

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 June 30, 2022

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

Accelerated filer

Non-accelerated Filer

Smaller reporting company

Emerging growth company

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 August 15, 2022, there were 10,645,675 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 (“Risk Factors”) of our Annual Report under “Factors That May Affect Future Results and Financial Condition” on Form 10-K for the year ended December 31, 2021, Part I, Item 2 of this Quarterly Report 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>June 30,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
	(unaudited)	
Assets		
Fixed-maturity securities, held-to-maturity, at amortized cost (fair value of \$6,913,536 at June 30, 2022 and \$8,753,159 at December 31, 2021)	\$ 7,768,218	\$ 8,266,334
Fixed-maturity securities, available-for-sale, at fair value (amortized cost of \$156,683,115 at June 30, 2022 and	141,497,787	158,080,110

\$155,808,478 at December 31, 2021)		
Equity securities, at fair value (cost of \$30,239,520 at June 30, 2022 and \$37,470,669 at December 31, 2021)	26,064,545	39,687,002
Other investments	5,253,582	7,561,415
Total investments	180,584,132	213,594,861
Cash and cash equivalents	13,200,128	24,290,598
Premiums receivable, net	11,994,265	12,318,336
Reinsurance receivables, net	54,652,171	40,292,438
Deferred policy acquisition costs	22,025,938	22,238,987
Intangible assets	500,000	500,000
Property and equipment, net	10,185,098	9,291,597
Deferred income taxes, net	7,344,092	192,253
Other assets	6,147,440	8,593,205
Total assets	\$ 306,633,264	\$ 331,312,275
Liabilities		
Loss and loss adjustment expense reserves	\$ 98,903,060	\$ 94,948,745
Unearned premiums	98,152,959	97,759,607
Advance premiums	5,773,444	2,693,466
Reinsurance balances payable	10,877,113	12,961,568
Deferred ceding commission revenue	9,759,340	9,748,508
Accounts payable, accrued expenses and other liabilities	6,166,043	7,704,396
Debt, net	29,911,881	29,823,791
Total liabilities	259,543,840	255,640,081
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 12,117,081 shares at June 30, 2022 and 11,955,660 shares at December 31, 2021; outstanding 10,645,675 shares at June 30, 2022 and 10,484,254 shares at December 31, 2021	121,171	119,557
Capital in excess of par	73,102,513	72,467,483
Accumulated other comprehensive (loss) income	(11,994,258)	1,796,739
(Accumulated deficit) retained earnings	(8,572,521)	6,855,896
Treasury stock, at cost, 1,471,406 shares at June 30, 2022 and December 31, 2021	(5,567,481)	(5,567,481)
Total stockholders' equity	47,089,424	75,672,194
Total liabilities and stockholders' equity	\$ 306,633,264	\$ 331,312,275

See accompanying notes to condensed consolidated financial statements.

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KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

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

	For the Three Months Ended,		For the Six Months Ended,	
	June 30,	June 30,	June 30,	June 30,
	2022	2021	2022	2021
Revenues				
Net premiums earned	\$ 27,902,068	\$ 35,436,426	\$ 54,575,448	\$ 70,025,644
Ceding commission revenue	4,715,587	45,741	9,396,983	44,676
Net investment income	634,325	1,678,075	1,993,425	3,461,271
Net (losses) gains on investments	(4,517,373)	2,315,261	(8,915,778)	5,275,668
Other income	244,643	124,946	480,467	296,392
Total revenues	28,979,250	39,600,449	57,530,545	79,103,651
Expenses				
Loss and loss adjustment expenses	18,656,041	20,759,210	41,597,239	43,319,882
Commission expense	8,481,031	8,285,341	16,832,117	16,509,180
Other underwriting expenses	6,624,997	6,692,920	13,440,946	13,159,962
Other operating expenses	665,815	933,272	1,547,770	2,285,578
Depreciation and amortization	877,263	837,654	1,647,373	1,659,994
Interest expense	456,545	456,545	913,090	913,090
Total expenses	35,761,692	37,964,942	75,978,535	77,847,686
(Loss) income from operations before taxes	(6,782,442)	1,635,507	(18,447,990)	1,255,965
Income tax (benefit) provision	(1,402,823)	312,146	(3,870,839)	243,701
Net (loss) income	(5,379,619)	1,323,361	(14,577,151)	1,012,264

Other comprehensive (loss) income, net of tax				
Gross change in unrealized (losses) gains on available-for-sale-securities	(7,642,863)	1,074,164	(17,508,640)	(2,749,115)
Reclassification adjustment for losses (gains) included in net (loss) income	10,356	(341,474)	51,680	(735,771)
Net change in unrealized (losses) gains	(7,632,507)	732,690	(17,456,960)	(3,484,886)
Income tax benefit (provision) related to items of other comprehensive (loss) income	1,602,827	(153,865)	3,665,963	731,827
Other comprehensive (loss) income, net of tax	(6,029,680)	578,825	(13,790,997)	(2,753,059)
Comprehensive (loss) income	\$ (11,409,299)	\$ 1,902,186	\$ (28,368,148)	\$ (1,740,795)
(Loss) earnings per common share:				
Basic	\$ (0.51)	\$ 0.12	\$ (1.37)	\$ 0.09
Diluted	\$ (0.51)	\$ 0.12	\$ (1.37)	\$ 0.09
Weighted average common shares outstanding				
Basic	10,644,578	10,670,831	10,637,553	10,673,550
Diluted	10,644,578	10,846,724	10,637,553	10,809,924
Dividends declared and paid per common share	\$ 0.04	\$ 0.04	\$ 0.08	\$ 0.08

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 June 30, 2022 and 2021

	Preferred Stock		Common Stock		Capital in Excess of Par Amount	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock		Total
	Shares	Amount	Shares	Amount				Shares	Amount	
Balance, April 1, 2021	-	\$ -	11,935,321	\$ 119,353	\$ 71,116,917	\$ 6,548,178	\$ 15,190,031	1,262,527	\$ (3,961,798)	\$ 89,012,681
Stock-based compensation	-	-	-	-	486,069	-	-	-	-	486,069
Vesting of restricted stock awards	-	-	13,201	132	(132)	-	-	-	-	-
Shares deducted from restricted stock awards for payment of withholding taxes	-	-	(4,302)	(43)	(35,057)	-	-	-	-	(35,100)
Acquisition of treasury stock	-	-	-	-	-	-	-	120,550	(974,135)	(974,135)
Dividends	-	-	-	-	-	-	(427,055)	-	-	(427,055)
Net loss	-	-	-	-	-	-	1,323,361	-	-	1,323,361
Change in unrealized gains on available-for-sale securities, net of tax	-	-	-	-	-	578,825	-	-	-	578,825
Balance, June 30, 2021	-	\$ -	11,944,220	\$ 119,442	\$ 71,567,797	\$ 7,127,003	\$ 16,086,337	1,383,077	\$ (4,935,933)	\$ 89,964,646
	Preferred Stock		Common Stock		Capital in Excess of Par	Accumulated Other Comprehensive	Accumulated	Treasury Stock		

	Shares	Amount	Shares	Amount	Amount	Income (Loss)	Deficit	Shares	Amount	Total
Balance, April 1, 2022	-	\$ -	12,109,307	\$ 121,093	\$ 72,638,286	\$ (5,964,578)	\$ (2,767,126)	1,471,406	\$ (5,567,481)	\$ 58,460,194
Stock-based compensation	-	-	-	-	486,029	-	-	-	-	486,029
Vesting of restricted stock awards	-	-	12,149	121	(121)	-	-	-	-	-
Shares deducted from restricted stock awards for payment of withholding taxes	-	-	(4,375)	(43)	(21,681)	-	-	-	-	(21,724)
Dividends	-	-	-	-	-	-	(425,776)	-	-	(425,776)
Net loss	-	-	-	-	-	-	(5,379,619)	-	-	(5,379,619)
Change in unrealized losses on available-for-sale securities, net of tax	-	-	-	-	-	(6,029,680)	-	-	-	(6,029,680)
Balance, June 30, 2022	-	\$ -	12,117,081	\$ 121,171	\$ 73,102,513	\$ (11,994,258)	\$ (8,572,521)	1,471,406	\$ (5,567,481)	\$ 47,089,424

See accompanying notes to condensed consolidated financial statements.

