, 2019 |
| Commercial Lines: | | | |
| General liability commercial policies | | | |
| Quota share treaty | None | None | None |
| Risk retained | \$ 750,000 | \$ 750,000 | \$ 750,000 |
| Excess of loss coverage above risk retained | \$ 3,750,000 | \$ 3,750,000 | \$ 3,750,000 |
| | in excess of | in excess of | in excess of |
| | \$ 750,000 | \$ 750,000 | \$ 750,000 |
| Total reinsurance coverage per occurrence | \$ 3,750,000 | \$ 3,750,000 | \$ 3,750,000 |
| Losses per occurrence subject to reinsurance coverage | \$ 4,500,000 | \$ 4,500,000 | \$ 4,500,000 |
| Commercial Umbrella | | | |
| Quota share treaty: | None | None | |
| Percent ceded - first \$1,000,000 of coverage | | | 90% |
| Percent ceded - excess of \$1,000,000 of coverage | | | 100% |
| Risk retained | | | \$ 100,000 |
| Total reinsurance coverage per occurrence | | | \$ 4,900,000 |
| Losses per occurrence subject to quota share reinsurance coverage | | | \$ 5,000,000 |
| Expiration date | | | June 30, 2019 |

The Company's reinsurance program has been structured to enable the Company to 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.

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The Company's estimated ultimate treaty year loss ratios (the "Loss Ratio(s)") for treaties in effect during the three months and nine months ended September 30, 2020 are attributable to contracts under the 2019/2020 Treaty. The Loss Ratios for treaties in effect for the nine months ended September 30, 2019 are attributable to contracts under the 2017/2019 Treaty for the 2018/2019 Treaty Year, which expired on June 30, 2019 and was not renewed. There was no current quota share treaty in effect during the three months ended September 30, 2019, and therefore no current contingent commission adjustment was recorded for the three months ended September 30, 2019.

Under the 2019/2020 Treaty and the 2017/2019 Treaty for the 2018/2019 Treaty Year, the Company received an upfront fixed provisional ceding commission rate that is not subject to a sliding scale contingent adjustment. In addition to the treaties that were in effect during the nine months ended September 30, 2020 and 2019, and three months ended September 30, 2019, the Loss Ratios from prior years' treaties are subject to change as incurred losses from those periods increase or decrease, resulting in an increase or decrease in the commission rate and contingent ceding commissions earned.

Ceding commission revenue consists of the following:

**Three months ended
September 30,**

**Nine months ended
September 30,**

| | 2020 | 2019 | 2020 | 2019 |
|---------------------------------------|---------------------|---------------------|----------------------|---------------------|
| Provisional ceding commissions earned | \$ 3,460,768 | \$ 1,320,069 | \$ 10,621,804 | \$ 4,001,294 |
| Contingent ceding commissions earned | (11,994) | (290,487) | 138,283 | (1,018,334) |
| | <u>\$ 3,448,774</u> | <u>\$ 1,029,582</u> | <u>\$ 10,760,087</u> | <u>\$ 2,982,960</u> |

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, the Loss Ratios from prior years' treaties are subject to change as incurred losses from those periods develop, resulting in an increase or decrease in the commission rate and contingent ceding commissions earned. As of September 30, 2020 and December 31, 2019, net contingent ceding commissions payable to reinsurers under all treaties was approximately \$2,864,000 and \$2,886,000, respectively, which is recorded in reinsurance balances payable on the accompanying condensed consolidated balance sheets.

Note 7 – Debt

Federal Home Loan Bank

In July 2017, KICO became a member of, and invested in, the Federal Home Loan Bank of New York (“FHLBNY”). The aggregate fair value of the investment in dividend bearing common stock was \$11,200 and \$15,180 as of September 30, 2020 and December 31, 2019, respectively. FHLBNY members have access to a variety of flexible, low cost funding through FHLBNY's credit products, enabling members to customize advances, which are to be fully collateralized. Eligible collateral to pledge to FHLBNY includes residential and commercial mortgage backed securities, along with U.S. Treasury and agency securities. See Note 3 – Investments for eligible collateral held in a designated custodian account available for future advances. Advances are limited to 5% of KICO's net admitted assets as of the previous quarter and are due and payable within ninety days of borrowing. The maximum allowable advance as of September 30, 2020 was approximately \$11,732,000. Advances are limited to 85% of the amount of available collateral, which was approximately \$5,683,000 as of September 30, 2020. There were no borrowings under this facility during the nine months ended September 30, 2020 and 2019.

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Long-term Debt

On December 19, 2017, the Company issued \$30 million of its 5.50% Senior Unsecured Notes due December 30, 2022 (the “Notes”) in an underwritten public offering. Interest is payable semi-annually in arrears on June 30 and December 30 of each year, which began on June 30, 2018 at the rate of 5.50% per annum. The net proceeds of the issuance were \$29,121,630, net of discount of \$163,200 and transaction costs of \$715,170, for an effective yield of 5.67% per annum. The balance of long-term debt as of September 30, 2020 and December 31, 2019 is as follows:

| | <u>September 30, 2020</u> | <u>December 31, 2019</u> |
|------------------------------|-----------------------------------|----------------------------------|
| 5.50% Senior Unsecured Notes | \$ 30,000,000 | \$ 30,000,000 |
| Discount | (73,023) | (97,325) |
| Issuance costs | (323,411) | (431,244) |
| Long-term debt, net | <u>\$ 29,603,566</u> | <u>\$ 29,471,431</u> |

The Notes are unsecured obligations of the Company and are not the obligations of or guaranteed by any of the Company's subsidiaries. The Notes rank senior in right of payment to any of the Company's existing and future indebtedness that is by its terms expressly subordinated or junior in right of payment to the Notes. The Notes rank equally in right of payment to all of the Company's existing and future senior indebtedness, but will be effectively subordinated to any secured indebtedness to the extent of the value of the collateral securing such secured indebtedness. In addition, the Notes will be structurally subordinated to the indebtedness and other obligations of the Company's subsidiaries. The Company may redeem the Notes, at any time in whole or from time to time in part, at the redemption price equal to the greater of: (i) 100% of the principal amount of the Notes to be redeemed; and (ii) the sum of the present values of the remaining scheduled payments of principal and interest on the Notes to be redeemed that would be due if the Notes matured on the applicable redemption date (exclusive of interest accrued to the applicable redemption date) discounted to the redemption date on a semi-annual basis at the Treasury Rate, plus 50 basis points.

The Company has used an aggregate \$28,256,335 of the net proceeds from the offering to contribute capital to KICO in order to support additional growth. The remainder of the net proceeds is being used for general corporate purposes. A registration statement relating to the debt issued in the offering was filed with the SEC, which became effective on November 28, 2017.

Note 8 – Stockholders' Equity

Dividends Declared and Paid

Dividends declared and paid on Common Stock were \$1,530,390 and \$2,827,276 for the nine months ended September 30, 2020 and 2019, respectively. The Company's Board of Directors approved a quarterly dividend on November 4, 2020 of \$.04 per share payable in cash on December 15, 2020 to stockholders of record as of November 30, 2020 (see Note 13 - Subsequent Events).

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Stock Options

Effective August 12, 2014, the Company adopted the 2014 Equity Participation Plan (the “2014 Plan”) pursuant to which a maximum of 700,000 shares of Common Stock of the Company were initially 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 expire no later than ten years from the date of grant (except no later than five years for a grant to a 10% stockholder). Non-statutory stock options granted under the 2014 Plan expire no later than ten years from the date of grant. The Board of Directors or the Compensation Committee determines the vesting provisions for stock awards granted under the 2014 Plan, subject to the provisions of the 2014 Plan. On August 5, 2020, the Company’s stockholders approved amendments to the 2014 Plan, including an increase in the maximum shares of Common Stock of the Company that are authorized to be used pursuant to the 2014 Plan to 1,400,000.

The results of operations for the three months ended September 30, 2020 and 2019 include stock-based compensation expense for stock options totaling approximately \$14,000 and \$20,000, respectively. The results of operations for the nine months ended September 30, 2020 and 2019 include stock-based compensation expense for stock options totaling approximately \$52,000 and \$21,000, respectively. Stock-based compensation expense related to stock options is net of estimated forfeitures of approximately 16% for the three months and nine months ended September 30, 2020. Stock-based compensation expense related to stock options is net of estimated forfeitures of approximately 17% for the three months and nine months ended September 30, 2019. Such amounts have been included in the consolidated statements of operations and comprehensive income (loss) within other operating expenses.

The weighted average estimated fair value of stock options granted during the nine months ended September 30, 2020 and 2019 was \$2.40 per share and \$1.91 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 following periods:

| | Nine months ended | |
|-------------------------|--------------------------|-------------|
| | September 30, | |
| | 2020 | 2019 |
| Dividend Yield | 3.14% | 2.87% |
| Volatility | 37.69% | 36.11% |
| Risk-Free Interest Rate | 1.40% | 1.61% |
| Expected Life | 2.75 years | 3.25 years |

The Black-Scholes option pricing 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 the Company’s 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 the Company’s stock options.

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A summary of stock option activity under the Company’s 2014 Plan for the nine months ended September 30, 2020 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, 2020 | 82,000 | \$ 8.61 | 3.38 | \$ - |
| Granted | 74,523 | \$ 7.96 | 4.34 | \$ - |
| Exercised | - | \$ - | - | \$ - |
| Forfeited | (36,557) | \$ 8.43 | - | \$ - |
| Outstanding at September 30, 2020 | <u>119,966</u> | <u>\$ 8.26</u> | <u>3.80</u> | <u>\$ -</u> |
| Vested and Exercisable at September 30, 2020 | <u>50,000</u> | <u>\$ 8.45</u> | <u>1.34</u> | <u>\$ -</u> |

The aggregate intrinsic value of options outstanding and options exercisable at September 30, 2020 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 \$5.89 closing price of the Company’s Common Stock on September 30, 2020. No options were exercised during the nine months ended September 30, 2020. The total intrinsic value of options forfeited during the nine months ended September 30, 2020 was \$-0-, determined as of the date of forfeiture.

Participants in the 2014 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”), or by exchanging a number of shares owned for a period of greater than one year having a fair market value equal to the exercise price of the option being exercised (“Share Exchange”).

As of September 30, 2020, the estimated fair value of unamortized compensation cost related to unvested stock option awards was approximately \$78,000. Unamortized compensation cost as of September 30, 2020 is expected to be recognized over a remaining weighted-average vesting period of 1.38 years.

As of September 30, 2020, there were 810,199 shares reserved for grants under the 2014 Plan.

[Table of Contents](#)[Restricted Stock Awards](#)

A summary of the restricted Common Stock activity under the Company's 2014 Plan for the nine months ended September 30, 2020 is as follows:

| Restricted Stock Awards | Shares | Weighted Average Grant Date Fair Value per Share | Aggregate Fair Value |
|-------------------------------|----------------|--|----------------------|
| Balance at January 1, 2020 | 213,929 | \$ 16.51 | \$ 3,554,174 |
| Granted | 209,518 | \$ 7.93 | \$ 1,661,504 |
| Vested | (91,863) | \$ 14.49 | \$ (1,331,254) |
| Forfeited | (19,266) | \$ 15.18 | \$ (292,455) |
| Balance at September 30, 2020 | <u>312,318</u> | <u>\$ 10.45</u> | <u>\$ 3,591,969</u> |

Fair value was calculated using the closing price of the Company's Common Stock on the grant date. For the three months ended September 30, 2020 and 2019, stock-based compensation for these grants was approximately \$416,000 and \$388,000, respectively, which is included in other operating expenses on the accompanying condensed consolidated statements of operations and comprehensive income (loss). For the nine months ended September 30, 2020 and 2019, stock-based compensation for these grants was approximately \$1,321,000 and \$1,096,000, respectively, which is included in other operating expenses on the accompanying condensed consolidated statements of operations and comprehensive income (loss). These amounts reflect the Company's accounting expense and do not correspond to the actual value that will be recognized by the directors, executives and employees.

Note 9 – Income Taxes

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 return 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 consolidated financial statements taken as a whole for the respective periods.

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 sheets reflect temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and income tax purposes, tax effected at various rates depending on whether the temporary differences are subject to federal taxes, state taxes, or both.

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Significant components of the Company's deferred tax assets and liabilities are as follows:

| | September 30, 2020 | December 31, 2019 |
|---|-----------------------|-------------------|
| Deferred tax asset: | | |
| Net operating loss carryovers (1) | \$ 55,845 | \$ 1,586,247 |
| Claims reserve discount | 779,554 | 839,959 |
| Unearned premium | 3,185,331 | 3,105,344 |
| Deferred ceding commission revenue | 1,513,500 | 1,624,434 |
| Other | 491,402 | 462,019 |
| Total deferred tax assets | <u>6,025,632</u> | <u>7,618,003</u> |
| Deferred tax liability: | | |
| Investment in KICO (2) | 759,543 | 759,543 |
| Deferred acquisition costs | 4,182,428 | 4,333,219 |
| Intangible asset | 105,000 | 105,000 |
| Depreciation and amortization | 369,570 | 312,298 |
| Net unrealized gains of securities - available-for-sale | 2,581,873 | 1,796,891 |
| Total deferred tax liabilities | <u>7,998,414</u> | <u>7,306,951</u> |
| Net deferred income tax (liability) asset | <u>\$ (1,972,782)</u> | <u>\$ 311,052</u> |

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

| Type of NOL | September 30, 2020 | December 31, 2019 | Expiration |
|---|--------------------------|-------------------------|----------------------|
| Federal only, current year | \$ - | \$ 1,517,866 | (A) |
| State only (B) | | | December 31, 2040 |
| | 1,864,863 | 1,616,568 | |
| Valuation allowance | (1,809,018) | (1,548,187) | |
| State only, net of valuation allowance | <u>55,845</u> | <u>68,381</u> | |
| Total deferred tax asset from net operating loss carryovers | <u>\$ 55,845</u> | <u>\$ 1,586,247</u> | |

- (A) On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law, allowing for a five year carryback of 2019 NOL's. The Company will elect on its 2019 federal income tax return to carry back the 2019 NOL to tax years 2014 and 2015. The corporate tax rate in 2014 and 2015 was 34%, compared to the corporate tax rate of 21% in 2019.
- (B) Kingstone generates operating losses for state purposes and has prior year NOLs available. The state NOL as of September 30, 2020 and December 31, 2019 was approximately \$28,690,000 and \$24,901,000, 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 consolidated statements of operations and comprehensive income (loss) within other underwriting expenses. Kingstone has recorded a valuation allowance 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 2040.
- (2) Deferred tax liability – Investment in KICO

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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. A temporary difference with an indefinite life exists when the parent has a lower carrying value of its subsidiary for income tax purposes. The deferred tax liability was reduced to \$759,543 upon the reduction of federal income tax rates as of December 31, 2017. The Company is required to maintain its deferred tax liability of \$759,543 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, 2020 and 2019. If any had been recognized these would have been reported in income tax expense.

Generally, taxing authorities may examine the Company's tax returns for the three years from the date of filing. The Company's tax returns for the years ended December 31, 2016 through December 31, 2019 remain subject to examination. The Company's federal income tax return for the year ended December 31, 2016 has been examined by the Internal Revenue Service and was accepted as filed.

Note 10 – Earnings/(Loss) Per Common Share

Basic net earnings/(loss) per common share is computed by dividing income/(loss) available to common shareholders by the weighted-average number of shares of Common Stock outstanding. Diluted earnings/(loss) per common share reflect, in periods in which they have a dilutive effect, the impact of common shares issuable upon exercise of stock options as well as non-vested restricted stock awards. The computation of diluted earnings/(loss) per common share excludes those options with an exercise price in excess of the average market price of the Company's Common Stock during the periods presented.

The computation of diluted earnings/(loss) 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, 2020, no options were included in the computation of diluted earnings (loss) per common share as they would have been anti-dilutive for the relevant periods and, as a result, the weighted average number of shares of Common Stock used in the calculation of diluted earnings per common share has not been adjusted for the effect of such options.

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

| Three months ended September 30, | Nine months ended September 30, |
|-------------------------------------|------------------------------------|
|-------------------------------------|------------------------------------|

| | 2020 | 2019 | 2020 | 2019 |
|--|-------------------|-------------------|-------------------|-------------------|
| Weighted average number of shares outstanding | 10,673,077 | 10,779,641 | 10,737,853 | 10,769,817 |
| Effect of dilutive securities, common share equivalents: | | | | |
| Stock options | - | - | - | - |
| Restricted stock awards | - | - | - | - |
| Weighted average number of shares outstanding, used for computing diluted earnings per share | <u>10,673,077</u> | <u>10,779,641</u> | <u>10,737,853</u> | <u>10,769,817</u> |

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 is asserted by a third party in a lawsuit 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.