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KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Stockholders' Equity (Unaudited)

Six months ended June 30, 2022 and 2021

	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, 2021	-	\$ -	11,871,307	\$ 118,713	\$ 70,769,165	\$ 9,880,062	\$ 15,928,345	1,254,492	\$ (3,895,883)	\$ 92,800,402
Stock-based compensation	-	-	-	-	981,067	-	-	-	-	981,067
Vesting of restricted stock awards	-	-	99,123	991	(991)	-	-	-	-	-
Shares deducted from restricted stock awards for payment of withholding taxes	-	-	(26,210)	(262)	(181,444)	-	-	-	-	(181,706)
Acquisition of treasury stock	-	-	-	-	-	-	-	128,585	(1,040,050)	(1,040,050)
Dividends	-	-	-	-	-	-	(854,272)	-	-	(854,272)
Net income	-	-	-	-	-	-	1,012,264	-	-	1,012,264
Change in unrealized losses on available-for-sale securities, net of tax	-	-	-	-	-	(2,753,059)	-	-	-	(2,753,059)
Balance, June 30, 2021	-	\$ -	11,944,220	\$ 119,442	\$ 71,567,797	\$ 7,127,003	\$ 16,086,337	1,383,077	\$ (4,935,933)	\$ 89,964,646

Capital Accumulated Other Retained Earnings

	Preferred Stock		Common Stock		in Excess of Par	Comprehensive Income (Loss)	(Accumulated Deficit)	Treasury Stock		Total
	Shares	Amount	Shares	Amount				Shares	Amount	
Balance, January 1, 2022	-	\$ -	11,955,660	\$ 119,557	\$ 72,467,483	\$ 1,796,739	\$ 6,855,896	1,471,406	\$(5,567,481)	\$ 75,672,194
Stock-based compensation	-	-	-	-	1,016,443	-	-	-	-	1,016,443
Vesting of restricted stock awards	-	-	234,219	2,342	(2,342)	-	-	-	-	-
Shares deducted from restricted stock awards for payment of withholding taxes	-	-	(72,798)	(728)	(379,071)	-	-	-	-	(379,799)
Dividends	-	-	-	-	-	-	(851,266)	-	-	(851,266)
Net loss	-	-	-	-	-	-	(14,577,151)	-	-	(14,577,151)
Change in unrealized losses on available-for-sale securities, net of tax	-	-	-	-	-	(13,790,997)	-	-	-	(13,790,997)
Balance, June 30, 2022	-	\$ -	12,117,081	\$ 121,171	\$ 73,102,513	\$ (11,994,258)	\$ (8,572,521)	1,471,406	\$(5,567,481)	\$ 47,089,424

See accompanying notes to condensed consolidated financial statements.

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KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)

Six months ended June 30,

	2022	2021
Cash flows from operating activities:		
Net (loss) income	\$ (14,577,151)	\$ 1,012,264
Adjustments to reconcile net (loss) income to net cash flows (used in) provided by operating activities:		
Net losses (gains) on investments	210,900	(1,844,257)
Net unrealized losses (gains) on equity investments	6,417,045	(1,924,072)
Net unrealized losses (gains) on other investments	2,287,833	(1,507,339)
Depreciation and amortization	1,647,373	1,659,994
Bad debt expense	42,226	128,518
Amortization of bond premium, net	248,650	107,068
Amortization of discount and issuance costs on debt	88,090	88,090
Stock-based compensation	1,016,443	981,067
Deferred income tax (benefit) expense	(3,485,876)	588,442
Decrease (increase) in operating assets:		
Premiums receivable, net	281,845	971,389
Reinsurance receivables, net	(14,359,733)	17,267,805
Deferred policy acquisition costs	213,049	191,560
Other assets	2,437,007	(1,365,167)
Increase (decrease) in operating liabilities:		
Loss and loss adjustment expense reserves	3,954,315	2,223,810
Unearned premiums	393,352	(1,936,706)
Advance premiums	3,079,978	2,582,330
Reinsurance balances payable	(2,084,455)	(4,953,735)
Deferred ceding commission revenue	10,832	(8,931)
Accounts payable, accrued expenses and other liabilities	(1,538,353)	102,185
Net cash flows (used in) provided by operating activities	(13,716,630)	14,364,315
Cash flows from investing activities:		
Purchase - fixed-maturity securities held-to-maturity	(498,711)	(3,111,381)
Purchase - fixed-maturity securities available-for-sale	(14,386,410)	(5,424,374)
Purchase - equity securities	(589,317)	(8,431,047)
Purchase - other investments	-	(2,000,000)

Redemption - fixed-maturity securities held-to-maturity	1,000,000	625,000
Sale and maturity - fixed-maturity securities available-for-sale	13,228,270	22,276,142
Sale - equity securities	7,644,267	9,569,363
Acquisition of property and equipment	(2,540,874)	(2,195,985)
Net cash flows provided by investing activities	3,857,225	11,307,718
Cash flows from financing activities:		
Withholding taxes paid on vested restricted stock awards	(379,799)	(181,706)
Purchase of treasury stock	-	(1,040,050)
Dividends paid	(851,266)	(854,272)
Net cash flows used in financing activities	(1,231,065)	(2,076,028)
(Decrease) increase in cash and cash equivalents	\$ (11,090,470)	\$ 23,596,005
Cash and cash equivalents, beginning of period	24,290,598	19,463,742
Cash and cash equivalents, end of period	\$ 13,200,128	\$ 43,059,747
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	\$ -	\$ -
Cash paid for interest	\$ 825,000	\$ 825,000

See accompanying notes to condensed consolidated financial statements.

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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, 79.8% and 80.2% of KICO's direct written premiums for the three months and six months ended June 30, 2022, 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.

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, 2021 and notes thereto included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on April 4, 2022. 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 six months ended June 30, 2022 may not be indicative of the results that may be expected for the year ending December 31, 2022.

Certain prior year balances were reclassified to conform with the current year presentation. The reclassification had no effect on the Company's previously reported financial condition, results of operations or cash flows.

Note 2 – Accounting Policies

Basis of Presentation; Going Concern

See Note 2 to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2021 for further information.

The Company's \$30,000,000 5.5% Senior Unsecured Notes (the "Notes") are due on December 30, 2022. The Company's continuation as a going concern is dependent on its ability to obtain financing and/or other funds to satisfy such obligation. Management believes that KICO's insurance operations would be able to continue in the unlikely event that financing is not obtained.

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In accordance with Accounting Standards Update ("ASU") 2014-15, Presentation of Financial Statements—Going Concern (Subtopic 205-40) ("ASC 205-40"), the Company has the responsibility to evaluate whether conditions and/or events raise substantial doubt about its ability to meet its future financial

obligations as they become due within one year after the date that the financial statements are issued. This evaluation requires management to perform two steps. First, management must evaluate whether there are conditions and events that raise substantial doubt about the entity's ability to continue as a going concern. Second, if management concludes that substantial doubt is raised, management is required to consider whether it has plans in place to alleviate that doubt. Disclosures in the notes to the consolidated financial statements are required if management concludes that substantial doubt exists and if its plans alleviate the substantial doubt that was raised.

The accompanying condensed consolidated financial statements have been prepared in accordance with GAAP assuming that the Company will continue as a going concern. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result should the Company be unable to continue as a going concern.

Management's Plan Related to Going Concern

In order to continue as a going concern, the Company will need to obtain financing and/or other funds to satisfy its debt obligation due on December 30, 2022. Management plans to refinance the Notes with a new issue of investment grade debt securities of similar or longer maturity that would result in net proceeds equal to or greater than the principal amount of the Notes. In connection therewith, the Company has engaged an investment banker to serve as exclusive placement agent for a proposed offering by the Company of its securities (including debt, equity and/or preferred securities). The engagement letter indicates that the offering would be of such size as to generate proceeds to the Company of no less than \$30,000,000. Subject to regulatory requirements, the Company also may receive dividends paid to it by KICO, its insurance subsidiary, that could be utilized to repay the Notes. As of June 30, 2022, KICO had negative unassigned surplus and was not permitted to pay the Company any dividends without prior regulatory approval. Further, the Company plans to use available invested assets and cash to repay the Notes. As of June 30, 2022, invested assets and cash of Kingstone were approximately \$2,780,000.

The ability of the Company to continue as a going concern is dependent upon its ability to successfully accomplish the plan described above. The Company believes that its plan is probable of being implemented and that such plan would alleviate any adverse conditions.

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 LAE, which 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 used in preparing the condensed consolidated financial statements.

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Principles of Consolidation

The condensed consolidated financial statements include the accounts of Kingstone and its 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 inter-company account balances and transactions have been eliminated in consolidation.

Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (the "FASB") issued 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.

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

Note 3 - Investments

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 June 30, 2022 and December 31, 2021 are summarized as follows:

Category	June 30, 2022					
	Cost or	Gross	Gross Unrealized Losses		Estimated	Net
	Amortized	Unrealized	Less than 12	More than	Fair	Unrealized
	Cost	Gains	Months	12	Value	Losses
				Months		
Fixed-Maturity Securities:						
Political subdivisions of States,						
Territories and Possessions	\$ 17,218,274	\$ -	\$ (3,020,486)	\$ -	\$ 14,197,788	\$ (3,020,486)

Corporate and other bonds						
Industrial and miscellaneous	84,235,861	9,782	(6,562,506)	-	77,683,137	(6,552,724)
Residential mortgage and other asset backed securities	55,228,980	114,844	(5,387,294)	(339,668)	49,616,862	(5,612,118)
Total fixed-maturity securities	<u>\$ 156,683,115</u>	<u>\$ 124,626</u>	<u>\$ (14,970,286)</u>	<u>\$ (339,668)</u>	<u>\$ 141,497,787</u>	<u>\$ (15,185,328)</u>

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Category	December 31, 2021					
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Estimated Fair Value	Net Unrealized Gains/(Losses)
			Less than 12 Months	More than 12 Months		
Fixed-Maturity Securities:						
Political subdivisions of States, Territories and Possessions	\$ 17,236,750	\$ 246,748	\$ (197,984)	\$ -	\$ 17,285,514	\$ 48,764
Corporate and other bonds						
Industrial and miscellaneous	80,534,769	2,603,411	(126,926)	-	83,011,254	2,476,485
Residential mortgage and other asset backed securities	58,036,959	355,985	(489,258)	(120,344)	57,783,342	(253,617)
Total fixed-maturity securities	<u>\$ 155,808,478</u>	<u>\$ 3,206,144</u>	<u>\$ (814,168)</u>	<u>\$ (120,344)</u>	<u>\$ 158,080,110</u>	<u>\$ 2,271,632</u>

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 June 30, 2022 and December 31, 2021 is shown below:

Remaining Time to Maturity	June 30, 2022		December 31, 2021	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Less than one year	\$ 1,500,986	\$ 1,500,790	\$ 1,153,099	\$ 1,156,636
One to five years	46,709,763	45,176,361	43,007,110	44,914,759
Five to ten years	32,088,366	27,928,816	26,808,853	27,332,581
More than 10 years	21,155,020	17,274,958	26,802,457	26,892,792
Residential mortgage and other asset backed securities	55,228,980	49,616,862	58,036,959	57,783,342
Total	<u>\$ 156,683,115</u>	<u>\$ 141,497,787</u>	<u>\$ 155,808,478</u>	<u>\$ 158,080,110</u>

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

[Equity Securities](#)

The cost and estimated fair value of, and gross unrealized gains and losses on, investments in equity securities as of June 30, 2022 and December 31, 2021 are as follows:

Category	June 30, 2022			
	Cost	Gross Gains	Gross Losses	Estimated Fair Value
Equity Securities:				
Preferred stocks	\$ 18,430,554	\$ 175,745	\$ (3,347,910)	\$ 15,258,389
Common stocks, mutual funds, and exchange traded funds	11,808,966	392,745	(1,395,555)	10,806,156
Total	<u>\$ 30,239,520</u>	<u>\$ 568,490</u>	<u>\$ (4,743,465)</u>	<u>\$ 26,064,545</u>

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Category	December 31, 2021			
	Cost	Gross Gains	Gross Losses	Estimated Fair Value
Equity Securities:				
Preferred stocks	\$ 22,019,509	\$ 1,007,009	\$ (184,617)	\$ 22,841,901
Common stocks, mutual funds, and exchange traded funds	15,451,160	1,573,653	(179,712)	16,845,101
Total	<u>\$ 37,470,669</u>	<u>\$ 2,580,662</u>	<u>\$ (364,329)</u>	<u>\$ 39,687,002</u>

Other Investments

The cost and estimated fair value of, and gross gains on, the Company's other investments as of June 30, 2022 and December 31, 2021 are as follows:

Category	June 30, 2022			December 31, 2021		
	Cost	Gross Gains	Estimated Fair Value	Cost	Gross Gains	Estimated Fair Value
Other Investments:						
Hedge fund	\$ 3,999,381	\$ 1,254,201	\$ 5,253,582	\$ 3,999,381	\$ 3,562,034	\$ 7,561,415

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 June 30, 2022 and December 31, 2021 are summarized as follows:

Category	June 30, 2022					
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses More than		Estimated Fair Value	Net Unrealized Gains/ (Losses)
			Less than 12 Months	12 Months		
Held-to-Maturity Securities:						
U.S. Treasury securities	\$ 1,228,410	\$ 86,141	\$ (10,175)	\$ -	\$ 1,304,376	\$ 75,966
Political subdivisions of States, Territories and Possessions	498,378	4,637	-	-	503,015	4,637
Exchange traded debt	304,111	-	(29,111)	-	275,000	(29,111)
Corporate and other bonds						
Industrial and miscellaneous	5,737,319	39,429	(945,603)	-	4,831,145	(906,174)
Total	\$ 7,768,218	\$ 130,207	\$ (984,889)	\$ -	\$ 6,913,536	\$ (854,682)

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Category	December 31, 2021					
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses More than		Estimated Fair Value	Net Unrealized Gains/ (Losses)
			Less than 12 Months	12 Months		
Held-to-Maturity Securities:						
U.S. Treasury securities	\$ 729,642	\$ 209,633	\$ -	\$ -	\$ 939,275	\$ 209,633
Political subdivisions of States, Territories and Possessions	998,239	22,856	-	-	1,021,095	22,856
Exchange traded debt	304,111	85	(13,921)	-	290,275	(13,836)
Corporate and other bonds						
Industrial and miscellaneous	6,234,342	280,951	(12,779)	-	6,502,514	268,172
Total	\$ 8,266,334	\$ 513,525	\$ (26,700)	\$ -	\$ 8,753,159	\$ 486,825

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

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 June 30, 2022 and December 31, 2021 is shown below:

Remaining Time to Maturity	June 30, 2022		December 31, 2021	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Less than one year	\$ 459,032	\$ 497,110	\$ 994,712	\$ 1,008,180
One to five years	1,246,206	1,246,690	1,205,829	1,290,465
Five to ten years	1,519,749	1,370,950	1,513,942	1,648,808
More than 10 years	4,543,231	3,798,786	4,551,851	4,805,706
Total	\$ 7,768,218	\$ 6,913,536	\$ 8,266,334	\$ 8,753,159

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Investment Income

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

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Income:				
Fixed-maturity securities	\$ 457,941	\$ 1,459,342	\$ 1,598,130	\$ 2,950,469
Equity securities	279,562	351,100	624,730	708,411
Cash and cash equivalents	2,983	634	3,166	1,558
Other investments	-	(42,908)	-	(42,908)
Total	740,486	1,768,168	2,226,026	3,617,530
Expenses:				
Investment expenses	106,161	90,093	232,601	156,259
Net investment income	\$ 634,325	\$ 1,678,075	\$ 1,993,425	\$ 3,461,271

Proceeds from the redemption of fixed-maturity securities held-to-maturity were \$1,000,000 and \$625,000 for the six months ended June 30, 2022 and 2021, respectively.

Proceeds from the sale or maturity of fixed-maturity securities available-for-sale were \$13,228,270 and \$22,276,142 for the six months ended June 30, 2022 and 2021, respectively.

Proceeds from the sale of equity securities were \$7,644,267 and \$9,569,363 for the six months ended June 30, 2022 and 2021, respectively.

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

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Realized Gains (Losses)				
Fixed-maturity securities:				
Gross realized gains	\$ 17,311	\$ 367,756	\$ 102,411	\$ 777,296
Gross realized losses	(27,666)	(26,255)	(154,091)	(41,499)
	(10,355)	341,501	(51,680)	735,797
Equity securities:				
Gross realized gains	29,047	442,798	477,353	1,375,948
Gross realized losses	(307,352)	(67,276)	(636,573)	(267,488)
	(278,305)	375,522	(159,220)	1,108,460
Net realized (losses) gains	(288,660)	717,023	(210,900)	1,844,257
Unrealized (Losses) Gains				
Equity Securities:				
Gross gains	-	920,863	-	1,924,072
Gross losses	(2,856,412)	-	(6,417,045)	-
	(2,856,412)	920,863	(6,417,045)	1,924,072
Other Investments:				
Gross gains	-	677,375	-	1,507,339
Gross losses	(1,372,301)	-	(2,287,833)	-
	(1,372,301)	677,375	(2,287,833)	1,507,339
Net unrealized (losses) gains	(4,228,713)	1,598,238	(8,704,878)	3,431,411
Net (losses) gains on investments	\$ (4,517,373)	\$ 2,315,261	\$ (8,915,778)	\$ 5,275,668

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 loss. 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 based on cash flow projections. For held-to-maturity fixed-maturity 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 based on timing of future estimated cash flows of the security.