On June 12, 2019, Phillip Woolgar filed a suit naming the Company and certain present or former officers and directors as defendants in a putative class action captioned *Woolgar v. Kingstone Companies et al.*, 19 cv 05500 (S.D.N.Y.), asserting claims under Section 10(b) of the Exchange Act and SEC Rule 10b-5 promulgated thereunder and Section 20(a) of the Exchange Act. Plaintiff sought to represent a class of persons or entities that purchased Kingstone securities between March 14, 2018, and April 29, 2019, and alleged violations of the federal securities law in connection with the Company's April 29, 2019 announcement regarding losses related to winter catastrophe events. The lawsuit alleged that the Company failed to disclose that it did not adequately follow industry best practices related to claims handling and thus did not record sufficient claim reserves, and that as a result, Defendants' positive statements about the Company's business, operations and prospects misled investors. Plaintiff seeks, among other things, an undetermined amount of money damages. On August 10, 2020, the court granted the Company's motion to dismiss the amended complaint in the suit. The court permitted plaintiff to amend the complaint to attempt to cure the deficiencies identified by the court in its opinion (to the extent plaintiff had a good faith basis to do so) by September 11, 2020. Plaintiff failed to replead by the September 11, 2020 deadline. On September 16, 2020, the court issued an order closing the case. Plaintiff did not file an appeal, rendering the dismissal final and the Company considers the matter closed.

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Office Lease

The Company enters into lease agreements for real estate that is primarily used for office space in the ordinary course of business. These leases are accounted for as operating leases, whereby lease expense is recognized on a straight-line basis over the term of the lease.

The Company is a party to a non-cancellable operating lease, dated March 27, 2015, for its office facility for KICO located in Valley Stream, New York expiring March 31, 2024.

On July 8, 2019, the Company entered into a lease agreement for an additional office facility for Cosi located in Valley Stream, New York under a non-cancelable operating lease. The lease has a term of seven years and two months expiring December 31, 2026.

In addition to the base rental costs, occupancy lease agreements generally provide for rent escalations resulting from increased assessments from real estate taxes and other charges.

Additional information regarding the Company's office operating leases is as follows:

| | Three months ended September 30, 2020 | Nine months ended September 30, 2020 |
|---|---------------------------------------|--------------------------------------|
| Lease cost | | |
| Operating leases | \$ 61,297 | \$ 183,891 |
| Short-term leases | - | - |
| Total lease cost (1) | <u>\$ 61,297</u> | <u>\$ 183,891</u> |
| Other information on operating leases | | |
| Cash payments included in the measurement of lease liability reported in operating cash flows | \$ 62,782 | \$ 147,018 |
| Discount rate | 5.50% | 5.50% |
| Remaining lease term in years | 5 years | 5 years |

(1) Included in the condensed consolidated statements of operations and comprehensive income (loss) within other underwriting expenses for KICO and within other operating expenses for Cosi.

The following table presents the contractual maturities of the Company's lease liabilities as of September 30, 2020:

| For the Year Ending December 31, | Total |
|----------------------------------|-------|
| | |

| | |
|-----------------------------------|---------------------|
| Remainder of 2020 | \$ 64,281 |
| 2021 | 264,571 |
| 2022 | 273,831 |
| 2023 | 283,415 |
| 2024 | 140,739 |
| Thereafter | 192,916 |
| Total undiscounted lease payments | 1,219,753 |
| Less: present value adjustment | 188,522 |
| Operating lease liability | <u>\$ 1,031,231</u> |

Rent expense for the three months ended September 30, 2020 and 2019 amounted to \$61,297 and \$41,342, respectively. Rent expense for the nine months ended September 30, 2020 and 2019 totaled \$183,891 and \$124,026, respectively. Rent expense is included in the accompanying condensed consolidated statements of operations and comprehensive income (loss) within other underwriting expenses.

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[Employment Agreements](#)

Barry Goldstein, President, Chief Executive Officer and Executive Chairman of the Board

On October 14, 2019, the Company and Barry B. Goldstein, the Company's President, Chief Executive Officer and Executive Chairman of the Board, entered into a Second Amended and Restated Employment Agreement (the "Amended Employment Agreement"). The Amended Employment Agreement is effective as of January 1, 2020 and expires on December 31, 2022. The Amended Employment Agreement extends the expiration date of the employment agreement in effect for Mr. Goldstein from December 31, 2021 to December 31, 2022.

Pursuant to the Amended Employment Agreement, Mr. Goldstein is entitled to receive an annual base salary of \$500,000 and an annual bonus equal to 6% of the Company's consolidated income from operations before taxes, exclusive of the Company's consolidated net investment income (loss), net unrealized gains (losses) on equity securities and net realized gains (losses) on investments, up to a maximum of 2.5 times his base salary. In addition, pursuant to the Amended Employment Agreement, Mr. Goldstein is entitled to receive a long-term compensation ("LTC") award of between \$945,000 and \$2,835,000 based on a specified minimum increase in the Company's adjusted book value per share (as defined in the Amended Employment Agreement) as of December 31, 2022 as compared to December 31, 2019 (with the maximum LTC payment being due if the average per annum increase is at least 14%). Further, pursuant to the Amended Employment Agreement, in the event that Mr. Goldstein's employment is terminated by the Company without cause or he resigns for good reason (each as defined in the Amended Employment Agreement), Mr. Goldstein would be entitled to receive his base salary, the 6% bonus and the LTC payment for the remainder of the term. In addition, in the event of Mr. Goldstein's death, his estate would be entitled to receive his base salary, accrued bonus and accrued LTC payment through the date of death. Further, in the event that Mr. Goldstein's employment is terminated by the Company without cause or he resigns for good reason, or, in the event of the termination of Mr. Goldstein's employment due to disability or death, Mr. Goldstein's granted but unvested restricted stock awards will vest. Mr. Goldstein would be entitled, under certain circumstances, to a payment equal to 3.82 times his then annual salary, the target LTC payment of \$1,890,000 and his accrued 6% bonus in the event of the termination of his employment within eighteen months following a change of control of the Company.

Pursuant to the Amended Employment Agreement, in January 2020, Mr. Goldstein received a grant of 157,431 shares of restricted stock, under the terms of the Company's 2014 Plan determined by dividing \$1,250,000 by the fair market value of the Company's Common Stock on the date of grant. This 2020 grant will become vested with respect to one-third of the award on each of the first and second anniversaries of the grant date and on December 31, 2022 based on the continued provision of services through the applicable vesting date. Also pursuant to the Amended Employment Agreement, Mr. Goldstein will be entitled to receive a grant, under the terms of the 2014 Plan, during January 2021, of a number of shares of restricted stock determined by dividing \$1,500,000 by the fair market value of the Company's Common Stock on the date of grant. The January 2021 grant will become vested with respect to one-half of the award on each of the first anniversary of the grant date and on December 31, 2022 based on the continued provision of services through the applicable vesting date. Further, pursuant to the Amended Employment Agreement, Mr. Goldstein is entitled to receive a grant, under the terms of the 2014 Plan, during each of 2020, 2021 and 2022, of a number of shares of restricted stock determined by dividing \$136,500 by the fair market value of the Company's Common Stock on the date of grant. In January 2020, Mr. Goldstein was granted 17,191 shares of restricted stock pursuant to this provision. This grant will become vested with respect to one-third of the award on each of the first and second anniversaries of the grant date and on December 31, 2022 based on the continued provision of services through the applicable vesting date. The 2021 grant will become vested with respect to one-half of the award on each of the first anniversary of the grant date and on December 31, 2022 based on the continued provision of services through the applicable vesting date. The 2022 grant will become vested on December 31, 2022 based on the continued provision of services through such date.

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Dale A. Thatcher

Effective July 19, 2019 (the "Separation Date"), Dale A. Thatcher retired and resigned his positions as Chief Executive Officer and President of the Company and KICO. At such time, he also resigned his positions on the Board of Directors of each of the Company and KICO. Effective upon Mr. Thatcher's separation from employment, the Board appointed Barry B. Goldstein, former Chief Executive Officer and Executive Chairman of the Board of Directors, to the position of Chief Executive Officer and President of each of the Company and KICO. Mr. Goldstein previously served as Chief Executive Officer and President of the Company from March 2001 through December 31, 2018, and as Chief Executive Officer and President of KICO from January 2012 through December 31, 2018.

In connection with his separation from employment, each of the Company and KICO entered into an Agreement and General Release (the "Separation Agreement") with Mr. Thatcher. Pursuant to the Separation Agreement, the Company and KICO shall collectively provide the following payments and benefits to Mr. Thatcher in full satisfaction of all payments and benefits and other amounts due to him under the terms of the existing employment agreements upon his separation from employment: (i) \$381,111 (representing the amount of base salary he would have received had he remained employed through March 31, 2020), (ii) \$5,000 in full satisfaction for any bonus payments payable under the existing employment agreements, (iii) continuing group health coverage commencing on the Separation Date and ending on March 31, 2020, and (iv) continued vesting of all stock awards previously granted to Mr. Thatcher in his capacity as an executive officer but which were unvested as of the Separation Date (Mr. Thatcher shall not be entitled to any further grants of stock awards

after the Separation Date). In addition, the Company and KICO agreed to provide Mr. Thatcher with a severance payment of \$20,000 in consideration for a release. Pursuant to the Separation Agreement, Mr. Thatcher agreed that, for a period of three years following the Separation Date, he shall not accept any operating executive role with another property and casualty insurance company.

Meryl Golden, Chief Operating Officer

On September 16, 2019, the Company and Meryl Golden entered into an employment agreement (the “Golden Employment Agreement”) pursuant to which Ms. Golden serves as the Company’s Chief Operating Officer. Ms. Golden also serves as KICO’s Chief Operating Officer. The Golden Employment Agreement became effective as of September 25, 2019 and expires on December 31, 2021.

Pursuant to the Golden Employment Agreement, Ms. Golden is entitled to receive an annual salary of \$500,000 and was granted a five year option for the purchase of 50,000 shares of the Company’s Common Stock pursuant to the 2014 Plan. The options granted will vest in three equal installments, with the first installment vesting on the grant date, and the remaining installments vesting on the first and second anniversaries following the grant date, subject to the terms of the stock option agreement between the Company and Ms. Golden.

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COVID-19

The outbreak of the coronavirus, also known as “COVID-19”, has spread across the globe and is impacting worldwide economic activity. Conditions surrounding the coronavirus continue to rapidly evolve and government authorities have implemented emergency measures to mitigate the spread of the virus. The outbreak and the related mitigation measures have had and will continue to have a material adverse impact on global economic conditions as well as on the Company’s business activities. The extent to which COVID-19 may impact the Company’s business activities will depend on future developments, such as the ultimate geographic spread of the disease, the duration of the outbreak, travel restrictions, business disruptions, and the effectiveness of actions taken in the United States and other countries to contain and treat the disease. These events are highly uncertain and, as such, the Company cannot determine their financial impact at this time. No adjustments have been made to the amounts reported in these condensed consolidated financial statements as a result of this matter.

Note 12 – Deferred Compensation Plan

On June 18, 2018, the Company adopted the Kingstone Companies, Inc. Deferred Compensation Plan (the “Deferred Compensation Plan”). The Deferred Compensation Plan is offered to a select group (“Participants”), consisting of management and highly compensated employees as a method of recognizing and retaining such Participants. The Deferred Compensation Plan provides for eligible Participants to elect to defer up to 75% of their base compensation and up to 100% of bonuses and other compensation and to have such deferred amounts deemed to be invested in specified investment options. In addition to the Participant deferrals, the Company may choose to make matching contributions to some or all of the Participants in the Deferred Compensation Plan to the extent the Participant did not receive the maximum matching or non-elective contributions permissible under the Company’s 401(k) Plan due to limitations under the Internal Revenue Code or the 401(k) Plan. Participants may elect to receive payment of their account balances in a single cash payment or in annual installments for a period of up to ten years. The deferred compensation liability as of September 30, 2020 and December 31, 2019 amounted to \$629,593 and \$599,274, respectively, and is recorded in accounts payable, accrued expenses and other liabilities in the accompanying condensed consolidated balance sheets. The Company did not make any voluntary contributions for the nine months ended September 30, 2020 and 2019.

Note 13 – Subsequent Events

The Company has evaluated events that occurred subsequent to September 30, 2020 through the date these condensed consolidated financial statements were issued for matters that required disclosure or adjustment in these condensed consolidated financial statements.

Dividends Declared

On November 4, 2020, the Company’s Board of Directors approved a quarterly dividend of \$0.04 per share payable in cash on December 15, 2020 to stockholders of record as of the close of business on November 30, 2020 (see Note 8 – Stockholders’ Equity).

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

We offer property and casualty insurance products to individuals through our wholly owned 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, although we are actively writing business in New Jersey, Rhode Island, Connecticut and Massachusetts. We are licensed in the States of New York, New Jersey, Rhode Island, Connecticut, Massachusetts, Pennsylvania, Maine, and New Hampshire. For the three and nine months ended September 30, 2020, respectively, 80.6% and 79.9% of KICO’s direct written premiums came from the New York policies.

In addition, through our subsidiary, Cosi Agency, Inc. (“Cosi”), a multi-state licensed general agency, we access alternative distribution channels. Through Cosi, we have the opportunity to partner with name-brand carriers and access nationwide insurance agencies. See “Distribution Channels” below for a discussion of our distribution channels. Cosi receives commission revenue from KICO for the policies it places with others and pays commissions to these agencies. Cosi retains the profit between the commission revenue received and the commission expense paid. Net Cosi revenue is eliminated against commission expense and Cosi related expenses are included in other operating expenses. Cosi related expenses are not included in our stand-alone insurance underwriting business and, accordingly, its expenses are not included in the calculation of our combined ratio as described below.

We derive substantially all 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 written for a one-year term. 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 can elapse from the receipt of insurance premiums to the payment of insurance claims. During this time, KICO invests the premiums, earns investment income and generates net realized and

| | | | | | | | | |
|---------------------------------------|-----------|--------|-----------|--------|------------|--------|------------|--------|
| Core Independent | \$ 33,325 | 76.5% | \$ 32,430 | 79.2% | \$ 91,752 | 76.8% | \$ 89,712 | 82.3% |
| Expansion Independent (1) | 9,001 | 20.7% | 7,188 | 17.6% | 22,343 | 18.7% | 16,681 | 15.3% |
| Alternative Distribution through Cosi | 1,256 | 2.9% | 1,317 | 3.2% | 5,313 | 4.4% | 2,560 | 2.3% |
| Total | \$ 43,582 | 100.0% | \$ 40,935 | 100.0% | \$ 119,408 | 100.0% | \$ 108,953 | 100.0% |

(1) Outside of New York

(Percent components may not sum to totals due to rounding)

For the three months ended September 30, 2020 and 2019, Alternative Distribution made up 2.9% and 3.2% of direct written premiums for our homeowners and dwelling fire components of personal lines. As discussed above, on July 10, 2020, KICO's A.M. Best Financial Strength Rating was downgraded from A- (Excellent) to B++ (Good). We believe this action will result in a material decrease in the business from Cosi, a multi-state licensed general agent that had partnered with name-brand carriers, some of which require an A.M. Best rating of A- (Excellent) from its partners.

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 GAAP requires our management to make estimates and assumptions in certain circumstances that affect amounts reported in our condensed consolidated financial statements and related notes. In preparing these condensed consolidated financial statements, our management has utilized information including our past history, industry standards, the current economic environment, and other factors, in forming its estimates and judgments for certain amounts included in the condensed consolidated financial statements, giving due consideration to materiality. It is possible that the ultimate outcome as anticipated by our management in formulating its estimates in these financial statements may not materialize. 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 impact the comparability of our results of operations to those of similar companies.

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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, 2020 Compared to Nine Months Ended September 30, 2019

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

| (\$ in thousands) | Nine months ended September 30, | | | |
|--|---------------------------------|------------|------------|----------|
| | 2020 | 2019 | Change | Percent |
| Revenues | | | | |
| Direct written premiums | \$ 125,090 | \$ 128,333 | \$ (3,243) | (2.5)% |
| Assumed written premiums | - | 1 | (1) | na% |
| | 125,090 | 128,334 | (3,244) | (2.5)% |
| Ceded written premiums | | | | |
| Ceded to quota share treaties | 24,562 | 6,110 | \$ 18,452 | 302.0% |
| Ceded to excess of loss treaties | 1,482 | 1,219 | 263 | 21.6% |
| Ceded to catastrophe treaties | 17,770 | 13,585 | 4,185 | 30.8% |
| Total ceded written premiums | 43,814 | 20,914 | 22,900 | 109.5% |
| Net written premiums | 81,276 | 107,420 | (26,144) | (24.3)% |
| Change in unearned premiums | | | | |
| Direct and assumed | 2,216 | (11,037) | 13,253 | na% |
| Ceded to quota share treaties | (2,392) | (1,366) | (1,026) | (75.1)% |
| Change in net unearned premiums | (176) | (12,403) | 12,227 | 98.6% |
| Premiums earned | | | | |
| Direct and assumed | 127,305 | 117,297 | 10,008 | 8.5% |
| Ceded to reinsurance treaties | (46,206) | (22,280) | (23,926) | (107.4)% |
| Net premiums earned | 81,099 | 95,017 | (13,918) | (14.6)% |
| Ceding commission revenue | 10,760 | 2,983 | 7,777 | 260.7% |
| Net investment income | 4,772 | 5,200 | (428) | (8.2)% |
| Net (losses) gains on investments | (1,639) | 3,712 | (5,351) | 144.2% |
| Other income | 773 | 999 | (226) | (22.6)% |
| Total revenues | 95,765 | 107,911 | (12,146) | (11.3)% |
| Expenses | | | | |
| Loss and loss adjustment expenses | | | | |
| Direct and assumed: | | | | |
| Loss and loss adjustment expenses excluding the effect of catastrophes | 52,737 | 72,682 | (19,945) | (27.4)% |
| Losses from catastrophes, tropical storm Isaias (1)(2) | 17,358 | - | 17,358 | na% |

| | | | | |
|--|-------------------|-------------------|-----------------|--------------|
| Losses from catastrophes, all others (1) | 3,049 | 7,755 | (4,706) | (60.7)% |
| Total direct and assumed loss and loss adjustment expenses | 73,144 | 80,437 | (7,293) | (9.1)% |
| Ceded loss and loss adjustment expenses: | | | | |
| Loss and loss adjustment expenses excluding the effect of catastrophes | 13,794 | 8,041 | 5,753 | 71.5% |
| Losses from catastrophes, tropical storm Isaias (1)(2) | 9,233 | - | 9,233 | na% |
| Losses from catastrophes, all others (1) | 800 | 808 | (8) | (1.0) |
| Total ceded loss and loss adjustment expenses | 23,827 | 8,849 | 14,978 | 169.3% |
| Net loss and loss adjustment expenses: | | | | |
| Loss and loss adjustment expenses excluding the effect of catastrophes | 38,943 | 64,641 | (25,698) | (39.8)% |
| Losses from catastrophes, tropical storm Isaias (1)(2) | 8,125 | - | 8,125 | na% |
| Losses from catastrophes, all others (1) | 2,249 | 6,947 | (4,698) | (67.6)% |
| Net loss and loss adjustment expenses | 49,317 | 71,588 | (22,271) | (31.1)% |
| Commission expense | 23,653 | 21,866 | 1,787 | 8.2% |
| Other underwriting expenses | 19,434 | 17,983 | 1,451 | 8.1% |
| Other operating expenses | 3,364 | 2,647 | 717 | 27.1% |
| Depreciation and amortization | 2,070 | 1,876 | 194 | 10.3% |
| Interest expense | 1,370 | 1,370 | - | -% |
| Total expenses | 99,209 | 117,330 | (18,122) | (15.4)% |
| Loss before taxes | (3,443) | (9,419) | 5,976 | 63.4% |
| Income tax benefit | (1,379) | (1,998) | 619 | 31.0% |
| Net loss | \$ (2,064) | \$ (7,421) | \$ 5,357 | 72.2% |

(1) The nine months ended September 30, 2020 and 2019 include catastrophe losses, which are defined as losses from an event for which a catastrophe bulletin and related serial number has been issued by the Property Claims Services (PCS) unit of the Insurance Services Office (ISO). PCS catastrophe bulletins are issued for events that cause more than \$25 million in total insured losses and affect a significant number of policyholders and insurers.

(2) The nine months ended September 30, 2020 includes catastrophe losses from tropical storm Isaias, which has been designated PCS Storm 2044.

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| | Nine months ended September 30, | | | |
|--------------------------------|---------------------------------|--------|-------------------------|----------------|
| | 2020 | 2019 | Percentage Point Change | Percent Change |
| Key ratios: | | | | |
| Net loss ratio | 60.8% | 75.3% | (14.5) | (19.3)% |
| Net underwriting expense ratio | 38.9% | 37.8% | 1.1 | 2.9% |
| Net combined ratio | 99.7% | 113.1% | (13.4) | (11.8)% |

Direct Written Premiums

Direct written premiums during the nine months ended September 30, 2020 ("Nine Months 2020") were \$125,090,000 compared to \$128,333,000 during the nine months ended September 30, 2019 ("Nine Months 2019"). The decrease of \$3,243,000, or 2.5%, was primarily due to the decrease in premiums from our commercial lines business as result of our decision in July 2019 to no longer underwrite this line of business. Direct written premiums from our personal lines business for Nine Months 2020 were \$119,598,000, an increase of \$10,455,000, or 9.6%, from \$109,143,000 in Nine Months 2019.

Beginning in 2017 we started writing homeowners policies in New Jersey. Through 2019 we expanded to Rhode Island, Massachusetts and Connecticut. We refer to our New York business as our "Core" business and the business outside of New York as our "Expansion" business. Direct written premiums from our Expansion business were \$24,293,000 in Nine Months 2020, an increase of \$7,393,000, or 43.7%. compared to \$16,900,000 in Nine Months 2019

Net Written Premiums and Net Premiums Earned

Through June 30, 2019, our quota share reinsurance treaties were on a July 1 through June 30 fiscal year basis. Effective December 15, 2019, we entered into a quota share reinsurance treaty for our personal lines business covering the period from December 15, 2019 through December 31, 2020 ("2019/2020 Treaty"). Our personal lines quota share reinsurance treaty in effect for Nine Months 2019 was covered through June 30, 2019 (together with the run-off period) under a treaty covering a two-year period from July 1, 2017 through June 30, 2019 ("2017/2019 Treaty"). The treaty in effect during Nine Months 2019 was covered through June 30, 2019 (together with the run-off period) under the July 1, 2018 through June 30, 2019 treaty year ("2018/2019 Treaty Year"). The following table describes the quota share reinsurance ceding rates in effect for each treaty year during Nine Months 2020 and Nine Months 2019 under the 2019/2020 Treaty and the 2017/2019 Treaty, respectively. This table should be referred to in conjunction with the discussions for net written premiums, net premiums earned, ceding commission revenue and net loss and loss adjustment expenses that follow.

| | Nine months ended September 30, | |
|--------------------------------------|---------------------------------|-----------------------------------|
| | 2020 ("2019/2020 Treaty") | 2019 ("2018/2019 Treaty Year") |
| Quota share reinsurance rates | | |
| Personal lines | 25% (2) | 10% (1) |

- (1) The 2018/2019 Treaty Year, covered under the 2017/2019 Treaty, expired on a run-off basis effective July 1, 2019 through June 30, 2020 (the “2019 Run-off”).
- (2) The 2019/2020 Treaty was effective December 15, 2019 with a quota share reinsurance rate of 25%. See “Reinsurance” below for changes to our personal lines quota share treaty effective December 15, 2019, and July 1, 2019 and 2018.

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Net written premiums decreased \$26,144,000, or 24.39%, to \$81,276,000 in Nine Months 2020 from \$107,420,000 in Nine Months 2019. Net written premiums include direct and assumed premiums, less the amount of written premiums ceded under our reinsurance treaties (quota share, excess of loss, and catastrophe). The decrease in net written premiums in Nine Months 2020 was attributable to the inception of the 2019/2020 Treaty on December 15, 2019 and the decrease in commercial lines premiums, which are not subject to a quota share treaty. In Nine Months 2020, our premiums ceded under quota share treaties increased by \$18,452,000 over the comparable ceded premiums in Nine Months 2019. Our personal lines business was subject to the 2017/2019 Treaty under the 2018/2019 Treaty Year through June 30, 2019. Following June 30, 2019, any earned premium and associated claims for policies still in force will continue to be ceded under the 10% quota share rate until such policies expire (run-off) over the next year. The 2019 Run-off period is from July 1, 2019 through June 30, 2020 and there was no return of unearned premiums under this arrangement.

Excess of loss reinsurance treaties

An increase in written premiums will increase the premiums ceded under our excess of loss treaties. In Nine Months 2020, our ceded excess of loss reinsurance premiums increased by \$263,000 over the comparable ceded premiums for Nine Months 2019. The increase was due to an increase in premiums subject to excess of loss reinsurance.

Catastrophe reinsurance treaties

Most of the premiums written under our personal lines policies are also subject to our catastrophe treaties. An increase in our personal lines business gives rise to more property exposure, which increases our exposure to catastrophe risk; therefore, our premiums ceded under catastrophe treaties will increase. This results in an increase in premiums ceded under our catastrophe treaties provided that reinsurance rates are stable or are increasing. In Nine Months 2020, our premiums ceded under catastrophe treaties increased by \$4,185,000 over the comparable ceded premiums in Nine Months 2019. The change was due to an increase in our catastrophe limit purchased, an increase in premiums subject to catastrophe reinsurance due to continued growth of our personal lines business, and an increase in reinsurance rates effective July 1, 2019. Through June 30, 2020, our ceded catastrophe premiums were paid based on the total direct written premiums subject to the catastrophe reinsurance treaty. Effective July 1, 2020, and continuing through June 30, 2021, our ceded catastrophe premiums will be paid based on the total insured value of our risks calculated as of August 31, 2021.

Net premiums earned

Net premiums earned decreased \$13,918,000, or 14.6%, to \$81,099,000 in Nine Months 2020 from \$95,017,000 in Nine Months 2019. The decrease was due to the inception of the 2019/2020 Treaty on December 15, 2019 and the decrease in commercial lines premiums, which are not subject to a quota share treaty.

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Ceding Commission Revenue

The following table summarizes the changes in the components of ceding commission revenue (in thousands) for the periods indicated:

| (\$ in thousands) | Nine months ended September 30, | | | |
|---|---------------------------------|----------|----------|---------|
| | 2020 | 2019 | Change | Percent |
| Provisional ceding commissions earned | \$ 10,622 | \$ 4,001 | \$ 6,621 | 165.5% |
| Contingent ceding commissions earned | | | | |
| Contingent ceding commissions earned excluding the effect of catastrophes | 138 | (1,018) | 1,156 | n/a |
| Effect of catastrophes on ceding commissions earned | - | - | - | n/a |
| Contingent ceding commissions earned | 138 | (1,018) | 1,156 | n/a |
| Total ceding commission revenue | \$ 10,760 | \$ 2,983 | \$ 7,777 | 260.7% |

Ceding commission revenue was \$10,760,000 in Nine Months 2020 compared to \$2,983,000 in Nine Months 2019. The increase of \$7,777,000, or 260.7%, was due to an increase in both provisional ceding commissions earned and contingent ceding commissions earned. The increase in provisional ceding commissions occurred due to the increase in quota share reinsurance rates effective December 15, 2019 (see below for discussion of provisional ceding commissions earned and contingent ceding commissions earned).

Provisional Ceding Commissions Earned

We receive a provisional ceding commission based on ceded written premiums. The \$6,621,000 increase in provisional ceding commissions earned is primarily due to the increase in the quota share ceding rate effective December 15, 2019 to 25%, from the 10% rate in effect in Nine Months 2019. There was an increase in ceded premiums in Nine Months 2020 available from which to earn ceding commissions compared to Nine Months 2019 due to the changes in quota share ceding rates, the elimination of the 10% quota share treaty on effective July 1, 2019, and an increase in personal lines direct written premiums subject to the quota share.

The 2019/2020 Treaty and 2017/2019 Treaty structure calls for a higher upfront provisional ceding commission and there is not an opportunity to earn additional contingent ceding commissions under these treaties. The amount of contingent ceding commissions we are eligible to receive under our prior years' quota share treaties is subject to change based on losses incurred related to claims with accident dates before July 1, 2017. Under our prior years' quota share treaties, we received a contingent ceding commission based on a sliding scale in relation to the losses incurred under our quota share treaties. The lower the ceded loss ratio, the more contingent commission we receive.

Net Investment Income

Net investment income was \$4,772,000 in Nine Months 2020 compared to \$5,200,000 in Nine Months 2019, a decrease of \$428,000, or 8.2%. The average yield on invested assets was 3.51% as of September 30, 2020 compared to 3.62% as of September 30, 2019.

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Cash and invested assets were \$220,749,000 as of September 30, 2020 compared to \$221,610,000 as of September 30, 2019. The \$861,000 decrease in cash and invested assets was primarily attributable to premiums ceded, net of ceding commissions, at the inception of the 2019/2020 Treaty, partially offset by an increase in operating cash flows for the periods after September 30, 2019.

Net Gains and Losses on Investments

Net losses on investments were \$1,639,000 in Nine Months 2020 compared to a net gain of \$3,712,000 in Nine Months 2019. Unrealized losses on our equity securities and other investments in Nine Months 2020 were \$2,394,000, compared to unrealized gains of \$3,767,000 in Nine Months 2019. Realized gains on sales of investments were \$275,000 in Nine Months 2020 compared to realized losses of \$55,000 in Nine Months 2019. Unrealized losses in Nine Months 2020 were due to the market fluctuations related to the Covid-19 pandemic.

Other Income

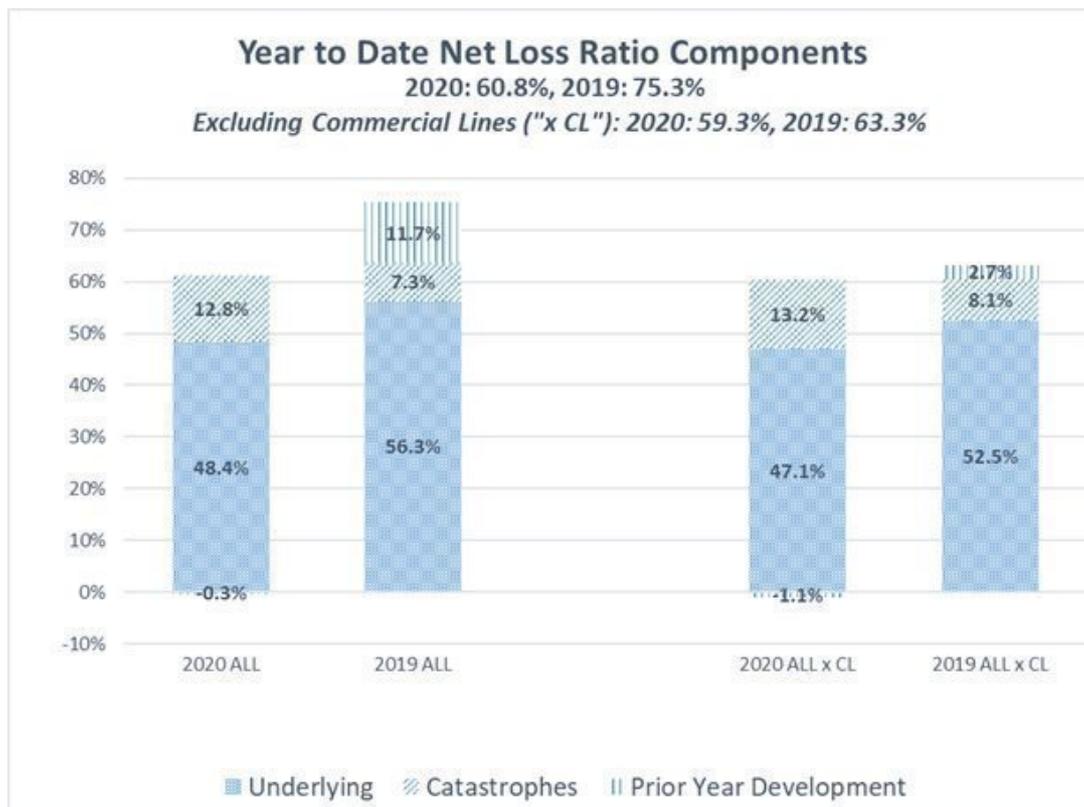
Other income was \$773,000 in Nine Months 2020 compared to \$999,000 in Nine Months 2019. The decrease of \$226,000, or 22.6%, was primarily due to a reduction in fees from our commercial lines business as a result of our decision in July 2019 to no longer write this line of business.

Net Loss and LAE

Net loss and LAE was \$49,317,000 in Nine Months 2020 compared to \$71,588,000 in Nine Months 2019. The net loss ratio was 60.8% in Nine Months 2020 compared to 75.3% in Nine Months 2019, an improvement of 14.5 percentage points.

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The following graph summarizes the changes in the components of net loss ratio for the periods indicated, along with the comparable components excluding commercial lines business:



During Nine Months 2020, the loss ratio improved 14.5 points, from 75.3% in Nine Months 2019 to 60.8% in Nine Months 2020. The loss ratio improved due to several factors, including a reduced impact from prior year loss development and an improvement in the core loss ratio driven by reductions in claim frequency affecting both personal lines and livery physical damage. These improvements have offset a higher impact from catastrophe losses in the Nine Months 2020 compared to the prior period, which is mostly related to the impact of Tropical Storm Isaias on August 4, 2020.

Prior year development has been slightly favorable for the Nine Months 2020, with 0.3 points of favorable impact on the overall loss ratio. The favorable loss development for the Nine Months 2020 compares to 11.7 points of unfavorable impact in the Nine Months 2019, which was primarily related to adverse loss development from commercial lines business, now in runoff. The impact of prior year development was 12.0 points more favorable in Nine Months 2020 compared to the prior year period.