OTTI losses are recorded in the consolidated statements of operations and comprehensive (loss) income as net realized losses on investments and result in a permanent reduction of the cost basis of the underlying investment. The determination of OTTI is a subjective process and different judgments and assumptions could affect the timing of loss realization. At June 30, 2022 and December 31, 2021, there were 146 and 48 fixed-maturity securities, respectively, that accounted for the gross unrealized losses. The Company determined that none of the unrealized losses were deemed to be OTTI for its portfolio of investments as of June 30, 2022 and December 31, 2021. Significant factors influencing the Company’s determination that unrealized losses were temporary included credit quality considerations, the magnitude of the unrealized losses in relation to each security’s cost, the nature of the investment and interest rate environment factors, and management’s intent and ability to hold 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 June 30, 2022 as follows:

Category	June 30, 2022							
	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	14,197,788	(3,020,486)	14	-	-	-	14,197,788	(3,020,486)
Corporate and other bonds industrial and miscellaneous	76,672,772	(6,562,506)	92	-	-	-	76,672,772	(6,562,506)
Residential mortgage and other asset backed securities	45,843,567	(5,387,294)	37	2,724,188	(339,668)	3	48,567,755	(5,726,962)
Total fixed-maturity securities	\$ 136,714,127	\$ (14,970,286)	143	\$ 2,724,188	\$ (339,668)	3	\$ 139,438,315	\$ (15,309,954)

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The Company held available-for-sale securities with unrealized losses representing declines that were considered temporary at December 31, 2021 as follows:

Category	December 31, 2021							
	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	6,768,123	(197,984)	5	-	-	-	6,768,123	(197,984)
Corporate and other bonds industrial and miscellaneous	17,593,707	(126,926)	15	-	-	-	17,593,707	(126,926)
Residential mortgage and other asset backed securities	45,399,451	(489,258)	26	2,923,182	(120,344)	2	48,322,633	(609,602)

Total fixed-maturity securities	<u>\$69,761,281</u>	<u>\$ (814,168)</u>	<u>46</u>	<u>\$ 2,923,182</u>	<u>\$ (120,344)</u>	<u>2</u>	<u>\$ 72,684,463</u>	<u>\$ (934,512)</u>
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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 June 30, 2022 and December 31, 2021 indicating the fair value hierarchy of the valuation inputs the Company utilized to determine such fair value:

	June 30, 2022			Total
	Level 1	Level 2	Level 3	
Fixed-maturity securities available-for-sale				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ -	\$ -	\$ -	\$ -
Political subdivisions of States, Territories and Possessions	-	14,197,788	-	14,197,788
Corporate and other bonds industrial and miscellaneous	77,185,757	497,380	-	77,683,137
Residential mortgage and other asset backed securities	-	49,616,862	-	49,616,862
Total fixed maturities	77,185,757	64,312,030	-	141,497,787
Equity securities	26,064,545	-	-	26,064,545
Total investments	<u>\$ 103,250,302</u>	<u>\$ 64,312,030</u>	<u>\$ -</u>	<u>\$ 167,562,332</u>

	December 31, 2021			Total
	Level 1	Level 2	Level 3	
Fixed-maturity securities available-for-sale				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ -	\$ -	\$ -	\$ -
Political subdivisions of States, Territories and Possessions	-	17,285,514	-	17,285,514
Corporate and other bonds industrial and miscellaneous	82,500,779	510,475	-	83,011,254
Residential mortgage and other asset backed securities	-	57,783,342	-	57,783,342
Total fixed maturities	82,500,779	75,579,331	-	158,080,110
Equity securities	39,687,002	-	-	39,687,002
Total investments	<u>\$ 122,187,781</u>	<u>\$ 75,579,331</u>	<u>\$ -</u>	<u>\$ 197,767,112</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 June 30, 2022 and December 31, 2021. 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	June 30, 2022	December 31, 2021
Other Investments		
Hedge fund	<u>\$ 5,253,582</u>	<u>\$ 7,561,415</u>

The hedge fund 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 loss within net (losses) gains on investments.

The estimated fair value and the level of the fair value hierarchy of the Company's long-term debt as of June 30, 2022 and December 31, 2021 not measured at fair value is as follows:

	June 30, 2022			Total
	Level 1	Level 2	Level 3	
Debt				
Senior Notes due 2022	\$ -	\$ 29,207,543	\$ -	\$ 29,207,543

	December 31, 2021			Total
	Level 1	Level 2	Level 3	
Debt				

Note 5 - Fair Value of Financial Instruments and Real Estate

The estimated fair values of the Company's financial instruments and real estate, including their fair value level as of June 30, 2022 and December 31, 2021 are as follows:

	June 30, 2022		December 31, 2021	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Fixed-maturity securities-held-to maturity, Level 1	\$ 7,768,218	\$ 6,913,536	\$ 8,266,334	\$ 8,753,159
Cash and cash equivalents, Level 1	\$ 13,200,128	\$ 13,200,128	\$ 24,290,598	\$ 24,290,598
Premiums receivable, net, Level 3	\$ 11,994,265	\$ 11,994,265	\$ 12,318,336	\$ 12,318,336
Reinsurance receivables, net, Level 3	\$ 54,652,171	\$ 54,652,171	\$ 40,292,438	\$ 40,292,438
Real estate, net of accumulated depreciation, Level 3	\$ 2,107,592	\$ 3,025,000	\$ 2,144,464	\$ 3,025,000
Reinsurance balances payable, Level 3	\$ 10,877,113	\$ 10,877,113	\$ 12,961,568	\$ 12,961,568

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[Table of Contents](#)**Note 6 – Property and Casualty Insurance Activity**Premiums Earned

Premiums written, ceded and earned are as follows:

	Direct	Assumed	Ceded	Net
Six months ended June 30, 2022				
Premiums written	\$ 92,762,360	\$ -	\$ (37,818,392)	\$ 54,943,968
Change in unearned premiums	(393,353)	-	24,833	(368,520)
Premiums earned	<u>\$ 92,369,007</u>	<u>\$ -</u>	<u>\$ (37,793,559)</u>	<u>\$ 54,575,448</u>
Six months ended June 30, 2021				
Premiums written	\$ 82,744,761	\$ -	\$ (14,630,872)	\$ 68,113,889
Change in unearned premiums	1,936,706	-	(24,951)	1,911,755
Premiums earned	<u>\$ 84,681,467</u>	<u>\$ -</u>	<u>\$ (14,655,823)</u>	<u>\$ 70,025,644</u>
Three months ended June 30, 2022				
Premiums written	\$ 49,778,463	\$ -	\$ (19,752,683)	\$ 30,025,780
Change in unearned premiums	(2,786,080)	-	662,368	(2,123,712)
Premiums earned	<u>\$ 46,992,383</u>	<u>\$ -</u>	<u>\$ (19,090,315)</u>	<u>\$ 27,902,068</u>
Three months ended June 30, 2021				
Premiums written	\$ 44,615,644	\$ -	\$ (7,301,365)	\$ 37,314,279
Change in unearned premiums	(1,852,772)	-	(25,081)	(1,877,853)
Premiums earned	<u>\$ 42,762,872</u>	<u>\$ -</u>	<u>\$ (7,326,446)</u>	<u>\$ 35,436,426</u>

Premium receipts in advance of the policy effective date are recorded as advance premiums. The balance of advance premiums as of June 30, 2022 and December 31, 2021 was \$5,773,444 and \$2,693,466, respectively.

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

	Six months ended	
	2022	2021
Balance at beginning of period	\$ 94,948,745	\$ 82,801,228
Less reinsurance recoverables	(10,637,679)	(20,154,251)
Net balance, beginning of period	<u>84,311,066</u>	<u>62,646,977</u>
Incurred related to:		
Current year	41,326,838	43,328,342
Prior years	270,401	(8,460)
Total incurred	<u>41,597,239</u>	<u>43,319,882</u>

Paid related to:		
Current year	23,188,157	19,716,893
Prior years	21,700,500	14,799,794
Total paid	<u>44,888,657</u>	<u>34,516,687</u>
Net balance at end of period	81,019,648	71,450,172
Add reinsurance recoverables	17,883,412	13,574,866
Balance at end of period	<u>\$ 98,903,060</u>	<u>\$ 85,025,038</u>

Incurred losses and LAE are net of reinsurance recoveries under reinsurance contracts of \$18,267,384 and \$881,729 for the six months ended June 30, 2022 and 2021, 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 six months ended June 30, 2022 and 2021 was \$270,401 unfavorable and \$8,460 favorable, respectively. Management, on a quarterly basis, performs a review of open liability claims to assess 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. Since this process produces loss reserves set by management based upon the actuaries’ best estimate, there is no explicit or implicit provision for uncertainty in the carried loss reserves.

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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.

COVID-19 has introduced additional uncertainty to recent claim trends. The Company reviews the carried reserves levels on a regular basis as additional information becomes available and makes adjustments in the periods in which such adjustments are determined to be necessary. The Company is not aware of any other 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 June 30, 2019 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 June 30, 2022, net of reinsurance, as well as the cumulative reported claims by accident year and total IBNR reserves as of June 30, 2022 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, 2013 to December 31, 2021 is presented as supplementary unaudited information.