The impact of catastrophe losses was greater in Nine Months 2020 when compared to the prior period. In the Nine Months 2020 there was a smaller impact from winter catastrophe events than in 2019; however the impact of Tropical Storm Isaias more than offset the favorable variance from winter catastrophe events. Tropical Storm Isaias resulted in net losses of \$8,125,000, or 10.0 points on the 2020 loss ratio, through Nine Months 2020. Ten catastrophe events through Nine Months 2020 had a 12.8 point impact on the loss ratio, as compared to seven catastrophe events with a 7.3 point impact on the loss ratio through Nine Months 2019, or an increase in the impact from catastrophe events of 5.5 points compared to the prior period.

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The underlying loss ratio (loss ratio excluding the impact of catastrophes and prior year development) was 48.4% for the Nine Months 2020, a decrease of 7.9 points from the 56.3% underlying loss ratio recorded for Nine Months 2019. The improvement was primarily due to reduced core claim frequency in personal lines and reduced claim frequency in the livery physical damage line. Excluding commercial lines, the underlying loss ratio improved 5.4 points, from 52.5% for Nine Months 2019 to 47.1% for the Nine Months 2020.

See table below under “Additional Financial Information” summarizing net loss ratios by line of business.

Commission Expense

Commission expense was \$23,653,000 in Nine Months 2020 or 18.6% of direct earned premiums. Commission expense was \$21,866,000 in Nine Months 2019 or 18.6% of direct earned premiums. The increase of \$1,787,000 is primarily due to the increase in direct earned premiums for Nine Months 2020 as compared to Nine Months 2019.

Other Underwriting Expenses

Other underwriting expenses were \$19,434,000 in Nine Months 2020 compared to \$17,983,000 in Nine Months 2019. The increase of \$1,451,000, or 8.1%, was primarily due to expenses related to growth in personal lines direct written premiums and salaries. Expenses directly related to the increase in personal lines direct written premiums primarily consist of underwriting expenses, software usage fees, and state premium taxes. Expenses indirectly related to the increase in personal lines direct written premiums primarily consist of salaries along with related other employment costs.

Our largest single component of other underwriting expenses is salaries and employment costs, with costs of \$8,177,000 in Nine Months 2020 compared to \$7,637,000 in Nine Months 2019. The increase of \$540,000, or 7.1%, was less than the 9.6% increase in personal lines direct written premiums. The increase in employment costs was attributable to the hiring of additional highly experienced management and separation payments to terminated employees, offset by staff reductions.

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Our net underwriting expense ratio in Nine Months 2020 was 38.9% compared to 37.8% in Nine Months 2019. The following table shows the individual components of our net underwriting expense ratio for the periods indicated:

| | Nine months ended | | Percentage Point Change |
|---|--------------------------|-------------|--|
| | September 30, | | |
| | 2020 | 2019 | |
| Other underwriting expenses | | | |
| Employment costs | 10.1% | 8.0% | 2.1 |
| Underwriting fees (inspections/data services) | 2.8 | 2.4 | 0.4 |
| IT expenses | 2.6 | 1.6 | 1.0 |
| Other expenses | 8.4 | 6.9 | 1.5 |
| Total other underwriting expenses | 23.9 | 18.9 | 5.0 |
| Ceding commission revenue | | | |
| Provisional | (13.1) | (4.2) | (8.9) |
| Contingent | (0.2) | 1.1 | (1.3) |
| Total ceding commission revenue | (13.3) | (3.1) | (10.2) |
| Other income | (0.9) | (1.0) | 0.1 |
| Commission expense | 29.2 | 23.0 | 6.2 |
| Net underwriting expense ratio | 38.9% | 37.8% | 1.1 |

The overall 10.2 percentage point increase in the benefit from provisional ceding commissions was driven entirely by the change in our quota share ceding rates and its impact on provisional ceding commission revenue due to less retention beginning with the inception of the 2019/2020 Treaty on December 15, 2019, resulting in an increase in provisional ceding commissions. The components of our net underwriting expense ratio related to other underwriting expenses, other income and commissions increased in all categories due to less retention beginning with the inception of 2019/2020 Treaty on December 15, 2019, resulting in an overall 1.1 percentage point increase in the net underwriting expense ratio.

Other Operating Expenses

Other operating expenses, related to the expenses of our holding company and Cosi, were \$3,364,000 for Nine Months 2020 compared to \$2,647,000 for Nine Months 2019. The increase in Nine Months 2020 of \$717,000, or 27.1%, as compared to Nine Months 2019 was primarily due to increases in equity compensation and executive bonus compensation. The increase in equity compensation was due to an annual restricted stock award pursuant to the employment agreement with Barry B. Goldstein, our Chief Executive Officer. In Nine Months 2019, executive bonus compensation was accrued pursuant to the employment agreement effective January 1, 2017 with Mr. Goldstein. The bonus is a one-time payment computed at the end of the three-year period ended December 31, 2019, and as of September 30, 2019 the three-year computation did not meet the required terms of profitability, resulting in the reversal of \$698,000 previously accrued. There was no accrual for bonus in Nine Months 2020.

Depreciation and Amortization

Depreciation and amortization was \$2,070,000 in Nine Months 2020 compared to \$1,876,000 in Nine Months 2019. The increase of \$194,000, or 10.3%, in depreciation and amortization was primarily due to depreciation of our new systems platform for handling business being written in Expansion states, newly purchased assets used to upgrade our systems infrastructure and improvements to the Kingston, New York home office building from which we operate.

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Interest Expense

Interest expense was \$1,370,000 for both Nine Months 2020 and Nine Months 2019. We incurred interest expense in connection with our \$30.0 million issuance of long-term debt in December 2017.

Income Tax Benefit

Income tax benefit in Nine Months 2020 was \$1,379,000, which resulted in an effective tax benefit rate of 40.1%. Income tax benefit in Nine Months 2019 was \$1,998,000, which resulted in an effective tax benefit rate of 21.2%. Loss before taxes was \$3,443,000 in Nine Months 2020 compared to loss before taxes of \$9,419,000 in Nine Months 2019. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law, allowing for a five year carryback of 2019 NOL's. We elected on our 2019 federal income tax return to carry back the 2019 NOL of \$7,222,000 to tax years 2014 and 2015. The corporate tax rate in 2014 and 2015 was 34%, compared to the corporate tax rate of 21% in 2019.

Net Loss

Net loss was \$2,064,000 in Nine Months 2020 compared to net loss of \$7,421,000 in Nine Months 2019. The decrease in net loss of \$5,357,000 was due to the circumstances described above, which caused the decrease in our net loss ratio, increase in ceding commission revenue and other income, partially offset by the decrease in our net premiums earned, and increases in net losses on investments, other underwriting and operating expenses, and depreciation and amortization.

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Three Months Ended September 30, 2020 Compared to Three Months Ended September 30, 2019

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

| (\$ in thousands) | Three months ended September 30, | | | |
|----------------------------------|----------------------------------|----------------|-----------------|----------------|
| | 2020 | 2019 | Change | Percent |
| Revenues | | | | |
| Direct written premiums | \$ 45,743 | \$ 46,023 | \$ (280) | (0.6)% |
| Assumed written premiums | - | 1 | (1) | n/a % |
| | <u>45,743</u> | <u>46,024</u> | <u>(281)</u> | <u>(0.6)%</u> |
| Ceded written premiums | | | | |
| Ceded to quota share treaties | 8,962 | 147 | 8,815 | 5,996.6% |
| Ceded to excess of loss treaties | 535 | 386 | 149 | 38.6% |
| Ceded to catastrophe treaties | 6,251 | 5,053 | 1,198 | 23.7% |
| Total ceded written premiums | <u>15,748</u> | <u>5,586</u> | <u>10,162</u> | <u>181.9%</u> |
| Net written premiums | <u>29,995</u> | <u>40,438</u> | <u>(10,443)</u> | <u>(25.8)%</u> |
| Change in unearned premiums | | | | |
| Direct and assumed | (3,161) | (4,581) | 1,420 | 31.0% |
| Ceded to quota share treaties | 688 | (1,637) | 2,325 | n/a % |
| Change in net unearned premiums | <u>(2,473)</u> | <u>(6,218)</u> | <u>3,745</u> | <u>60.2%</u> |

| | | | | |
|--|-------------------|-------------------|---------------|--------------|
| Premiums earned | | | | |
| Direct and assumed | 42,581 | 41,443 | 1,138 | 2.7% |
| Ceded to reinsurance treaties | (15,060) | (7,223) | (7,837) | (108.5)% |
| Net premiums earned | 27,521 | 34,220 | (6,699) | (19.6)% |
| Ceding commission revenue | 3,449 | 1,030 | 2,419 | 234.9% |
| Net investment income | 1,494 | 1,857 | (363) | (19.5)% |
| Net gains on investments | 2,107 | 998 | 1,109 | 111.1% |
| Other income | 251 | 343 | (92) | (26.8)% |
| Total revenues | 34,822 | 38,448 | (3,626) | (9.4)% |
| Expenses | | | | |
| Loss and loss adjustment expenses | | | | |
| Direct and assumed: | | | | |
| Loss and loss adjustment expenses excluding the effect of catastrophes | 15,656 | 26,518 | (10,862) | (41.0)% |
| Losses from catastrophes, tropical storm Isaias (1)(2) | 17,358 | - | 17,358 | n/a % |
| Losses from catastrophes, all others (1) | 711 | 491 | 220 | 44.8% |
| Total direct and assumed loss and loss adjustment expenses | 33,725 | 27,009 | 6,716 | 24.9% |
| Ceded loss and loss adjustment expenses: | | | | |
| Loss and loss adjustment expenses excluding the effect of catastrophes | 4,202 | 2,182 | 2,020 | 92.6% |
| Losses from catastrophes, tropical storm Isaias (1)(2) | 9,233 | - | 9,233 | n/a% |
| Losses from catastrophes, all others (1) | 172 | 45 | 127 | 282.2% |
| Total ceded loss and loss adjustment expenses | 13,607 | 2,227 | 11,380 | 511.0% |
| Net loss and loss adjustment expenses: | | | | |
| Loss and loss adjustment expenses excluding the effect of catastrophes | 11,454 | 24,335 | (12,881) | (52.9)% |
| Losses from catastrophes, tropical storm Isaias (1)(2) | 8,125 | - | 8,125 | n/a % |
| Losses from catastrophes, all others (1) | 539 | 446 | 93 | 20.9% |
| Net loss and loss adjustment expenses | 20,118 | 24,781 | (4,663) | (18.8)% |
| Commission expense | 8,036 | 7,723 | 313 | 4.1% |
| Other underwriting expenses | 6,347 | 6,431 | (84) | (1.3)% |
| Other operating expenses | 1,038 | 610 | 428 | 70.2% |
| Depreciation and amortization | 710 | 646 | 64 | 9.9% |
| Interest expense | 457 | 457 | - | % |
| Total expenses | 36,706 | 40,648 | (3,942) | (9.7)% |
| Loss before taxes | (1,884) | (2,200) | 316 | 14.4% |
| Income tax benefit | (655) | (475) | (180) | (37.9)% |
| Net loss | <u>\$ (1,229)</u> | <u>\$ (1,725)</u> | <u>\$ 496</u> | <u>28.8%</u> |

- (1) The three months ended September 30, 2020 and 2019 include catastrophe losses, which are defined as losses from an event for which a catastrophe bulletin and related serial number has been issued by the Property Claims Services (PCS) unit of the Insurance Services Office (ISO). PCS catastrophe bulletins are issued for events that cause more than \$25 million in total insured losses and affect a significant number of policyholders and insurers.
- (2) The three months ended September 30, 2020 includes catastrophe losses from tropical storm Isaias, which has been designated PCS Storm 2044.

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| | Three months ended September 30, | | | |
|--------------------------------|----------------------------------|--------|-------------------------|----------------|
| | 2020 | 2019 | Percentage Point Change | Percent Change |
| Key ratios: | | | | |
| Net loss ratio | 73.1% | 72.4% | 0.7 | 1.0% |
| Net underwriting expense ratio | 38.8% | 37.4% | 1.4 | 3.7% |
| Net combined ratio | 111.9% | 109.8% | 2.1 | 1.9% |

Direct Written Premiums

Direct written premiums during the three months ended September 30, 2020 (“Three Months 2020”) were \$45,743,000 compared to \$46,023,000 during the three months ended September 30, 2019 (“Three Months 2019”). The decrease of \$280,000, or 0.6%, was primarily due to the decrease in premiums from our commercial lines business as result of our decision in July 2019 to no longer underwrite this line of business. Direct written premiums from our personal lines business for Three Months 2020 were \$43,641,000, an increase of \$2,644,000, or 6.4%, from \$40,996,000 in Three Months 2019.

Beginning in 2017 we started writing homeowners policies in New Jersey. Through 2019 we expanded to Rhode Island, Massachusetts and Connecticut. We refer to our New York business as our “Core” business and the business outside of New York as our “Expansion” business. Direct written premiums from our Expansion business were \$9,197,000 in Three Months 2020 compared to \$7,371,000 in Three Months 2019.

Net Written Premiums and Net Premiums Earned

Through June 30, 2019, our quota share reinsurance treaties were on a July 1 through June 30 fiscal year basis. Effective December 15, 2019, we entered into a quota share reinsurance treaty for our personal lines business covering the period from December 15, 2019 through December 31, 2020 (“2019/2020 Treaty”). Our personal lines quota share run-off reinsurance treaty in effect for Three Months 2019 was covered under a treaty covering a two-year period from July 1, 2017 through June 30, 2019 (“2017/2019 Treaty”). The run-off treaty in effect during Three Months 2019 was covered under the July

1, 2018 through June 30, 2019 treaty year (“2018/2019 Treaty Year”). The following table describes the quota share reinsurance ceding rates in effect for each treaty year during Three Months 2020 and Three Months 2019 under the 2019/2020 Treaty and the 2017/2019 Treaty, respectively. This table should be referred to in conjunction with the discussions for net written premiums, net premiums earned, ceding commission revenue and net loss and loss adjustment expenses that follow.

| | Three months ended September 30, | |
|--------------------------------------|---|----------------------------------|
| | 2020 | 2019 |
| | ("2019/2020 Treaty") | ("2018/2019 Treaty Year") |
| Quota share reinsurance rates | | |
| Personal lines | 25% (2) | 10% (1) |

- (1) The 2018/2019 Treaty Year, covered under the 2017/2019 Treaty, expired on a run-off basis effective July 1, 2019 through June 30, 2020 (the “2019 Run-off”).
- (2) The 2019/2020 Treaty was effective December 15, 2019 with a quota share reinsurance rate of 25%. See “Reinsurance” below for changes to our personal lines quota share treaty effective December 15, 2019, and July 1, 2019 and 2018.

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Net written premiums decreased \$10,443,000, or 25.8%, to \$29,995,000 in Three Months 2020 from \$40,438,000 in Three Months 2019. Net written premiums include direct and assumed premiums, less the amount of written premiums ceded under our reinsurance treaties (quota share, excess of loss, and catastrophe). The decrease in net written premiums in Three Months 2020 was attributable to the inception of the 2019/2020 Treaty on December 15, 2019 and the decrease in commercial lines premiums, which are not subject to a quota share treaty. In Three Months 2020, our premiums ceded under quota share treaties increased by \$8,815,000 over the comparable ceded premiums in Three Months 2019. Our personal lines business was subject to the 2017/2019 Treaty under the 2018/2019 Treaty Year through June 30, 2019. Following June 30, 2019, any earned premium and associated claims for policies still in force will continue to be ceded under the 10% quota share rate until such policies expire (run-off) over the next year. The 2019 Run-off period is from July 1, 2019 through June 30, 2020 and there was no return of unearned premiums under this arrangement.

Excess of loss reinsurance treaties

An increase in written premiums will increase the premiums ceded under our excess of loss treaties. In Three Months 2020, our ceded excess of loss reinsurance premiums increased by \$149,000 over the comparable ceded premiums for Three Months 2019. The increase was due to an increase in premiums subject to excess of loss reinsurance.

Catastrophe reinsurance treaties

Most of the premiums written under our personal lines policies are also subject to our catastrophe treaties. An increase in our personal lines business gives rise to more property exposure, which increases our exposure to catastrophe risk; therefore, our premiums ceded under catastrophe treaties will increase. This results in an increase in premiums ceded under our catastrophe treaties provided that reinsurance rates are stable or are increasing. In Three Months 2020, our premiums ceded under catastrophe treaties increased by \$1,198,000 over the comparable ceded premiums in Three Months 2019. The change was due to an increase in reinsurance rates effective July 1, 2019, offset by a decrease in our catastrophe limit purchased Through June 30, 2020, our ceded catastrophe premiums are paid based on the total direct written premiums subject to the catastrophe reinsurance treaty. Effective July 1, 2020, and continuing through June 30, 2021, our ceded catastrophe premiums will be paid based on the total insured value of our risks calculated as of August 31, 2021.

Net premiums earned

Net premiums earned decreased \$6,699,000, or 19.6%, to \$27,521,000 in Three Months 2020 from \$34,220,000 in Three Months 2019. The decrease was due to the inception of the 2019/2020 Treaty on December 15, 2019 and the decrease in commercial lines premiums, which are not subject to a quota share treaty.

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Ceding Commission Revenue

The following table summarizes the changes in the components of ceding commission revenue (in thousands) for the periods indicated:

| (\$ in thousands) | Three months ended September 30, | | | |
|---|---|-------------|---------------|----------------|
| | 2020 | 2019 | Change | Percent |
| Provisional ceding commissions earned | \$ 3,461 | \$ 1,320 | \$ 2,141 | 162.2% |
| Contingent ceding commissions earned | | | | |
| Contingent ceding commissions earned excluding the effect of catastrophes | (12) | (290) | 278 | n/a |
| Effect of catastrophes on ceding commissions earned | - | - | - | n/a |
| Contingent ceding commissions earned | (12) | (290) | 278 | n/a% |
| Total ceding commission revenue | \$ 3,449 | \$ 1,030 | \$ 2,419 | 234.9% |

Ceding commission revenue was \$3,449,000 in Three Months 2020 compared to \$1,030,000 in Three Months 2019. The increase of \$2,419,000, or 234.9%, was due to an increase in both provisional ceding commissions earned and contingent ceding commissions earned. The increase in provisional ceding commissions occurred due to the increase in quota share reinsurance rates effective December 15, 2019 (see below for discussion of provisional ceding commissions earned and contingent ceding commissions earned).

Provisional Ceding Commissions Earned

We receive a provisional ceding commission based on ceded written premiums. The \$2,141,000 increase in provisional ceding commissions earned is primarily due to the increase in the quota share ceding rate effective December 15, 2019 to 25%, from the 10% rate in effect in Three Months 2019. There was an increase in ceded premiums in Three Months 2020 available from which to earn ceding commissions compared to Three Months 2019 due to the changes in quota share ceding rates, the elimination of the 10% quota share treaty effective July 1, 2019, and an increase in personal lines direct written premiums subject to the quota share.

Contingent Ceding Commissions Earned

The 2019/2020 Treaty and 2017/2019 Treaty structure calls for a higher upfront provisional ceding commission and there is not an opportunity to earn additional contingent ceding commissions under these treaties. The amount of contingent ceding commissions we are eligible to receive under our prior years' quota share treaties is subject to change based on losses incurred related to claims with accident dates before July 1, 2017. Under our prior years' quota share treaties, we received a contingent ceding commission based on a sliding scale in relation to the losses incurred under our quota share treaties. The lower the ceded loss ratio, the more contingent commission we receive.

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Net Investment Income

Net investment income was \$1,494,000 in Three Months 2020 compared to \$1,856,000 in Three Months 2019, a decrease of \$362,000, or 19.5%. The average yield on invested assets was 3.51% as of September 30, 2020 compared to 3.62% as of September 30, 2019.

Cash and invested assets were \$220,749,000 as of September 30, 2020 compared to \$221,610,000 as of September 30, 2019. The \$861,000 decrease in cash and invested assets was primarily attributable to premiums ceded, net of ceding commissions, at the inception of the 2019/2020 Treaty, partially offset by an increase in operating cash flows for the periods after September 30, 2019.

Net Gains and Losses on Investments

Net gains on investments were \$2,107,000 in Three Months 2020 compared to \$998,000 in Three Months 2019. Unrealized gains on our equity securities and other investments in Three Months 2020 were \$1,501,000, compared to unrealized gains of \$1,006,000 in Three Months 2019. Realized gains on sales of investments were \$597,000 in Three Months 2020 compared to loss of \$8,000 in Three Months 2019.

Other Income

Other income was \$251,000 in Three Months 2020 compared to \$343,000 in Three Months 2019. The decrease of \$92,000, or 44.0%, was primarily due to a reduction of fees in our commercial lines business as a result of our decision in July 2019 to no longer underwrite this line of business.

Net Loss and LAE

Net loss and LAE was \$20,118,000 in Three Months 2020 compared to \$24,781,000 in Three Months 2019. The net loss ratio was 75.1% in Three Months 2020 compared to 72.4% in Three Months 2019, an increase of 0.7 percentage points.

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The following graph summarizes the changes in the components of net loss ratio for the periods indicated, along with the comparable components excluding commercial lines business:



(Components may not sum to totals due to rounding)

During Three Months 2020, the loss ratio increased 0.7 points, from 72.4% in Three Months 2019 to 73.1% in Three Months 2020. The loss ratio increased due to the impact of catastrophe events, primarily related to Tropical Storm Isaias on August 4, 2020. Partially offsetting the increased catastrophe losses, there was a large reduction in the impact of prior year loss development compared the same period in the prior year.

The impact of catastrophe losses was significant in Three Months 2020 when compared to Three Months 2019. In the Three Months 2020, Tropical Storm Isaias resulted in over 1,700 reported claims and direct losses exceeded our catastrophe reinsurance retention of \$10 million. After quota share reinsurance, the net impact of Isaias is \$8.125M, or a 29.5 point impact on the quarterly loss ratio. There were several smaller catastrophe events during the quarter, and in total the impact of catastrophe events on the loss ratio was 31.5 points for the quarter. This compares to a 1.3 point impact from catastrophe events in Three Months 2019, or an increase in the impact from catastrophe events of 30.2 points compared to the prior period.

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Prior year development was slightly favorable in Three Months 2020, with a 0.4 point favorable impact to the overall loss ratio. This was the fourth consecutive quarter of stable prior year loss development. The favorable loss development for Three Months 2020 compares to 14.7 points of unfavorable impact in Three Months 2019. Prior year loss development in Three Months 2019 was driven by the completion of reserve adjustments for commercial lines business, which is now in runoff. As of the end of Three Months 2020, there are now 189 open commercial lines claims, down from 205 claims that were open at June 30, 2020. The impact of prior year development was 15.1 points more favorable in Three Months 2020 compared to the prior year period.

The underlying loss ratio (loss ratio excluding the impact of catastrophes and prior year development) was 42.0% for Three Months 2020, a decrease of 14.4 points from the 56.4% underlying loss ratio recorded for Three Months 2019. The improvement was primarily due to reduced claim severity in personal lines, driven by a much lower impact from large fire claims in Three Months 2020 compared to the prior period. Claim frequency in the livery physical damage line also continued to show significant improvement over the prior year period. The impact of commercial lines on the overall loss ratio continues to decline due to a smaller open claims inventory and a smaller proportion of net earned premium attributable to commercial lines. Excluding commercial lines, the underlying loss ratio improved 8.9 points, from 51.4% for Three Months 2019 to 42.5% for Three Months 2020.

See table below under "Additional Financial Information" summarizing net loss ratios by line of business.

Commission Expense

Commission expense was \$8,036,000 in Three Months 2020 or 18.9% of direct earned premiums. Commission expense was \$7,723,000 in Three Months 2019 or 18.6% of direct earned premiums. The increase of \$313,000 is primarily due to the increase in direct earned premiums for Three Months 2020 as compared to Three Months 2019.

Other Underwriting Expenses

Other underwriting expenses were \$6,347,000 in Three Months 2020 compared to \$6,431,000 in Three Months 2019. The decrease of \$84,000, or 1.3%, was primarily due to an initiative to reduce expenses and a reduction in bad debts.

Our largest single component of other underwriting expenses is salaries and employment costs, with costs of \$2,835,000 in Three Months 2020 compared to \$2,737,000 in Three Months 2019. The increase of \$97,000, or 3.5%, was less than the 6.4% increase in personal lines direct written premiums. The increase in employment costs was attributable to the hiring of additional highly experienced management and separation payments to terminated employees, offset by staff reductions.

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Our net underwriting expense ratio in Three Months 2020 was 37.4% compared to 37.5% in Three Months 2019. The following table shows the individual components of our net underwriting expense ratio for the periods indicated:

| | Three months ended September 30, | | Percentage Point Change |
|---|---|--------------|--|
| | 2020 | 2019 | |
| Other underwriting expenses | | | |
| Employment costs | 10.3% | 8.0% | 2.3 |
| Underwriting fees (inspections/data services) | 2.4 | 2.3 | 0.1 |
| IT expenses | 2.7 | 1.7 | 1.0 |
| Other expenses | 7.7 | 6.9 | 0.8 |
| Total other underwriting expenses | <u>23.1</u> | <u>18.9</u> | <u>4.2</u> |
| Ceding commission revenue | | | |
| Provisional | (12.6) | (3.9) | (8.7) |
| Contingent | - | 0.8 | (0.8) |
| Total ceding commission revenue | <u>(12.6)</u> | <u>(3.1)</u> | <u>(9.5)</u> |
| Other income | (0.9) | (1.0) | 0.1 |
| Commission expense | <u>29.2</u> | <u>22.6</u> | <u>6.6</u> |
| Net underwriting expense ratio | <u>38.8%</u> | <u>37.4%</u> | <u>1.4</u> |

The overall 9.5 percentage point increase in the benefit from provisional ceding commissions was driven entirely by the change in our quota share ceding rates and its impact on provisional ceding commission revenue due to less retention beginning with the inception of the 2019/2020 Treaty on December 15, 2019, resulting in an increase in provisional ceding commissions. The components of our net underwriting expense ratio related to other underwriting expenses, other income and commissions increased in all categories due to less retention beginning with the inception of 2019/2020 Treaty on December 15, 2019, resulting in an overall 1.4 percentage point increase in the net underwriting expense ratio.

Other Operating Expenses

Other operating expenses, related to the expenses of our holding company and Cosi, were \$1,038,000 for Three Months 2020 compared to \$610,000 for Three Months 2019. The increase in Three Months 2020 of \$428,000, or 70.2%, as compared to Three Months 2019 was primarily due to an increase in executive bonus compensation. In 2019, executive bonus compensation was accrued pursuant to the employment agreement effective January 1, 2017 with Barry B. Goldstein, our Chief Executive Officer. The bonus is a one-time payment computed at the end of the three-year period ended December 31, 2019, and as of September 30, 2019 the three-year computation did not meet the required terms of profitability, resulting in the reversal of \$698,000 previously accrued. There was no accrual for bonus in Three Months 2020.

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Depreciation and Amortization

Depreciation and amortization was \$710,000 in Three Months 2020 compared to \$646,000 in Three Months 2019. The increase of \$64,000, or 9.9%, in depreciation and amortization was primarily due to depreciation of our new systems platform for handling business being written in Expansion states, newly purchased assets used to upgrade our systems infrastructure and improvements to the Kingston, New York home office building from which we operate.

Interest Expense

Interest expense was \$457,000 for both Three Months 2020 and Three Months 2019. We incurred interest expense in connection with our \$30.0 million issuance of long-term debt in December 2017.

Income Tax Expense

Income tax benefit in Three Months 2020 was \$656,000, which resulted in an effective tax expense rate of 40.1%. Income tax benefit in Three Months 2019 was \$475,000, which resulted in an effective tax expense rate of 21.6%. Loss before taxes was \$1,884,000 in Three Months 2020 compared to loss before taxes of \$2,200,000 in Three Months 2019. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law, allowing for a five year carryback of 2019 NOL's. We elected on our 2019 federal income tax return to carry back the 2019 NOL of \$7,222,000 to tax years 2014 and 2015. The corporate tax rate in 2014 and 2015 was 34%, compared to the corporate tax rate of 21% in 2019.

Net Loss

Net loss was \$1,228,000 in Three Months 2020 compared to net loss of \$1,725,000 in Three Months 2019. The decrease in net loss of \$497,000 was due to the circumstances described above, which caused the decrease in our net loss ratio, increase in ceding commission revenue, increases in net gains on investments, and other income, and decrease in other underwriting expenses, partially offset by the decrease in our net premiums earned, increase in other operating expenses and depreciation and amortization.

Additional Financial Information

We operate our business as one segment, property and casualty insurance. Within this segment, we offer an array of property and casualty policies to our producers. The following table summarizes gross and net written premiums, net premiums earned, and net loss and loss adjustment expenses by major product type, which were determined based primarily on similar economic characteristics and risks of loss.

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| | For the Three Months | | For the Nine Months Ended | |
|--|----------------------|---------------|---------------------------|----------------|
| | Ended | | September 30, | |
| | 2020 | 2019 | 2020 | 2019 |
| Gross premiums written: | | | | |
| Personal lines | \$ 43,640,603 | \$ 40,996,459 | \$ 119,598,207 | \$ 109,143,415 |
| Livery physical damage | 2,045,746 | 2,590,434 | 5,466,552 | 8,199,269 |
| Other(1) | 62,664 | 401,073 | 192,395 | 535,950 |
| Total without commercial lines | 45,749,013 | 43,987,966 | 125,257,154 | 117,878,634 |
| Commercial lines (in run-off effective July 2019)(2) | (6,848) | 2,036,185 | (167,583) | 10,455,421 |
| Total gross premiums written | \$ 45,742,165 | \$ 46,024,151 | \$ 125,089,571 | \$ 128,334,055 |
| Net premiums written: | | | | |
| Personal lines(3) | \$ 27,916,850 | \$ 35,442,970 | \$ 76,231,996 | \$ 89,287,063 |
| Livery physical damage | 2,045,746 | 2,590,434 | 5,466,552 | 8,199,269 |
| Other(1) | 50,626 | 410,317 | 151,784 | 522,596 |
| Total without commercial lines | 30,013,222 | 38,443,721 | 81,850,332 | 98,008,928 |
| Commercial lines (in run-off effective July 2019)(2) | (18,271) | 2,004,152 | (574,228) | 9,411,053 |
| Total net premiums written | \$ 29,994,951 | \$ 40,447,873 | \$ 81,276,104 | \$ 107,419,981 |
| Net premiums earned: | | | | |
| Personal lines(3) | \$ 25,220,883 | \$ 27,487,526 | \$ 71,434,757 | \$ 75,737,374 |
| Livery physical damage | 2,014,458 | 2,712,283 | 6,803,475 | 7,850,822 |
| Other(1) | 49,939 | 275,324 | 149,087 | 392,745 |
| Total without commercial lines | 27,285,280 | 30,475,133 | 78,387,319 | 83,980,941 |
| Commercial lines (in run-off effective July 2019)(2) | 235,801 | 3,744,877 | 2,712,068 | 11,036,237 |
| Total net premiums earned | \$ 27,521,081 | \$ 34,220,010 | \$ 81,099,387 | \$ 95,017,178 |
| Net loss and loss adjustment expenses(4): | | | | |
| Personal lines | \$ 18,657,325 | \$ 14,389,168 | \$ 41,810,950 | \$ 46,666,275 |
| Livery physical damage | 648,520 | 1,395,630 | 1,798,210 | 3,816,390 |
| Other(1) | 29,104 | 246,811 | 5,465 | 573,376 |
| Unallocated loss adjustment expenses | 827,031 | 726,778 | 2,839,359 | 2,072,570 |
| Total without commercial lines | 20,161,980 | 16,758,387 | 46,453,984 | 53,128,611 |
| Commercial lines (in run-off effective July 2019)(2) | (44,005) | 8,022,931 | 2,863,443 | 18,459,239 |
| Total net loss and loss adjustment expenses | \$ 20,117,975 | \$ 24,781,318 | \$ 49,317,427 | \$ 71,587,850 |
| Net loss ratio(4): | | | | |
| Personal lines | 74.0% | 52.3% | 58.5% | 61.6% |
| Livery physical damage | 32.2% | 51.5% | 26.4% | 48.6% |
| Other(1) | 58.3% | 89.6% | 3.7% | 146.0% |
| Total without commercial lines | 73.9% | 55.0% | 59.3% | 63.3% |
| Commercial lines (in run-off effective July 2019)(2) | -18.7% | 214.2% | 105.6% | 167.3% |
| Total | 73.1% | 72.4% | 60.8% | 75.3% |

- (1) "Other" includes, among other things, premiums and loss and loss adjustment expenses from our participation in a mandatory state joint underwriting association and loss and loss adjustment expenses from commercial auto.
- (2) In July 2019, we decided that we will no longer underwrite Commercial Liability risks. See discussions above regarding the discontinuation of this line of business.
- (3) See discussion above with regard to "Net Written Premiums and Net Premiums Earned", as to changes in quota share ceding rates, effective July 1, 2019 and 2018.
- (4) See discussion above with regard to "Net Loss and LAE", as to catastrophe losses in the nine months ended September 30, 2020 and 2019.