[Table of Contents](#)**All Lines of Business***(in thousands, except reported claims data)*

Accident Year	Incurred Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance										As of	
	For the Years Ended December 31,										June 30, 2022	
	2013	2014	2015	2016	2017	2018	2019	2020	2021	Six Months Ended June 30, 2022	IBNR	Cumulative Number of Reported Claims by Accident Year
	(Unaudited 2013 - 2021)										(Unaudited)	
2013	\$ 10,728	\$ 9,745	\$ 9,424	\$ 9,621	\$ 10,061	\$ 10,089	\$ 10,607	\$ 10,495	\$ 10,529	\$ 10,503	\$ 6	1,564
2014		14,193	14,260	14,218	14,564	15,023	16,381	16,428	16,434	16,505	35	2,138
2015			22,340	21,994	22,148	22,491	23,386	23,291	23,528	23,541	266	2,558
2016				26,062	24,941	24,789	27,887	27,966	27,417	27,423	108	2,881
2017					31,605	32,169	35,304	36,160	36,532	36,512	310	3,398
2018						54,455	56,351	58,441	59,404	59,838	647	4,226
2019							75,092	72,368	71,544	71,327	4,094	4,485
2020								63,083	62,833	62,261	3,848	5,854
2021									96,425	97,124	10,253	5,762
2022										38,506	10,000	2,096
									Total	\$ 443,540		

All Lines of Business*(in thousands)*

Accident Year	Cumulative Paid Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance										Six Months Ended June 30, 2022
	For the Years Ended December 31,										
	2013	2014	2015	2016	2017	2018	2019	2020	2021		(Unaudited)
	(Unaudited 2013 - 2021)										
2013	\$ 3,405	\$ 5,303	\$ 6,633	\$ 7,591	\$ 8,407	\$ 9,056	\$ 9,717	\$ 10,016	\$ 10,392	\$ 10,402	\$ 10,402
2014		5,710	9,429	10,738	11,770	13,819	14,901	15,491	15,770	16,074	16,074
2015			12,295	16,181	18,266	19,984	21,067	22,104	22,318	22,452	22,452
2016				15,364	19,001	21,106	23,974	25,234	25,750	25,977	25,977
2017					16,704	24,820	28,693	31,393	32,529	32,821	32,821
2018						32,383	44,516	50,553	52,025	53,176	53,176

2019	40,933	54,897	58,055	59,819
2020		39,045	50,719	51,982
2021			56,282	72,020
2022				21,245
			Total	\$ 365,966
Net liability for unpaid loss and allocated loss adjustment expenses for the accident years presented				\$ 77,574
All outstanding liabilities before 2013, net of reinsurance				275
Liabilities for loss and allocated loss adjustment expenses, net of reinsurance				\$ 77,850

(Components may not sum to totals due to rounding)

Reported claim counts are measured on an occurrence or per event basis. A single claim occurrence could result in more than one loss type or claimant; however, the Company counts claims at the occurrence level as a single claim regardless of the number of claimants or claim features involved.

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The reconciliation of the net incurred and paid loss development tables to the loss and LAE reserves in the consolidated balance sheet is as follows:

**Reconciliation of the Disclosure of Incurred and Paid Loss Development
to the Liability for Loss and LAE Reserves**

(in thousands)	As of June 30, 2022
Liabilities for allocated loss and loss adjustment expenses, net of reinsurance	\$ 77,850
Total reinsurance recoverable on unpaid losses	17,883
Unallocated loss adjustment expenses	3,170
Total gross liability for loss and LAE reserves	\$ 98,903

(Components may not sum to totals due to rounding)

Reinsurance

Effective December 31, 2021, the Company entered into a quota share reinsurance treaty for its personal lines business, which primarily consists of homeowners' and dwelling fire policies, covering the period from December 31, 2021 through January 1, 2023 ("2021/2023 Treaty").

The Company's excess of loss and catastrophe reinsurance treaties expired on June 30, 2022 and the Company entered into new excess of loss and catastrophe reinsurance treaties effective July 1, 2022. Effective October 18, 2021, the Company entered into a stub catastrophe reinsurance treaty covering the period from October 18, 2021 through December 31, 2021. The treaty provided reinsurance coverage for catastrophe losses of \$5,000,000 in excess of \$5,000,000. Effective January 1, 2022, the Company entered into an underlying excess of loss reinsurance treaty covering the period from January 1, 2022 through January 1, 2023. The treaty provides 50% reinsurance coverage for losses of \$400,000 in excess of \$600,000. Losses from named storms are excluded from the treaty. Material terms for reinsurance treaties in effect for the treaty years shown below are as follows:

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Line of Business	Treaty Period				
	January 2, 2023 to June 30, 2023	(2021/2023 Treaty)		July 1, 2021 to December 30, 2021	December 31, 2020 to June 30, 2021
	July 1, 2022 to January 1, 2023	December 31, 2021 to June 30, 2022			
Personal Lines:					
Homeowners, dwelling fire and and canine legal liability					
Quota share treaty:					
Percent ceded (9)	None (8)	30%	30%	None (5)	None (5)
Risk retained on initial					
\$1,000,000 of losses (5) (7) (8) (9)	\$ 1,000,000	\$ 700,000	\$ 700,000	\$ 1,000,000	\$ 1,000,000
Losses per occurrence					
subject to quota share					
reinsurance coverage	None (8)	\$ 1,000,000	\$ 1,000,000	None (5)	None (5)
Expiration date	(8)	January 1, 2023	January 1, 2023	NA (5)	NA (5)
Excess of loss coverage and					
facultative facility					
coverage (1) (7)	\$ 8,000,000	\$ 8,400,000	\$ 8,400,000	\$ 8,000,000	\$ 8,000,000

	in excess of				
Total reinsurance coverage	\$ 1,000,000	\$ 600,000	\$ 600,000	\$ 1,000,000	\$ 1,000,000
per occurrence (5) (7) (8)	\$ 8,000,000	\$ 8,500,000	\$ 8,500,000	\$ 8,000,000	\$ 8,000,000
Losses per occurrence					
subject to reinsurance					
coverage (5) (8)	\$ 8,000,000	\$ 9,000,000	\$ 9,000,000	\$ 9,000,000	\$ 9,000,000
Expiration date (8)	June 30, 2023	June 30, 2023	June 30, 2022	June 30, 2022	June 30, 2021
Catastrophe Reinsurance:					
Initial loss subject to personal					
lines quota share treaty	(8)	10,000,000	10,000,000	None (5)	None (5)
Risk retained per catastrophe					
occurrence (5) (8) (9) (10)	\$ 10,000,000	\$ 7,400,000	\$ 7,400,000	\$ 10,000,000	\$ 10,000,000
Catastrophe loss coverage					
in excess of quota share					
coverage (2) (5) (8)	\$ 335,000,000	\$ 335,000,000	\$ 490,000,000	\$ 490,000,000	\$ 475,000,000
Catastrophe stub coverage for					
the period from October 18,					
2021 through December 31,					
2021 (6)	NA	NA	NA	\$ 5,000,000	NA
				in excess of	
				\$ 5,000,000	
Reinstatement premium					
protection (3) (4)	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 \$9,000,000 in total insured value, which covers direct losses from \$3,500,000 to \$9,000,000 through June 30, 2023.
- (2) 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.
- (3) For the period July 1, 2020 through June 30, 2021, reinstatement premium protection for \$70,000,000 of catastrophe coverage in excess of \$10,000,000. For the period July 1, 2021 through June 30, 2022, reinstatement premium protection for \$70,000,000 of catastrophe coverage in excess of \$10,000,000.
- (4) For the period July 1, 2022 through June 30, 2023, reinstatement premium protection for \$9,800,000 of catastrophe coverage in excess of \$10,000,000.

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- (5) The personal lines quota share (homeowners, dwelling fire and canine legal liability) expired on December 30, 2020; reinsurance coverage from December 31, 2020 through December 30, 2021 is only for excess of loss and catastrophe reinsurance.
- (6) Excludes freeze and freeze related claims.
- (7) For the period January 1, 2022 through January 1, 2023, underlying excess of loss treaty provides 50% reinsurance coverage for losses of \$400,000 in excess of \$600,000. Reduces retention to \$500,000 from \$700,000 under the 2021/2023 Treaty. Excludes losses from named storms.
- (8) Personal lines quota share (homeowners, dwelling fire and canine liability) and underlying excess of loss reinsurance will expire on January 1, 2023; reinsurance coverage in effect from January 2, 2023 through June 30, 2023 is only for excess of loss and catastrophe reinsurance treaties.
- (9) For the 2021/2023 Treaty, 4% of the 30% total of losses ceded under this treaty are excluded from a named catastrophe event.
- (10) Plus losses in excess of catastrophe coverage.

Line of Business	Treaty Year		
	July 1, 2022 to June 30, 2023	July 1, 2021 to June 30, 2022	July 1, 2020 to June 30, 2021
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 dollars of coverage	95%	95%	95%
Risk retained	\$ 300,000	\$ 300,000	\$ 300,000
Total reinsurance coverage per occurrence	\$ 4,700,000	\$ 4,700,000	\$ 4,700,000
Losses per occurrence subject to quota share reinsurance coverage	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000
Expiration date	June 30, 2023	June 30, 2022	June 30, 2021

Commercial Lines (1):

General liability commercial policies

Quota share treaty	None
Risk retained	\$ 750,000
Excess of loss coverage above risk retained	\$ 3,750,000
	in excess of
	\$ 750,000
Total reinsurance coverage per occurrence	\$ 3,750,000
Losses per occurrence subject to reinsurance coverage	\$ 4,500,000
Commercial Umbrella	
Quota share treaty	None

(1) Coverage on all commercial lines policies expired in September 2020; reinsurance coverage is based on treaties in effect on the date of loss.

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.

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Ceding Commission Revenue

The Company earned ceding commission revenue under the 2021/2023 Treaty for the three months and six months ended June 30, 2022 based on a fixed provisional commission rate at which provisional ceding commissions will be earned. There was no quota share treaty in effect during the three months and six months ended June 30, 2021. The Company earned ceding commission revenue under its expired quota share reinsurance agreements based on: (i) a fixed provisional commission rate at which provisional ceding commissions were earned, and (ii) a continuing 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.

Ceding commission revenue consists of the following:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2022	2021	2022	2021
Provisional ceding commissions earned	\$ 4,692,931	\$ 49,589	\$ 9,234,464	\$ 95,088
Contingent ceding commissions earned	22,656	(3,848)	162,519	(50,412)
	<u>\$ 4,715,587</u>	<u>\$ 45,741</u>	<u>\$ 9,396,983</u>	<u>\$ 44,676</u>

Provisional ceding commissions are settled monthly. Balances due from reinsurers for contingent ceding commissions on quota share treaties are settled periodically based on the Loss Ratio of each treaty year that ends on June 30, for the expired treaties that were subject to contingent commissions. 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 June 30, 2022 and December 31, 2021, net contingent ceding commissions payable to reinsurers under all treaties was approximately \$2,718,000 and \$2,881,000, 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"). KICO is required to maintain an investment in capital stock of FHLBNY. Based on redemption provisions of FHLBNY, the stock has no quoted market value and is carried at cost. At its discretion, FHLBNY may declare dividends on the stock. Management reviews for impairment based on the ultimate recoverability of the cost basis in the stock. At June 30, 2022 and December 31, 2021, no impairment has been recognized. 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. Advances are limited to 5% of KICO's net admitted assets as of the previous quarter and are due and payable within one year of borrowing. KICO is currently able to borrow on an overnight basis. If KICO has collateral, the maximum allowable advance as of June 30, 2022 was approximately \$12,438,000. Advances are limited to 85% of the amount of available collateral, which as of June 30, 2022 and December 31, 2021 was \$-0-. There have been no borrowings under this facility since KICO became a member of FHLBNY. See Note 13 – Subsequent Events for additional information regarding KICO's pledged collateral.

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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 debt as of June 30, 2022 and December 31, 2021 is as follows:

	<u>June 30,</u> <u>2022</u>	<u>December</u> <u>31,</u> <u>2021</u>
5.50% Senior Unsecured Notes	\$ 30,000,000	\$ 30,000,000
Discount	(16,221)	(32,442)
Issuance costs	(71,898)	(143,767)
Debt, net	<u>\$ 29,911,881</u>	<u>\$ 29,823,791</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 ("Make Whole Call").

Due to the Make Whole Call, management intends to retire the Notes at or close to the scheduled maturity date in December 2022. Management plans to refinance the Notes with a new issue of debt of similar or longer maturity that would result in net proceeds equal to or greater than the principal amount of the current issue. In connection therewith, the Company has engaged an investment banker to serve as exclusive placement agent for a proposed offering by the Company of its securities (including debt, equity and/or preferred securities). The engagement letter indicates that the offering would be of such size as to generate proceeds to the Company of no less than \$30,000,000. Subject to regulatory requirements, the Company also plans to use dividends paid to it by KICO, its insurance subsidiary, to repay the Notes. As of June 30, 2022, KICO had negative unassigned surplus and was not permitted to pay the Company any dividends without prior regulatory approval. Further, the Company plans to use available invested assets and cash to repay the Notes. As of June 30, 2022, invested assets and cash of Kingstone was approximately \$2,780,000.

The Company 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 was 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.

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Note 8 – Stockholders' Equity

Dividends Declared and Paid

Dividends declared and paid on Common Stock were \$851,266 and \$854,272 for the six months ended June 30, 2022 and 2021, respectively. The Company announced on August 11, 2022 that its Board of Directors approved a quarterly dividend of \$0.04 per share payable in cash on September 15, 2022 to stockholders of record as of August 31, 2022 (see Note 13 - Subsequent Events).

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 number of shares of Common Stock of the Company that are authorized to be issued pursuant to the 2014 Plan to 1,400,000.

The results of operations for the three months ended June 30, 2022 and 2021 include stock-based compensation expense for stock options totaling approximately \$2,000 and \$14,000, respectively. The results of operations for the six months ended June 30, 2022 and 2021 include stock-based compensation expense for stock options totaling approximately \$8,000 and \$29,000, respectively. Stock-based compensation expense related to stock options for the three months and six months ended June 30, 2022 and 2021 is net of estimated forfeitures of approximately 18% and 16%, respectively. Such amounts have been included in the condensed consolidated statements of operations and comprehensive (loss) income within other operating expenses.

No options were granted during the six months ended June 30, 2022. The fair value of stock options at the grant date are estimated using the Black-Scholes option-pricing model. 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 six months ended June 30, 2022 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, 2022	107,201	\$ 8.31	2.92	\$ -
Granted	-	\$ -	-	\$ -
Exercised	-	\$ -	-	\$ -
Expired/Forfeited	-	\$ -	-	\$ -
Outstanding at June 30, 2022	107,201	\$ 8.31	2.43	\$ -
Vested and Exercisable at June 30, 2022	94,701	\$ 8.26	2.46	\$ -

The aggregate intrinsic value of options outstanding and options exercisable at June 30, 2022 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 \$3.94 closing price of the Company’s Common Stock on June 30, 2022. No options were exercised, forfeited or expired during the six months ended June 30, 2022. The total intrinsic value of options when forfeited are determined as of the date of forfeiture. The total intrinsic value of options when expired are determined as of the date of expiration.

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 June 30, 2022, the estimated fair value of unamortized compensation cost related to unvested stock option awards was approximately \$2,000. Unamortized compensation cost as of June 30, 2022 is expected to be recognized over a remaining weighted-average vesting period of 0.24 years.

As of June 30, 2022, there were 352,066 shares reserved for grants under the 2014 Plan.

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Restricted Stock Awards

A summary of the restricted Common Stock activity under the Company’s 2014 Plan for six months ended June 30, 2022 is as follows:

Restricted Stock Awards	Shares	Weighted Average Grant Date Fair Value per Share	Aggregate Fair Value
Balance at January 1, 2022	535,410	\$ 7.01	\$ 3,753,224
Granted	98,456	\$ 5.53	\$ 544,503
Vested	(234,219)	\$ 7.32	\$ (1,715,220)
Forfeited	(9,748)	\$ -	\$ -
Balance at June 30, 2022	389,899	\$ 6.91	\$ 2,582,506

Fair value was calculated using the closing price of the Company’s Common Stock on the grant date. For the three months ended June 30, 2022 and 2021, stock-based compensation for these grants was approximately \$479,000 and \$472,000, respectively, which is included in other operating expenses on the accompanying condensed consolidated statements of operations and comprehensive (loss) income. For the six months ended June 30, 2022 and 2021, stock-based compensation for these grants was approximately \$998,000 and \$952,000, respectively, which is included in other operating expenses on the accompanying condensed consolidated statements of operations and comprehensive (loss) income. 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.

Employee Stock Purchase Plan

On June 19, 2021, the Company’s Board of Directors adopted the Kingstone Companies, Inc. Employee Stock Purchase Plan (the “ESPP”), subject to stockholder approval. Such approval was obtained on August 10, 2021. The purpose of the ESPP is to provide eligible employees of the Company with an opportunity to use payroll deductions to purchase shares of Common Stock of the Company. The maximum number of shares of Common Stock that may be purchased under the ESPP is 750,000, subject to adjustment as provided for in the ESPP. The ESPP was effective August 10, 2021 and expires on August 10, 2031. A maximum of 5,000 shares of Common Stock may be purchased by an employee during any offering period.

The ESPP currently provides for an offering period from November 1, 2021 through October 31, 2022 (“2021/2022 Offering”). For the three months ended June 30, 2022 and 2021, stock-based compensation under the 2021/2022 Offering was approximately \$5,000 and \$0-, respectively, which is included in

other operating expenses on the accompanying condensed consolidated statements of operations and comprehensive loss. For the six months ended June 30, 2022 and 2021, stock-based compensation under the 2021/2022 Offering was approximately \$11,000 and \$-0-, respectively, which is included in other operating expenses on the accompanying condensed consolidated statements of operations and comprehensive (loss) income.

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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.