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Insurance Underwriting Business on a Standalone Basis

Our insurance underwriting business reported on a standalone basis for the periods indicated is as follows:

| | Three months ended | | Nine months ended | |
|--|--------------------|------|-------------------|------|
| | September 30, | | September 30, | |
| | 2020 | 2019 | 2020 | 2019 |

| Revenues | | | | |
|-----------------------------------|-------------------|-------------------|-------------------|--------------------|
| Net premiums earned | \$ 27,521,081 | \$ 34,220,010 | \$ 81,099,387 | \$ 95,017,178 |
| Ceding commission revenue | 3,448,774 | 1,029,582 | 10,760,087 | 2,982,960 |
| Net investment income | 1,494,086 | 1,832,523 | 4,771,316 | 5,129,947 |
| Net gains (losses) on investments | 2,073,245 | 995,040 | (1,580,398) | 3,652,189 |
| Other income | 248,824 | 340,505 | 754,943 | 992,097 |
| Total revenues | <u>34,786,010</u> | <u>38,417,660</u> | <u>95,805,335</u> | <u>107,774,371</u> |

| Expenses | | | | |
|-----------------------------------|---------------------|---------------------|---------------------|-----------------------|
| Loss and loss adjustment expenses | 20,117,975 | 24,781,318 | 49,317,427 | 71,587,850 |
| Commission expense | 8,036,298 | 7,745,174 | 23,652,765 | 21,866,420 |
| Other underwriting expenses | 6,346,846 | 6,430,734 | 19,434,110 | 17,983,174 |
| Depreciation and amortization | 676,989 | 622,222 | 1,970,859 | 1,804,265 |
| Total expenses | <u>35,178,108</u> | <u>39,579,448</u> | <u>94,375,161</u> | <u>113,241,709</u> |
| (Loss) income from operations | (392,098) | (1,161,788) | 1,430,174 | (5,467,338) |
| Income tax benefit | (203,922) | (293,183) | (24,888) | (1,251,113) |
| Net (loss) income | <u>\$ (188,176)</u> | <u>\$ (868,605)</u> | <u>\$ 1,455,062</u> | <u>\$ (4,216,225)</u> |

Key Measures:

| | | | | |
|--------------------------------|---------------|---------------|--------------|---------------|
| Net loss ratio | 73.1% | 72.4% | 60.8% | 75.3% |
| Net underwriting expense ratio | 38.8% | 37.4% | 38.9% | 37.8% |
| Net combined ratio | <u>111.9%</u> | <u>109.8%</u> | <u>99.7%</u> | <u>113.1%</u> |

Reconciliation of net underwriting expense ratio:

| | | | | |
|---|----------------------|----------------------|----------------------|----------------------|
| Acquisition costs and other underwriting expenses | \$ 14,383,144 | \$ 14,175,908 | \$ 43,086,875 | \$ 39,849,594 |
| Less: Ceding commission revenue | (3,448,774) | (1,029,582) | (10,760,087) | (2,982,960) |
| Less: Other income | (248,824) | (340,505) | (754,943) | (992,097) |
| Net underwriting expenses | <u>\$ 10,685,546</u> | <u>\$ 12,805,821</u> | <u>\$ 31,571,845</u> | <u>\$ 35,874,537</u> |
| Net premiums earned | <u>\$ 27,521,081</u> | <u>\$ 34,220,010</u> | <u>\$ 81,099,387</u> | <u>\$ 95,017,178</u> |
| Net Underwriting Expense Ratio | <u>38.8%</u> | <u>37.4%</u> | <u>38.9%</u> | <u>37.8%</u> |

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An analysis of our direct, assumed and ceded earned premiums, loss and loss adjustment expenses, and loss ratios is shown below:

| | <u>Direct</u> | <u>Assumed</u> | <u>Ceded</u> | <u>Net</u> |
|--|-----------------------|-----------------|-----------------------|----------------------|
| Nine months ended September 30, 2020 | | | | |
| Written premiums | \$ 125,089,571 | \$ - | \$(43,813,468) | \$ 81,276,103 |
| Change in unearned premiums | 2,215,602 | - | (2,392,318) | (176,716) |
| Earned premiums | <u>\$ 127,305,173</u> | <u>\$ -</u> | <u>\$(46,205,786)</u> | <u>\$ 81,099,387</u> |
| Loss and loss adjustment expenses excluding the effect of catastrophes | \$ 52,736,775 | \$ - | \$(13,794,461) | \$ 38,942,314 |
| Catastrophe loss | 20,407,638 | - | (10,032,525) | 10,375,113 |
| Loss and loss adjustment expenses | <u>\$ 73,144,413</u> | <u>\$ -</u> | <u>\$(23,826,986)</u> | <u>\$ 49,317,427</u> |
| Loss ratio excluding the effect of catastrophes | 41.4% | n/a | 29.9% | 48.0% |
| Catastrophe loss | 16.0% | n/a | 21.7% | 12.8% |
| Loss ratio | <u>57.5%</u> | <u>n/a</u> | <u>51.6%</u> | <u>60.8%</u> |
| Nine months ended September 30, 2019 | | | | |
| Written premiums | \$ 128,333,117 | \$ 938 | \$(20,914,074) | \$ 107,419,981 |
| Change in unearned premiums | (11,035,993) | (559) | (1,366,251) | (12,402,803) |
| Earned premiums | <u>\$ 117,297,124</u> | <u>\$ 379</u> | <u>\$(22,280,325)</u> | <u>\$ 95,017,178</u> |
| Loss and loss adjustment expenses excluding the effect of catastrophes | \$ 72,683,118 | \$ (917) | \$ (8,041,028) | \$ 64,641,173 |
| Catastrophe loss | 7,755,089 | - | (808,412) | 6,946,677 |
| Loss and loss adjustment expenses | <u>\$ 80,438,207</u> | <u>\$ (917)</u> | <u>\$ (8,849,440)</u> | <u>\$ 71,587,850</u> |
| Loss ratio excluding the effect of catastrophes | 62.0% | -242.0% | 36.1% | 68.0% |
| Catastrophe loss | 6.6% | 0.0% | 3.6% | 7.3% |
| Loss ratio | <u>68.6%</u> | <u>-242.0%</u> | <u>39.7%</u> | <u>75.3%</u> |
| Three months ended September 30, 2020 | | | | |
| Written premiums | \$ 45,742,165 | \$ - | \$(15,747,215) | \$ 29,994,950 |

| | | | | |
|--|----------------------|-------------|-----------------------|----------------------|
| Change in unearned premiums | (3,161,356) | - | 687,487 | (2,473,869) |
| Earned premiums | <u>\$ 42,580,809</u> | <u>\$ -</u> | <u>\$(15,059,728)</u> | <u>\$ 27,521,081</u> |
| Loss and loss adjustment expenses excluding the effect of catastrophes | \$ 15,655,839 | \$ - | \$ (4,202,861) | \$ 11,452,978 |
| Catastrophe loss | 18,069,690 | - | (9,404,693) | 8,664,997 |
| Loss and loss adjustment expenses | <u>\$ 33,725,529</u> | <u>\$ -</u> | <u>\$(13,607,554)</u> | <u>\$ 20,117,975</u> |
| Loss ratio excluding the effect of catastrophes | 36.8% | n/a | 27.9% | 41.6% |
| Catastrophe loss | 42.4% | n/a | 62.4% | 31.5% |
| Loss ratio | <u>79.2%</u> | <u>n/a</u> | <u>90.3%</u> | <u>73.1%</u> |

Three months ended September 30, 2019

| | | | | |
|--|----------------------|-----------------|----------------------|----------------------|
| Written premiums | \$ 46,023,290 | \$ 861 | \$ (5,586,278) | \$ 40,437,873 |
| Change in unearned premiums | (4,579,777) | (761) | (1,637,325) | (6,217,863) |
| Earned premiums | <u>\$ 41,443,513</u> | <u>\$ 100</u> | <u>\$(7,223,603)</u> | <u>\$ 34,220,010</u> |
| Loss and loss adjustment expenses excluding the effect of catastrophes | \$ 26,516,544 | \$ 1,164 | \$ (2,182,511) | \$ 24,335,197 |
| Catastrophe loss | 491,362 | - | (45,241) | 446,121 |
| Loss and loss adjustment expenses | <u>\$ 27,007,906</u> | <u>\$ 1,164</u> | <u>\$(2,227,752)</u> | <u>\$ 24,781,318</u> |
| Loss ratio excluding the effect of catastrophes | 64.0% | 1164.0% | 30.2% | 71.1% |
| Catastrophe loss | 1.2% | 0.0% | 0.6% | 1.3% |
| Loss ratio | <u>65.2%</u> | <u>1164.0%</u> | <u>30.8%</u> | <u>72.4%</u> |

(Percent components may not sum to totals due to rounding)

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The key measures for our insurance underwriting business for the periods indicated are as follows:

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|------------------------------------|-----------------------|-----------------------------------|-----------------------|
| | 2020 | 2019 | 2020 | 2019 |
| Net premiums earned | \$ 27,521,081 | \$ 34,220,010 | \$ 81,099,387 | \$ 95,017,178 |
| Ceding commission revenue | 3,448,774 | 1,029,582 | 10,760,087 | 2,982,960 |
| Other income | 248,824 | 340,505 | 754,943 | 992,097 |
| Loss and loss adjustment expenses (1) | 20,117,975 | 24,781,318 | 49,317,427 | 71,587,850 |
| Acquisition costs and other underwriting expenses: | | | | |
| Commission expense | 8,036,298 | 7,722,825 | 23,652,765 | 21,866,420 |
| Other underwriting expenses | 6,346,846 | 6,430,734 | 19,434,110 | 17,983,174 |
| Total acquisition costs and other underwriting expenses | <u>14,383,144</u> | <u>14,153,559</u> | <u>43,086,875</u> | <u>39,849,594</u> |
| Underwriting income (loss) | <u>\$ (3,282,440)</u> | <u>\$ (3,344,780)</u> | <u>\$ 210,115</u> | <u>\$(12,445,209)</u> |
| Key Measures: | | | | |
| Net loss ratio excluding the effect of catastrophes | 41.6% | 71.1% | 48.0% | 68.0% |
| Effect of catastrophe loss on net loss ratio (1) | 31.5% | 1.3% | 12.8% | 7.3% |
| Net loss ratio | <u>73.1%</u> | <u>72.4%</u> | <u>60.8%</u> | <u>75.3%</u> |
| Net underwriting expense ratio excluding the effect of catastrophes | 38.8% | 37.4% | 38.9% | 37.8% |
| Effect of catastrophe loss on net underwriting expense ratio (2) | 0.0% | 0.0% | 0.0% | 0.0% |
| Net underwriting expense ratio | <u>38.8%</u> | <u>37.4%</u> | <u>38.9%</u> | <u>37.8%</u> |
| Net combined ratio excluding the effect of catastrophes | 80.4% | 108.5% | 86.9% | 105.8% |
| Effect of catastrophe loss on net combined ratio (1) (2) | 31.5% | 1.3% | 12.8% | 7.3% |
| Net combined ratio | <u>111.9%</u> | <u>109.8%</u> | <u>99.7%</u> | <u>113.1%</u> |
| Reconciliation of net underwriting expense ratio: | | | | |
| Acquisition costs and other underwriting expenses | \$ 14,383,144 | \$ 14,153,559 | \$ 43,086,875 | \$ 39,849,594 |
| Less: Ceding commission revenue (2) | (3,448,774) | (1,029,582) | (10,760,087) | (2,982,960) |
| Less: Other income | (248,824) | (340,505) | (754,943) | (992,097) |

| | | | | |
|--------------------------------|----------------------|----------------------|----------------------|----------------------|
| | <u>\$ 10,685,546</u> | <u>\$ 12,783,472</u> | <u>\$ 31,571,845</u> | <u>\$ 35,874,537</u> |
| Net earned premium | <u>\$ 27,521,081</u> | <u>\$ 34,220,010</u> | <u>\$ 81,099,387</u> | <u>\$ 95,017,178</u> |
| Net Underwriting Expense Ratio | <u>38.8%</u> | <u>37.4%</u> | <u>38.9%</u> | <u>37.8%</u> |

- (1) For the three months ended September 30, 2020 and 2019, includes the sum of net catastrophe losses and loss adjustment expenses of \$8,664,998 and \$446,121, respectively. For the nine months ended September 30, 2020 and 2019, includes the sum of net catastrophe losses and loss adjustment expenses of \$10,375,113 and \$6,946,677, respectively.

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Investments
Portfolio Summary
Fixed-Maturity Securities

The following table presents a breakdown of the amortized cost, estimated fair value, and unrealized gains and losses of our investments in fixed-maturity securities classified as available-for-sale as of September 30, 2020 and December 31, 2019:

| Category | September 30, 2020 | | | | | |
|---|-----------------------|----------------------|-------------------------|---------------------|-----------------------|---------------------|
| | Cost or Amortized | Gross Unrealized | Gross Unrealized Losses | | Estimated Fair | % of Estimated Fair |
| | | | Less than 12 Months | More than 12 Months | | |
| Cost | Gains | Months | Months | Value | Value | |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | \$ 3,026,477 | \$ 42,853 | \$ - | \$ - | \$ 3,069,330 | 2.0% |
| Political subdivisions of States, Territories and Possessions | 5,593,778 | 322,297 | - | - | 5,916,075 | 3.8% |
| Corporate and other bonds Industrial and miscellaneous | 112,504,206 | 10,698,206 | (1,654) | - | 123,200,758 | 78.6% |
| Residential mortgage and other asset backed securities (1) | 24,002,398 | 535,772 | (38,491) | (147,253) | 24,352,426 | 15.6% |
| Total | <u>\$ 145,126,859</u> | <u>\$ 11,599,128</u> | <u>\$ (40,145)</u> | <u>\$ (147,253)</u> | <u>\$ 156,538,589</u> | <u>100.0%</u> |

- (1) KICO has placed certain residential mortgage backed securities as eligible collateral in a designated custodian account related to its membership in the Federal Home Loan Bank of New York ("FHLBNY"). The eligible collateral would be pledged to FHLBNY if KICO draws an advance from the FHLBNY credit line. As of September 30, 2020, the estimated fair value of the eligible investments was approximately \$6,685,000. KICO will retain all rights regarding all securities if pledged as collateral. As of September 30, 2020, there was no outstanding balance on the FHLBNY credit line.

| Category | December 31, 2019 | | | | | |
|---|-----------------------|---------------------|-------------------------|---------------------|-----------------------|---------------------|
| | Cost or Amortized | Gross Unrealized | Gross Unrealized Losses | | Estimated Fair | % of Estimated Fair |
| | | | Less than 12 Months | More than 12 Months | | |
| Cost | Gains | Months | Months | Value | Value | |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | \$ 7,037,856 | \$ 23,244 | \$ - | \$ - | \$ 7,061,100 | 4.2% |
| Political subdivisions of States, Territories and Possessions | 9,151,293 | 181,835 | (11,316) | - | 9,321,812 | 5.5% |
| Corporate and other bonds Industrial and miscellaneous | 119,874,573 | 5,777,624 | (16,685) | (13,473) | 125,622,039 | 74.7% |
| Residential mortgage and other asset backed securities (1) | 26,138,633 | 437,841 | (68,793) | (276,451) | 26,231,230 | 15.6% |
| Total | <u>\$ 162,202,355</u> | <u>\$ 6,420,544</u> | <u>\$ (96,794)</u> | <u>\$ (289,924)</u> | <u>\$ 168,236,181</u> | <u>100.0%</u> |

- (1) KICO has placed certain residential mortgage backed securities as eligible collateral in a designated custodian account related to its relationship with the FHLBNY. The eligible collateral would be pledged to FHLBNY if KICO draws an advance from FHLBNY. As of December 31, 2019, the estimated fair value of the eligible investments was \$7,284,000. KICO will retain all rights regarding all securities if pledged as collateral. As of December 31, 2019, there was no outstanding balance on the FHLBNY credit line.