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

	June 30, 2022	December 31, 2021
Deferred tax asset:		
Net operating loss carryovers (1)	\$ 3,689,538	\$ 1,112,318
Claims reserve discount	1,140,458	1,186,789
Unearned premium	3,391,201	3,246,364
Deferred ceding commission revenue	2,049,461	2,047,187
Net unrealized losses on securities	3,002,462	-
Other	1,057,762	1,220,898
Total deferred tax assets	14,330,882	8,813,556
Deferred tax liability:		
Investment in KICO (2)	759,543	759,543
Deferred acquisition costs	4,625,447	4,670,187
Intangibles	105,000	105,000
Depreciation and amortization	1,496,800	1,046,817
Net unrealized gains on securities	-	2,039,756
Total deferred tax liabilities	6,986,790	8,621,303
Net deferred income tax asset	\$ 7,344,092	\$ 192,253

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

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Type of NOL	June 30, 2022	December 31, 2021	Expiration
Federal only, NOL from 2022 and 2021	\$ 3,689,538	\$ 1,112,318	
NOL carried back	-	-	
Federal only, NOL from 2022 and 2021	<u>3,689,538</u>	<u>1,112,318</u>	None
State only (A)			December 2027 - December 2042
Valuation allowance	2,166,732	2,099,239	
State only, net of valuation allowance	<u>(2,166,732)</u>	<u>(2,099,239)</u>	
Total deferred tax asset from net operating loss carryovers	\$ 3,689,538	\$ 1,112,318	

(A) Kingstone generates operating losses for state purposes and has prior year NOLs available. The state NOL as of June 30, 2022 and December 31, 2021 was approximately \$33,334,000 and \$32,296,000, respectively. KICO, the Company's insurance underwriting subsidiary, is not subject to state income taxes. KICO's state tax obligations are paid through a gross premiums tax, which is included in the condensed consolidated statements of operations and comprehensive (loss) income 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 2042.

(2) Deferred tax liability – Investment in KICO

On July 1, 2009, the Company completed the acquisition of 100% of the issued and outstanding common stock of KICO (formerly known as Commercial Mutual Insurance Company (“CMIC”)) pursuant to the conversion of CMIC from an advance premium cooperative to a stock property and casualty insurance company. Pursuant to the plan of conversion, the Company acquired a 100% equity interest in KICO, in consideration for the exchange of \$3,750,000 principal amount of surplus notes of CMIC. In addition, the Company forgave all accrued and unpaid interest on the surplus notes as of the date of conversion. As of the date of acquisition, unpaid accrued interest on the surplus notes along with the accretion of the discount on the original purchase of the surplus notes totaled \$2,921,319 (together “Untaxed Interest”). As of the date of acquisition, the deferred tax liability on the Untaxed Interest was \$1,169,000. 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 six months ended June 30, 2022 and 2021. If any had been recognized these would have been reported in income tax expense.

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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, 2018 through December 31, 2020 remain subject to examination.

Note 10 – (Loss) Earnings Per Common Share

Basic net (loss) earnings per common share is computed by dividing loss available to common shareholders by the weighted-average number of shares of Common Stock outstanding. Diluted 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 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 loss per common share excludes outstanding options in periods where the exercise of such options would be anti-dilutive. For the three months and six months ended June 30, 2022 and 2021, no options were included in the computation of diluted 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 loss per common share has not been adjusted for the effect of such options.

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2022	2021	2022	2021
Weighted average number of shares outstanding	10,644,578	10,670,831	10,637,553	10,673,550
Effect of dilutive securities, common share equivalents:				
Stock options	-	-	-	-
Restricted stock awards	-	175,893	-	136,374
Weighted average number of shares outstanding, used for computing diluted (loss) earnings per share	<u>10,644,578</u>	<u>10,846,724</u>	<u>10,637,553</u>	<u>10,809,924</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.

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. See Note 2 - Accounting Policies for additional information regarding the accounting for leases.

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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 had a term of seven years and two months expiring December 31, 2026. During January 2022, pursuant to a mutual agreement with the landlord at a cost of \$40,000, the Cosi lease was terminated effective as of January 31, 2022.

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

Lease cost	Three months ended June 30, 2022	Six months ended June 30, 2022
Operating lease	\$ 41,342	\$ 89,810
Short-term leases	-	-
Total lease cost (1) (2)	<u>\$ 41,342</u>	<u>\$ 89,810</u>
Other information on operating leases		
Cash payments included in the measurement of lease liability reported in operating cash flows	\$ 47,483	\$ 100,486
Discount rate	5.50%	5.50%
Remaining lease term in years		
KICO	1.75 years	1.75 years
Cosi	-	-

- (1) Included in the condensed consolidated statements of operations and comprehensive 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 June 30, 2022:

	For the Year Ending December 31,	Total
Remainder of 2022		\$ 94,967
2023		194,919
2024		49,145
Total undiscounted lease payments		339,031
Less: present value adjustment		36,909
Operating lease liability (1)		\$ 302,122

- (1) The operating lease liability is recorded in accounts payable, accrued expenses and other liabilities in the accompanying condensed consolidated balance sheets.

Rent expense for the three months ended June 30, 2022 and 2021 amounted to \$41,342 and \$58,988, respectively. Rent expense for the six months ended June 30, 2022 and 2021 amounted to \$89,810 and \$117,977, respectively. Rent expense is included in the accompanying condensed consolidated statements of operations and comprehensive (loss) income within other underwriting expenses.

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

[Employment Agreement effective as of January 1, 2020](#)

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 "Second Amended Goldstein Employment Agreement"). The Second Amended Goldstein Employment Agreement became effective as of January 1, 2020 and expires on December 31, 2022. The Second Amended Goldstein 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 Second Amended Goldstein 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 Second Amended Goldstein Employment Agreement, Mr. Goldstein was 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 Second Amended Goldstein 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%). Pursuant to the Third Amended Goldstein Employment Agreement (discussed below), Mr. Goldstein relinquished the right to receive the LTC. Pursuant to the Second Amended Goldstein 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 Second Amended Goldstein Employment Agreement), Mr. Goldstein would be entitled to receive his base salary and the 6% bonus 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 and accrued bonus 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 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 Second Amended Goldstein 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 vested with respect to one-third of the award on each of the first and second anniversaries of the grant date and will vest with respect to one-sixth of the award on each of December 29, 2023 and December 30, 2024 based on the continued provision of services through such dates. Also pursuant to the Second Amended Goldstein Employment Agreement, Mr. Goldstein received a grant, under the terms of the 2014 Plan, during January 2021, of 230,769 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. This 2021 grant vested with respect to one-half of the award on the first anniversary of the grant date and will vest with respect to one-fourth of the award on each of December 29, 2023 and December 30, 2024 based on the continued provision of services through such dates. Further, pursuant to the Second Amended Goldstein Employment Agreement, Mr. Goldstein received in 2020, 2021, and 2022 a grant, under the terms of the 2014 Plan 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 vested with respect to one-third of the award on each of the first and second anniversaries of the grant date and will vest with respect to one-sixth of the award on each of December 29, 2023 and December 30, 2024 based on the continued provision of services through such dates. In January 2021, Mr. Goldstein was granted 21,000 shares of restricted stock pursuant to this provision. This grant vested with respect to one-half of the award on the first anniversary of the grant date and will vest with respect to one-fourth of the award on each of December 29, 2023 and December 30, 2024 based on the continued provision of services through such dates. In January 2022, Mr. Goldstein was granted 27,300 shares of restricted stock pursuant to this provision. This grant will vest with respect to one-half of the award on each of December 29, 2023 and December 30, 2024 based on the continued provision of services through such dates. Pursuant to the 2014 Plan, Mr. Goldstein's unvested restricted stock awards will vest in the event of a change in control of the Company.

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Employment Agreement effective as of January 1, 2023

On June 27, 2022, the Company and Mr. Goldstein entered into a third amended and restated employment agreement which takes effect as of January 1, 2023, and expires on December 31, 2024 (the "Third Amended Goldstein Employment Agreement").

Pursuant to the Third Amended Goldstein Employment Agreement, Mr. Goldstein is entitled to receive an annual base salary of \$500,000 and an annual bonus equal to 3% of our 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 1.25 times his base salary. Pursuant to the Third Amended Goldstein Employment Agreement, Mr. Goldstein would be entitled to receive, under certain circumstances, a payment equal to 1.5 times his then annual base salary and his accrued bonus in the event of the termination of his employment within eighteen months following a change of control of the Company.

Meryl Golden, Chief Operating Officer

Employment Agreement effective as of January 1, 2021

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 President and Chief Operating Officer. The Golden Employment Agreement became effective as of September 25, 2019 (amended on December 24, 2020) and now expires on December 31, 2022.

Pursuant to the Golden Employment Agreement, Ms. Golden is entitled to receive an annual salary of \$500,000. The Golden Employment Agreement also provides for the grant on the effective date of 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 vest in four equal installments, with the first installment vesting on the grant date, and the remaining installments vesting on the first, second, and third anniversaries of the grant date, subject to the terms of the stock option agreement between the Company and Ms. Golden. Pursuant to the Golden Employment Agreement, as amended, in each of January 2021 and January 2022, Ms. Golden was granted 30,000 shares of restricted Common Stock pursuant to the 2014 Plan. Each such grant will vest in three equal installments on each of the first, second and third anniversaries of the grant date. Pursuant to the 2014 Plan, Ms. Golden's outstanding stock options and restricted stock awards will vest in the event of a change in control of the Company.