Equity Securities

The following table presents a breakdown of the cost and estimated fair value of, and gross unrealized gains and losses on, investments in equity securities as of September 30, 2020 and December 31, 2019:

| Category | September 30, 2020 | | | | |
|--|----------------------|------------------------|-------------------------|----------------------|---------------------------|
| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value | % of Estimated Fair Value |
| Equity Securities: | | | | | |
| Preferred stocks | \$ 14,260,019 | \$ 325,070 | \$ (339,125) | \$ 14,245,964 | 48.1% |
| Common stocks, mutual funds, and exchange traded funds | 16,040,820 | 777,813 | (1,441,330) | 15,377,303 | 51.9% |
| Total | \$ 30,300,839 | \$ 1,102,883 | \$ (1,780,455) | \$ 29,623,267 | 100.0% |

| Category | December 31, 2019 | | | | |
|--|----------------------|------------------------|-------------------------|----------------------|---------------------------|
| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value | % of Estimated Fair Value |
| Equity Securities: | | | | | |
| Preferred stocks | \$ 8,374,424 | \$ 339,257 | \$ (11,794) | \$ 8,701,887 | 35.3% |
| Common stocks, mutual funds, and exchange traded funds | 14,250,244 | 1,982,878 | (273,627) | 15,959,495 | 64.7% |
| Total | \$ 22,624,668 | \$ 2,322,135 | \$ (285,421) | \$ 24,661,382 | 100.0% |

Other Investments

The following table presents a breakdown of the cost and estimated fair value of, and gross unrealized gains on, our other investments as of September 30, 2020 and December 31, 2019:

| Category | September 30, 2020 | | | December 31, 2019 | | |
|---------------------------|---------------------|------------------------|----------------------|---------------------|------------------------|----------------------|
| | Cost | Gross Unrealized Gains | Estimated Fair Value | Cost | Gross Unrealized Gains | Estimated Fair Value |
| Other Investments: | | | | | | |
| Hedge fund | \$ 1,999,381 | \$ 829,697 | \$ 2,829,078 | \$ 1,999,381 | \$ 585,532 | \$ 2,584,913 |
| Total | \$ 1,999,381 | \$ 829,697 | \$ 2,829,078 | \$ 1,999,381 | \$ 585,532 | \$ 2,584,913 |

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Held-to-Maturity Securities

The following table presents a breakdown of the amortized cost and estimated fair value of, and gross unrealized gains and losses on, investments in held-to-maturity securities as of September 30, 2020 and December 31, 2019:

| Category | September 30, 2020 | | | | | |
|---|---------------------|------------------------|-------------------------|---------------------|----------------------|---------------------------|
| | Cost or Amortized | Gross Unrealized Gains | Gross Unrealized Losses | | Estimated Fair Value | % of Estimated Fair Value |
| | Cost | Gains | Less than 12 Months | More than 12 Months | Value | |
| U.S. Treasury securities | \$ 729,583 | \$ 162,442 | \$ - | \$ - | \$ 892,025 | 11.3% |
| Political subdivisions of States, Territories and Possessions | 998,480 | 56,700 | - | - | 1,055,180 | 13.4% |
| Corporate and other bonds | | | | | | |
| Industrial and miscellaneous | 5,641,545 | 334,412 | (23,858) | - | 5,952,099 | 75.3% |
| Total | \$ 7,369,608 | \$ 553,554 | \$ (23,858) | \$ - | \$ 7,899,304 | 100.0% |

| Category | December 31, 2019 | | | | | |
|--------------------------|-------------------|------------------------|-------------------------|---------------------|----------------------|---------------------------|
| | Cost or Amortized | Gross Unrealized Gains | Gross Unrealized Losses | | Estimated Fair Value | % of Estimated Fair Value |
| | Cost | Gains | Less than 12 Months | More than 12 Months | Value | |
| U.S. Treasury securities | \$ 729,550 | \$ 151,002 | \$ - | \$ - | \$ 880,552 | 21.3% |

| | | | | | | |
|--|---------------------|-------------------|-----------------|-------------|---------------------|---------------|
| Political subdivisions of States, Territories and Possessions | 998,619 | 51,021 | - | - | 1,049,640 | 25.4% |
| Corporate and other bonds | | | | | | |
| Industrial and miscellaneous | 2,097,783 | 97,627 | (835) | - | 2,194,575 | 53.3% |
| Total | \$ 3,825,952 | \$ 299,650 | \$ (835) | \$ - | \$ 4,124,767 | 100.0% |

Held-to-maturity U.S. Treasury securities are held in trust pursuant to various states' minimum fund requirements.

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A summary of the amortized cost and fair value of our investments in held-to-maturity securities by contractual maturity as of September 30, 2020 and December 31, 2019 is shown below:

| Remaining Time to Maturity | September 30, 2020 | | December 31, 2019 | |
|----------------------------|---------------------|----------------------|---------------------|----------------------|
| | Amortized Cost | Estimated Fair Value | Amortized Cost | Estimated Fair Value |
| Less than one year | \$ - | \$ - | \$ 500,000 | \$ 499,165 |
| One to five years | 2,597,739 | 2,793,089 | 2,099,268 | 2,215,640 |
| Five to ten years | 1,499,837 | 1,710,586 | 620,134 | 655,923 |
| More than 10 years | 3,272,032 | 3,395,629 | 606,550 | 754,039 |
| Total | \$ 7,369,608 | \$ 7,899,304 | \$ 3,825,952 | \$ 4,124,767 |

Credit Rating of Fixed-Maturity Securities

The table below summarizes the credit quality of our available-for-sale fixed-maturity securities as of September 30, 2020 and December 31, 2019 as rated by Standard & Poor's (or, if unavailable from Standard & Poor's, then Moody's or Fitch):

| Rating | September 30, 2020 | | December 31, 2019 | |
|--|-----------------------|--------------------------|-----------------------|--------------------------|
| | Estimated Fair Value | Percentage of Fair Value | Estimated Fair Value | Percentage of Fair Value |
| U.S. Treasury securities | \$ 3,069,330 | 2.0% | \$ 7,061,100 | 4.2% |
| Corporate and municipal bonds | | | | |
| AAA | 1,428,866 | 0.9% | 1,996,676 | 1.2% |
| AA | 3,871,079 | 2.5% | 8,809,480 | 5.2% |
| A | 25,614,616 | 16.4% | 34,636,236 | 20.6% |
| BBB | 98,202,271 | 62.7% | 89,501,460 | 53.2% |
| Total corporate and municipal bonds | 129,116,832 | 82.5% | 134,943,852 | 80.2% |
| Residential mortgage backed securities | | | | |
| AAA | 5,423,422 | 3.5% | 2,976,306 | 1.8% |
| AA | 14,526,160 | 9.3% | 18,440,382 | 10.9% |
| A | 2,402,063 | 1.5% | 2,471,761 | 1.5% |
| BBB | 52,899 | 0.0% | - | 0.0% |
| CCC | 986,888 | 0.6% | 1,174,273 | 0.7% |
| CC | 58,271 | 0.0% | 86,461 | 0.1% |
| C | 15,917 | 0.0% | 17,813 | 0.0% |
| D | 170,272 | 0.1% | 215,015 | 0.1% |
| Non rated | 716,535 | 0.5% | 849,218 | 0.5% |
| Total residential mortgage backed securities | 24,352,427 | 15.5% | 26,231,229 | 15.6% |
| Total | \$ 156,538,589 | 100.0% | \$ 168,236,181 | 100.0% |

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The table below summarizes the average yield by type of fixed-maturity security as of September 30, 2020 and December 31, 2019:

| Category | September 30, 2020 | December 31, 2019 |
|---|--------------------|-------------------|
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | 2.68% | 2.18% |
| Political subdivisions of States, | | |

| | | |
|---|-------|-------|
| Territories and Possessions | 3.07% | 3.26% |
| Corporate and other bonds Industrial and miscellaneous | 3.56% | 3.73% |
| Residential mortgage backed securities | 1.64% | 2.01% |
| Total | 3.23% | 3.37% |

The table below lists the weighted average maturity and effective duration in years on our fixed-maturity securities as of September 30, 2020 and December 31, 2019:

| | September 30, 2020 | December 31, 2019 |
|-------------------------------------|-----------------------|----------------------|
| Weighted average effective maturity | 5.3 | 4.8 |
| Weighted average final maturity | 6.8 | 6.3 |
| Effective duration | 4.7 | 4.3 |

Fair Value Consideration

Fair value is the price that would be received to sell an asset or paid to transfer a liability in a transaction involving identical or comparable assets or liabilities between market participants (an “exit price”). The fair value hierarchy distinguishes between inputs based on market data from independent sources (“observable inputs”) and a reporting entity’s internal assumptions based upon the best information available when external market data is limited or unavailable (“unobservable inputs”). The fair value hierarchy prioritizes fair value measurements into three levels based on the nature of the inputs. Quoted prices in active markets for identical assets have the highest priority (“Level 1”), followed by observable inputs other than quoted prices including prices for similar but not identical assets or liabilities (“Level 2”), and unobservable inputs, including the reporting entity’s estimates of the assumption that market participants would use, having the lowest priority (“Level 3”). As of September 30, 2020 and December 31, 2019, 83% and 80%, respectively, of the investment portfolio recorded at fair value was priced based upon quoted market prices.

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The table below summarizes the gross unrealized losses of our fixed-maturity securities available-for-sale and equity securities by length of time the security has continuously been in an unrealized loss position as of September 30, 2020 and December 31, 2019:

| Category | September 30, 2020 | | | | | | | | |
|---|----------------------------|----------------------|-----------------------------|----------------------------|----------------------|-----------------------------|----------------------------|----------------------|--|
| | Less than 12 months | | | 12 months or more | | | Total | | |
| | Estimated Fair Value | Unrealized Losses | No. of Positions Held | Estimated Fair Value | Unrealized Losses | No. of Positions Held | Estimated Fair Value | Unrealized Losses | |
| Fixed-Maturity Securities: | | | | | | | | | |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | \$ - | \$ - | - | \$ - | \$ - | - | \$ - | \$ - | |
| Political subdivisions of States, Territories and Possessions | - | - | - | - | - | - | - | - | |
| Corporate and other bonds industrial and miscellaneous | 522,450 | (1,654) | 1 | - | - | - | 522,450 | (1,654) | |
| Residential mortgage and other asset backed securities | 4,003,377 | (38,491) | 6 | 5,020,026 | (147,253) | 12 | 9,023,403 | (185,744) | |
| Total fixed-maturity securities | \$ 4,525,827 | \$ (40,145) | 7 | \$ 5,020,026 | \$ (147,253) | 12 | \$ 9,545,853 | \$ (187,398) | |

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| Category | December 31, 2019 | | | | | | | | |
|-----------------------------------|----------------------------|----------------------|-----------------------------|----------------------------|----------------------|-----------------------------|----------------------------|----------------------|--|
| | Less than 12 months | | | 12 months or more | | | Total | | |
| | Estimated Fair Value | Unrealized Losses | No. of Positions Held | Estimated Fair Value | Unrealized Losses | No. of Positions Held | Estimated Fair Value | Unrealized Losses | |
| Fixed-Maturity Securities: | | | | | | | | | |

| | | | | | | | | | | | | | |
|---|---------------------|--------------------|-----------|---------------------|---------------------|-----------|---------------------|---------------------|---|----|---|----|---|
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | \$ | - | \$ | - | - | \$ | - | \$ | - | \$ | - | \$ | - |
| Political subdivisions of States, Territories and Possessions | 3,067,428 | (11,316) | 3 | - | - | - | 3,067,428 | (11,316) | | | | | |
| Corporate and other bonds industrial and miscellaneous | 3,730,478 | (16,685) | 7 | 1,300,915 | (13,473) | 3 | 5,031,393 | (30,158) | | | | | |
| Residential mortgage and other asset backed securities | 5,862,636 | (68,793) | 5 | 13,534,768 | (276,451) | 21 | 19,397,404 | (345,244) | | | | | |
| Total fixed-maturity securities | \$12,660,542 | \$ (96,794) | 15 | \$14,835,683 | \$ (289,924) | 24 | \$27,496,225 | \$ (386,718) | | | | | |

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There were 19 securities at September 30, 2020 that accounted for the gross unrealized loss of our fixed-maturity securities available-for-sale, none of which were deemed by us to be other than temporarily impaired. There were 39 securities at December 31, 2019 that accounted for the gross unrealized loss, none of which were deemed by us to be other than temporarily impaired. Significant factors influencing our 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 not to sell these securities and it being not more likely than not that we will be required to sell these investments before anticipated recovery of fair value to our cost basis.

Liquidity and Capital Resources

Cash Flows

The primary sources of cash flow are from our insurance underwriting subsidiary, KICO, and include direct premiums written, ceding commissions from our quota share reinsurers, loss recovery payments from our reinsurers, investment income and proceeds from the sale or maturity of investments. Funds are used by KICO for ceded premium payments to reinsurers, which are paid on a net basis after subtracting losses paid on reinsured claims and reinsurance commissions. KICO also uses funds for loss payments and loss adjustment expenses on our net business, commissions to producers, salaries and other underwriting expenses as well as to purchase investments and fixed assets.

For the nine months ended September 30, 2020, the primary source of cash flow for our holding company was the dividends received from KICO, subject to statutory restrictions. For the nine months ended September 30, 2020, KICO paid dividends of \$5,000,000 to us.

KICO is a member of the Federal Home Loan Bank of New York ("FHLBNY"), which provides additional access to liquidity. Members have access to a variety of flexible, low cost funding through FHLBNY's credit products, enabling members to customize advances. Advances are to be fully collateralized; eligible collateral to pledge to FHLBNY includes residential and commercial mortgage backed securities, along with U.S. Treasury and agency securities. See Note 3 to our condensed consolidated financial statements – Investments, for eligible collateral held in a designated custodian account available for future advances. Advances are limited to 5% of KICO's net admitted assets as of the end of the previous quarter, which is June 30, 2020, and are due and payable within 90 days of borrowing. The maximum allowable advance as of September 30, 2020, based on the net admitted assets as of June 30, 2020, was approximately \$11,732,000. Advances are limited to 85% of the amount of available collateral, which was approximately \$5,683,000 as of September 30, 2020. There were no borrowings under this facility during the nine months ended September 30, 2020.

As of September 30, 2020, invested assets and cash in our holding company totaled approximately \$2,102,000. If the aforementioned sources of cash flow currently available are insufficient to cover our holding company cash requirements, we will seek to obtain additional financing.

Our reconciliation of net income to net cash provided by operations is generally influenced by the collection of premiums in advance of paid losses, the timing of reinsurance, issuing company settlements and loss payments.

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Cash flow and liquidity are categorized into three sources: (1) operating activities; (2) investing activities; and (3) financing activities, which are shown in the following table:

| <i>Nine Months Ended September 30,</i> | 2020 | 2019 |
|---|----------------------|----------------------|
| Cash flows (used in) provided by: | | |
| Operating activities | \$ (9,465,006) | \$ 19,537,965 |
| Investing activities | 3,927,739 | (12,085,316) |
| Financing activities | (2,466,115) | (2,952,002) |
| Net (decrease) increase in cash and cash equivalents | (8,003,382) | 4,500,647 |
| Cash and cash equivalents, beginning of period | 32,391,485 | 21,138,403 |
| Cash and cash equivalents, end of period | \$ 24,388,103 | \$ 25,639,050 |

Net cash used in operating activities was \$9,465,000 in Nine Months 2020 as compared to \$19,538,000 provided by operating activities in Nine Months 2019. The \$29,003,000 decrease in cash flows provided by operating activities in Nine Months 2020 was primarily a result of a decrease in cash arising from net fluctuations in assets and liabilities, partially offset by a decrease in net loss (adjusted for non-cash items) of \$14,752,000. The net fluctuations in assets and liabilities are related to operating activities of KICO as affected by growth or declines in its operations, payments on claims and changes in quota share ceding rates which are described above.

Net cash provided by investing activities was \$3,928,000 in Nine Months 2020 compared to \$12,085,000 used in investing activities in Nine Months 2019. The \$16,013,000 increase in net cash provided by investing activities was the result of a \$25,093,000 increase in disposal of invested assets, partially offset by a \$10,073,000 increase in acquisitions of invested assets in Nine Months 2020.

Net cash used in financing activities was \$2,466,000 in Nine Months 2020 compared to \$2,952,000 used in Nine Months 2019. The \$486,000 decrease in net cash used in financing activities was attributable to a \$1,297,000 reduction in dividends paid, partially offset by \$802,000 purchases of treasury stock in Nine Months 2020 compared to Nine Months 2019.

Reinsurance

Through June 30, 2019, our quota share reinsurance treaties were on a July 1 through June 30 fiscal year basis. Effective December 15, 2019, we entered into a quota share reinsurance treaty for our personal lines business covering the period from December 15, 2019 through December 31, 2020 ("2019/2020 Treaty").

Our quota share reinsurance treaties in effect during Nine Months 2020 and Nine Months 2019 for our personal lines business, which primarily consists of homeowners' policies, were covered under the 2019/2020 Treaty and under a treaty covering a two-year period from July 1, 2017 through June 30, 2019 ("2017/2019 Treaty"). The treaty in effect during Three Months 2019 (run-off period) and Nine Months 2019 through June 30, 2019 (together with the run-off period) was covered under the July 1, 2018 through June 30, 2019 treaty year ("2018/2019 Treaty Year").

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Effective July 1, 2019, our 2017/2019 Treaty and commercial umbrella treaty expired on a run-off basis; these treaties were not renewed. We entered into new excess of loss and catastrophe reinsurance treaties effective July 1, 2020. Material terms for our reinsurance treaties in effect for the treaty years shown below are as follows:

| Line of Business | Treaty Year | | |
|--|--|---|-------------------------------------|
| | December 15, 2019 to December 31, 2020 | July 1, 2019 to December 14, 2019 | July 1, 2018 to June 30, 2019 |
| Personal Lines: Homeowners, dwelling fire and and canine legal liability Quota share treaty: Percent ceded | 25% | None | 10% |

| Line of Business | Treaty Year | | | | |
|--|--|---|--|---|-------------------------------------|
| | January 1, 2021 to June 30, 2021 | July 1, 2020 to December 31, 2020 | December 15, 2019 to June 30, 2020 | July 1, 2019 to December 14, 2019 | July 1, 2018 to June 30, 2019 |
| Personal Lines: Homeowners, dwelling fire and and canine legal liability Quota share treaty: Risk retained on initial \$1,000,000 of losses | NA (7) | \$ 750,000 | \$ 750,000 | \$ 1,000,000 | \$ 900,000 |
| Losses per occurrence subject to quota share reinsurance coverage | NA (7) | \$ 1,000,000 | \$ 1,000,000 | None | \$ 1,000,000 |
| Expiration date | | December 31, 2020 | December 31, 2020 | | June 30, 2019 |
| Excess of loss coverage and facultative facility coverage (1) | \$ 8,000,000 in excess of | \$ 8,000,000 in excess of | \$ 9,000,000 in excess of | \$ 9,000,000 in excess of | \$ 9,000,000 in excess of |
| Total reinsurance coverage per occurrence (7) | \$ 8,000,000 | \$ 8,250,000 | \$ 9,250,000 | \$ 9,000,000 | \$ 9,100,000 |
| Losses per occurrence subject to reinsurance coverage | \$ 8,000,000 | \$ 9,000,000 | \$ 10,000,000 | \$ 10,000,000 | \$ 10,000,000 |
| Expiration date (7) | June 30, 2021 | June 30, 2021 | June 30, 2020 | June 30, 2020 | June 30, 2019 |
| Catastrophe Reinsurance: Initial loss subject to personal lines quota share treaty | NA (7) | \$ 7,500,000 | \$ 7,500,000 | None | \$ 5,000,000 |
| Risk retained per catastrophe occurrence (2) (7) | \$ 10,000,000 | \$ 8,125,000 | \$ 5,625,000 | \$ 7,500,000 | \$ 4,500,000 |
| Catastrophe loss coverage | | | | | |

| | | | | | |
|---|----------------|----------------|----------------|----------------|----------------|
| in excess of quota share coverage (3) (7) | \$ 475,000,000 | \$ 475,000,000 | \$ 602,500,000 | \$ 602,500,000 | \$ 445,000,000 |
| Reinstatement premium protection (4) (5) (6) | Yes | Yes | Yes | Yes | Yes |

- (1) For personal lines, includes the addition of an automatic facultative facility allowing KICO to obtain homeowners single risk coverage up to \$10,000,000 in total insured value, which covers direct losses from \$3,500,000 to \$10,000,000.
- (2) Plus losses in excess of catastrophe coverage. Effective July 1, 2020, no reinsurance coverage for the \$2,500,000 gap between quota share limit of \$7,500,000 and first \$10,000,000 layer of catastrophe coverage (see note (7) below).
- (3) Catastrophe coverage is limited on an annual basis to two times the per occurrence amounts. Duration of 168 consecutive hours for a catastrophe occurrence from windstorm, hail, tornado, hurricane and cyclone.
- (4) Effective July 1, 2018, reinstatement premium protection for \$210,000,000 of catastrophe coverage in excess of \$5,000,000.
- (5) Effective July 1, 2019, reinstatement premium protection for \$292,500,000 of catastrophe coverage in excess of \$7,500,000.
- (6) Effective July 1, 2020, reinstatement premium protection for \$70,000,000 of catastrophe coverage in excess of \$10,000,000.
- (7) Quota share expires December 31, 2020; reinsurance coverage from January 1, 2021 through June 30, 2021 is only for excess of loss and catastrophe reinsurance.

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| Line of Business | Treaty Year | | |
|---|-------------------------------------|-------------------------------------|-------------------------------------|
| | July 1, 2020 to June 30, 2021 | July 1, 2019 to June 30, 2020 | July 1, 2018 to June 30, 2019 |
| Personal Lines: | | | |
| Personal Umbrella | | | |
| Quota share treaty: | | | |
| Percent ceded - first \$1,000,000 of coverage | 90% | 90% | 90% |
| Percent ceded - excess of \$1,000,000 of coverage | 95% | 100% | 100% |
| Risk retained | \$ 300,000 | \$ 100,000 | \$ 100,000 |
| Total reinsurance coverage per occurrence | \$ 4,700,000 | \$ 4,900,000 | \$ 4,900,000 |
| Losses per occurrence subject to quota share reinsurance coverage | \$ 5,000,000 | \$ 5,000,000 | \$ 5,000,000 |
| Expiration date | June 30, 2021 | June 30, 2020 | June 30, 2019 |
| Commercial Lines: | | | |
| General liability commercial policies | | | |
| Quota share treaty | None | None | None |
| Risk retained | \$ 750,000 | \$ 750,000 | \$ 750,000 |
| Excess of loss coverage above risk retained | \$ 3,750,000 | \$ 3,750,000 | \$ 3,750,000 |
| | in excess of | in excess of | in excess of |
| | \$ 750,000 | \$ 750,000 | \$ 750,000 |
| Total reinsurance coverage per occurrence | \$ 3,750,000 | \$ 3,750,000 | \$ 3,750,000 |
| Losses per occurrence subject to reinsurance coverage | \$ 4,500,000 | \$ 4,500,000 | \$ 4,500,000 |
| Commercial Umbrella | | | |
| Quota share treaty: | None | None | |
| Percent ceded - first \$1,000,000 of coverage | | | 90% |
| Percent ceded - excess of \$1,000,000 of coverage | | | 100% |
| Risk retained | | | \$ 100,000 |
| Total reinsurance coverage per occurrence | | | \$ 4,900,000 |
| Losses per occurrence subject to quota share reinsurance coverage | | | \$ 5,000,000 |
| Expiration date | | | June 30, 2019 |

Our growth in personal lines premiums and the increasing coastal exposure in Expansion states has increased our risks for catastrophes. Our catastrophe rates increased effective July 1, 2020 to reflect our increased risk and size of our personal lines business as well as increases in the reinsurance market related to COVID-19 exposure.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Outlook

The impacts of COVID-19 and related economic conditions on our results are highly uncertain and outside our control. The scope, duration and magnitude of the direct and indirect effects of COVID-19 are evolving rapidly and in ways that are difficult or impossible to anticipate. In addition, because COVID-19 did not begin to affect our financial results until late in the first quarter of 2020, its impact on our results through September 30, 2020 is not indicative of its impact on our results for the remainder of 2020. For additional information on the risks posed by COVID-19, see “The impact of COVID-19 and related risks could materially affect our results of operations, financial position and/or liquidity” included in Part II, Item 1A— “Risk Factors” in this Quarterly Report.

Our net premiums earned may be impacted by a number of factors. Net premiums earned are a function of net written premium volume. Net written premiums comprise both renewal business and new business and are recognized as earned premium over the term of the underlying policies. Net written premiums from both renewal and new business are impacted by competitive market conditions as well as general economic conditions. As a result of COVID-

19, economic conditions in the United States rapidly deteriorated. The decreased levels of economic activity have negatively impacted, and will continue to negatively impact, premium volumes generated by new business. We began to experience this impact in March 2020 and it became more significant in the second and third quarters of 2020. We also expect this impact will further persist but to a lesser extent for the remainder of 2020, but the degree of the impact will depend on the extent and duration of the economic contraction and could be material. We have also made underwriting changes to emphasize profitability over growth and have culled out the type of risks that do not generate an acceptable level of return. This action has led, and will continue to lead, to a slowdown in premium growth, particularly in new business.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk.

This item is not applicable to smaller reporting companies.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We maintain a system of disclosure controls and procedures as defined in Rule 13a-15(e) under the Exchange Act that are designed to assure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Based on this evaluation, our Chief Executive Officer and Principal Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures are: (i) effective in recording, processing, summarizing, and reporting information on a timely basis that we are required to disclose in the reports that we file or submit under the Exchange Act, and (ii) effective in ensuring that information that we are required to disclose in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As required by Exchange Act Rule 13a-15(b), as of the end of the period covered by this Quarterly Report, under the supervision and with the participation of our Chief Executive Officer and Principal Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2020.

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Changes in Internal Control over Financial Reporting

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during our most recently completed fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitation on Effectiveness of Controls

Internal control over financial reporting is a process designed by, or under the supervision of, our Chief Executive Officer and Principal Financial Officer, and effected by the board of directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP including those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP and that receipts and expenditures are being made only in accordance with authorizations of our management and directors, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

On June 12, 2019, Phillip Woolgar filed a suit naming the Company and certain present or former officers and directors as defendants in a putative class action captioned *Woolgar v. Kingstone Companies et al.*, 19 cv 05500 (S.D.N.Y.), asserting claims under Section 10(b) of the Exchange Act and SEC Rule 10b-5 promulgated thereunder and Section 20(a) of the Exchange Act. Plaintiff sought to represent a class of persons or entities that purchased Kingstone securities between March 14, 2018, and April 29, 2019, and alleged violations of the federal securities law in connection with the Company's April 29, 2019 announcement regarding losses related to winter catastrophe events. The lawsuit alleged that the Company failed to disclose that it did not adequately follow industry best practices related to claims handling and thus did not record sufficient claim reserves, and that as a result, Defendants' positive statements about the Company's business, operations and prospects misled investors. Plaintiff sought, among other things, an undetermined amount of money damages. On August 10, 2020, the court granted the Company's motion to dismiss the amended complaint in the suit. The court permitted plaintiff to amend the complaint to attempt to cure the deficiencies identified by the court in its opinion (to the extent plaintiff had a good faith basis to do so). The outside date to file the

amended complaint, was September 11, 2020. Since the plaintiff did not file and amend the complaint by such date (or thereafter), the Company considers this matter to be closed.

Item 1A. Risk Factors.

For a discussion of the Company's potential risks and uncertainties, see Part I, Item 1A— "Risk Factors" and Part II, Item 7— "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's 2019 Annual Report filed with the SEC, and Part I, Item 2— "Management's Discussion and Analysis of Financial Condition and Results of Operations" herein, in each case as updated by the Company's periodic filings with the SEC. Other than as described below, there have been no material changes to the risk factors disclosed in Part I, Item 1A of the Company's 2019 Annual Report.

The impact of COVID-19 and related risks could materially affect our results of operations, financial position and/or liquidity.

Beginning in March 2020, the global pandemic related to the novel coronavirus COVID-19 began to impact the global economy and our results of operations. Because of the size and breadth of this pandemic, all of the direct and indirect consequences of COVID-19 are not yet known and may not emerge for some time. Risks presented by the ongoing effects of COVID-19 include, among others, the following:

Revenues. We expect that the impact of COVID-19 on general economic activity will negatively impact our premium volumes. We began to experience this impact in March 2020 and it became more significant in the second and third quarters of 2020. We also expect this impact will further persist but to a lesser extent for the remainder of 2020, but the degree of the impact will depend on the extent and duration of the economic contraction and could be material.

Investments. The disruption in the financial markets related to COVID-19 has contributed to net investment losses, primarily due to the impact of changes in fair value on our equity investments and in our fixed-income investment portfolio. Our corporate fixed income portfolio may be adversely impacted by ratings downgrades, increased bankruptcies and credit spread widening in distressed industries. In addition, in recent years, many state and local governments have been operating under deficits or projected deficits. These deficits may be exacerbated by the costs of responding to COVID-19 and reduced tax revenues due to adverse economic conditions. The severity and duration of these deficits could have an adverse impact on the collectability and valuation of our municipal bond portfolio. Our investment portfolio also includes mortgage-backed securities which could be adversely impacted by declines in real estate valuations and/or financial market disruption. Further disruptions in global financial markets could adversely impact our net investment income in future periods.

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Adverse Legislative and/or Regulatory Action. Federal, state and local government actions to address and contain the impact of COVID-19 may adversely affect us. For example, we may be subject to legislative and/or regulatory action that seeks to retroactively mandate coverage for losses which our insurance policies were not designed or priced to cover. Currently, in some states there is proposed legislation to require insurers to cover business interruption claims irrespective of terms, exclusions or other conditions included in the policies that would otherwise preclude coverage. Regulatory restrictions or requirements could also impact pricing, risk selection and our rights and obligations with respect to our policies and insureds, including our ability to cancel or non-renew policies and our right to collect premiums.

Operational Disruptions and Heightened Cybersecurity Risks. Our operations could be disrupted if key members of our senior management or a significant percentage of our workforce or the workforce of our producers are unable to continue to work because of illness, government directives or otherwise. In addition, the interruption of our or their system capabilities could result in a deterioration of our ability to write and process new and renewal business, provide customer service, pay claims in a timely manner or perform other necessary business functions. Having shifted to remote working arrangements, we also face a heightened risk of cybersecurity attacks or data security incidents and are more dependent on internet and telecommunications access and capabilities.

Reinsurance Risks. We purchase reinsurance to reduce our net liability on individual risks, to protect against possible catastrophes, to remain within a target ratio of net premiums written to policyholders' surplus and to expand our underwriting capacity. Participation in reinsurance arrangements does not relieve us from our obligations to policyholders. Our personal lines catastrophe reinsurance program was designed, utilizing our risk management methodology, to address our exposure to catastrophes. Market conditions beyond our control, including the effect of COVID-19 on the reinsurance market, have impacted and may continue to impact the availability and cost of the reinsurance we purchase. No assurances can be given that reinsurance will remain continuously available to us to the same extent and on the same terms and rates as currently available. For example, our ability to afford reinsurance to reduce our catastrophe risk may be dependent upon our ability to adjust premium rates for its cost, and there are no assurances that the terms and rates for our current reinsurance program will continue to be available in the future. If we are unable to maintain our current level of reinsurance or purchase new reinsurance protection in amounts that we consider sufficient and at prices that we consider acceptable, we will have to either accept an increase in our exposure risk, reduce our insurance writings or seek other alternatives.

Recent decline in the financial strength rating assigned to our insurance subsidiary by A.M. Best will impact our revenues and earnings.

Financial strength ratings are an important factor influencing the competitive position of insurance companies. The objective of the rating agencies' rating systems is to provide an opinion as to an insurer's financial strength and ability to meet ongoing obligations to its policyholders. The ratings of Kingstone Insurance Company ("KICO"), our insurance subsidiary, reflect the rating agencies' opinion as to its financial strength and are not evaluations directed to investors in our securities, nor are they recommendations to buy, sell or hold our securities.

Our ratings are subject to periodic review by, and may be revised downward or revoked at the sole discretion of, the rating agencies. Our ability to write business, particularly commercial liability lines, is influenced by our financial strength rating from A.M. Best. On July 10, 2020, A.M. Best lowered the financial strength rating of KICO from "A-" (Excellent) to "B++" (Good). The outlook of A.M. Best's credit rating is negative. A.M. Best indicated that the ratings downgrade of KICO reflects its balance sheet strength, which A.M. Best categorizes as adequate, as well as its strong operating performance, limited business profile and appropriate enterprise risk management. It stated that the ratings action was driven by a revision in KICO's catastrophe reinsurance program effective July 1, 2020 which significantly reduces the amount of reinsurance protection previously contemplated and purchased.

Management believes that A.M. Best's financial strength rating is more significant with regard to commercial liability insurance, as opposed to personal lines business. Since we have discontinued our commercial lines business, we believe that A.M. Best's rating action will not result in a material decrease in the

amount of business that KICO will be able to write. However, the A.M Best ratings downgrade has resulted in a material decrease in the business of our subsidiary, Cosi, a multi-state licensed general agency that had partnered with name-brand carriers which require an A.M. Best “A-” rating from its partners.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

(a) None.

(b) Not applicable.

(c) The following table sets forth certain information with respect to purchases of common stock made by us during the quarter ended September 30, 2020:

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Be Purchased Under the Plans or Programs |
|------------------|---|------------------------------------|---|---|
| 7/1/20 – 7/31/20 | - | - | - | - |
| 8/1/20 – 8/31/20 | - | - | - | - |
| 9/1/20 – 9/30/20 | - | - | - | - |
| Total | - | - | - | - |

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

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Item 6. Exhibits.

| | |
|-----------------------|---|
| 3(a) | Restated Certificate of Incorporation, as amended (incorporated by reference to Exhibit 3(a) to the Company’s Quarterly Report on Form 10-Q for the period ended March 31, 2014 filed on May 15, 2014). |
| 3(b) | By-laws, as amended (incorporated by reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K filed on November 9, 2009). |
| 31(a) | Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31(b) | Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32+ | Certification of Chief Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.INS | XBRL Instance Document |
| 101.SCH | 101.SCH XBRL Taxonomy Extension Schema. |
| 101.CAL | 101.CAL XBRL Taxonomy Extension Calculation Linkbase. |
| 101.DEF | 101.DEF XBRL Taxonomy Extension Definition Linkbase. |
| 101.LAB | 101.LAB XBRL Taxonomy Extension Label Linkbase. |
| 101.PRE | 101.PRE XBRL Taxonomy Extension Presentation Linkbase. |

+ This exhibit will not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Such exhibit shall not be deemed incorporated into any filing under the Securities Act of 1933, as amended, or the Securities Act of 1934, as amended.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

KINGSTONE COMPANIES, INC.

Dated: November 9, 2020

By: /s/ Barry B. Goldstein
Barry B. Goldstein
Chief Executive Officer

Dated: November 9, 2020

By: /s/ Richard Swartz
Richard Swartz
Principal Financial Officer

CERTIFICATION

I, Barry B. Goldstein, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Kingstone Companies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2020

/s/ Barry B. Goldstein
Barry B. Goldstein
Chief Executive Officer

CERTIFICATION

I, Richard Swartz, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Kingstone Companies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2020

/s/ Richard Swartz
Richard Swartz
Principal Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
AND PRINCIPAL FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned hereby certify, pursuant to, and as required by, 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Kingstone Companies, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2020 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 9, 2020

/s/ Barry B. Goldstein

Barry B. Goldstein

Chief Executive Officer

/s/ Richard Swartz

Richard Swartz

Principal Financial Officer