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Employment Agreement effective as of January 1, 2023

On June 27, 2022, the Company and Ms. Golden entered into a second amended and restated employment agreement which takes effect as of January 1, 2023, and expires on December 31, 2024 (the "Second Amended Golden Employment Agreement").

Pursuant to the Second Amended Golden Employment Agreement, Ms. Golden is entitled to receive an annual base salary of \$500,000 and an annual bonus equal to 3% of the Company's consolidated income from operations before taxes, exclusive of our consolidated net investment income (loss), net unrealized gains (losses) on equity securities and net realized gains (losses) on investments, up to a maximum of 1.25 times her base salary. In addition,

pursuant to the Second Amended Golden Employment Agreement, Ms. Golden is entitled to receive a grant, under the terms of the 2014 Plan, during each of January 2023 and January 2024, under certain circumstances, 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. The 2023 grant will vest with respect to one-half of the award on the first anniversary of the grant date and one-half of the award on December 31, 2024, based on the continued provision of services through such dates. The 2024 grant will vest on December 31, 2024, based on the continued provision of services through such date. In the event that we are precluded from making a grant in 2023 or 2024, then instead Ms. Golden shall be entitled to receive a cash bonus of \$136,500 for such year. Further, pursuant to the Second Amended Golden Employment Agreement, Ms. Golden would be entitled to receive, under certain circumstances, a payment equal to 1.5 times her then annual base salary and her accrued bonus in the event of the termination of her employment within eighteen months following a change of control of the Company.

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 including the emergence of new strains 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. Although the impact has been manageable thus far, 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, prevent 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 – Employee Benefit Plans

Employee Bonus Plan

For the six months ended June 30, 2022 and year ended December 31, 2021 the Company did not accrue for, or pay, bonuses related to the employee bonus plan.

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401 (k) Plan

The Company maintains a salary reduction plan under Section 401(k) of the Internal Revenue Code (the "401(k) Plan") for its qualified employees. The Company matches 100% of each participant's contribution up to 4% of the participant's eligible contribution. The Company incurred approximately \$74,000 of expense for the three months ended June 30, 2022 and 2021, related to the 401(k) Plan. The Company incurred approximately \$136,000 and \$130,000, respectively, of expense for the six months ended June 30, 2022 and 2021, related to the 401(k) Plan, which is recorded in other operating expenses on the accompanying consolidated statements of operations and comprehensive (loss) income.

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 June 30, 2022 and December 31, 2021 amounted to \$1,019,958 and \$907,914, 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 six months ended June 30, 2022 and 2021.

Note 13 – Subsequent Events

The Company has evaluated events that occurred subsequent to June 30, 2022 through the date these condensed consolidated financial statements were issued for matters that required disclosure or adjustment in these condensed consolidated financial statements.

Reinsurance

Effective July 1, 2022, the Company entered into new excess of loss and catastrophe reinsurance treaties (see Note 6 – Property and Casualty Insurance Activity - "Reinsurance").

Kroll Bond Rating Agency

On July 22, 2022, KICO's Kroll Bond Rating Agency ("KBRA") financial strength rating was reduced from "A-" to "BBB+" and the Company's KBRA issuer rating and the long-term credit rating of the Company's \$30.0 million 5.5% senior unsecured notes due in 2022 were reduced from "BBB" to "BB+". The outlook of the credit ratings has been revised from stable to negative. Subsequently, at the request of the Company, KBRA withdrew all ratings for KICO and the Company.

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A.M. Best

On July 28, 2022, KICO's A.M. Best financial strength rating was downgraded from B+ (Good) to B (Fair) and its long-term issuer credit rating ("Long-Term ICR") was downgraded from "bbb-" (Good) to "bb" (Fair). Concurrently, A.M. Best also downgraded the Company's Long-Term ICR from "bb-" (Fair) to "b-" (Marginal). Also downgraded was the A. M. Best long-term issue credit rating on the Company's \$30.0 million 5.50% senior unsecured notes due 2022 from "bb-" (Fair) to "ccc+" (Weak). The outlook of the credit ratings were revised from stable to negative. Concurrently, A.M. Best's public rating for the Company was withdrawn.

Non-binding Indication of Interest

On August 5, 2022, Griffin Highline Capital LLC ("Griffin Highline") filed Amendment No. 3 to Schedule 13D with the SEC which indicates that, following substantial completion of Griffin Highline's due diligence and after discussions with the management of the Company, Griffin Highline submitted a final non-binding indication of interest to the Company's Board of Directors proposing a transaction whereby an entity formed by Griffin Highline would acquire all of the outstanding equity of the Company. Following delivery of the non-binding proposal, the Company agreed to extend the period of exclusivity with Griffin Highline under its previously executed exclusivity agreement for a limited time period to further pursue the proposal.

Dividends Declared

On August 11, 2022, the Company announced that its Board of Directors approved a quarterly dividend of \$0.04 per share payable in cash on September 15, 2022 to stockholders of record as of the close of business on August 31, 2022 (see Note 8 – Stockholders' Equity).

Federal Home Loan Bank

On August 10, 2022, KICO transferred and pledged ten FNMA bonds to the FHLBNY. As of August 8, 2022 the book value of these bonds is \$15,144,568 and their fair value is \$13,567,331. KICO will have a credit facility with respect to the transferred bonds and the maximum advance KICO will be able to receive is approximately \$12,000,000.

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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 months and six months ended June 30, 2022, respectively, 79.8% and 80.2% 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. 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"). Commission expense is reduced by Net Cosi Revenue and Cosi-related operating expenses are included in other operating expenses. Cosi-related operating expenses are not included in our stand-alone insurance underwriting business and, accordingly, Cosi's 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 unrealized investment gains and losses on investments. Our holding company earns investment income from its cash holdings and may also generate net realized and unrealized investment gains and losses on future investments.

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

Other operating expenses include our corporate expenses as a holding company and operating expenses of Cosi. These corporate expenses include legal and auditing fees, executive employment costs, and other costs directly associated with being a public company. Cosi operating expenses primarily include employment, occupancy and consulting costs.

Product Lines

Our product lines include the following:

Personal lines: Our largest line of business is personal lines, consisting of homeowners, dwelling fire, cooperative/condominium, renters, and personal umbrella policies.

Commercial liability: Through July 2019, we offered businessowners policies, which consist primarily of small business retail, service, and office risks, with limited property exposures. We also wrote artisan's liability policies for small independent contractors with smaller sized workforces. In addition, we wrote special multi-peril policies for larger and more specialized businessowners risks, including those with limited residential exposures. Further, we offered commercial umbrella policies written above our supporting commercial lines policies.

In May 2019, due to the poor performance of this line we placed a moratorium on new commercial lines and new commercial umbrella submissions while we further reviewed this business. In July 2019, due to the continuing poor performance of these lines, we made the decision to no longer underwrite commercial lines or commercial umbrella risks. In-force policies as of July 31, 2019 for these lines were non-renewed at the end of their annual terms. As of June 30, 2022 and December 31, 2021, there were no commercial liability policies in-force. As of June 30, 2022, these expired policies represent approximately 18.6% of loss and LAE reserves net of reinsurance recoverables. See discussion below under “Additional Financial Information”.

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Livery physical damage: We write for-hire vehicle physical damage only policies for livery and car service vehicles and taxicabs. These policies insure only the physical damage portion of insurance for such vehicles, with no liability coverage included.

Other: We write canine legal liability policies and have a small participation in mandatory state joint underwriting associations.

Key Measures

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

Net loss ratio: The net loss ratio is a measure of the underwriting profitability of an insurance company’s business. Expressed as a percentage, this is the ratio of net losses and LAE incurred to net premiums earned.

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

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

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

Critical Accounting Policies and Estimates

Our condensed consolidated financial statements include the accounts of Kingstone Companies, Inc. and all majority-owned and controlled subsidiaries. The preparation of financial statements in conformity with 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, and the current economic environment, and other factors, in forming its estimates and judgments of 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 comparability of our results of operations to those of similar companies. See the Critical Accounting Estimates section within Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Annual Report on Form 10-K for the year ended December 31, 2021 for further information.

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 income taxes, the impairment of investment securities, and the valuation of stock-based compensation. See Note 2 to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2021.

Non-binding Indication of Interest

On May 4, 2022, our Board of Directors received a preliminary non-binding indication of interest from Griffin Highline Capital LLC (“Griffin Highline”) with regard to an acquisition of all of the outstanding equity of our company. On August 5, 2022, Griffin Highline filed Amendment No. 3 to Schedule 13D with the SEC which indicates that, following substantial completion of Griffin Highline’s due diligence and after discussions with management of our company, Griffin Highline submitted a final non-binding indication of interest to our Board of Directors proposing a transaction whereby an entity formed by Griffin Highline would acquire all of the outstanding equity of our company. Following delivery of the non-binding proposal, we agreed to extend the period of exclusivity with Griffin Highline under its previously executed exclusivity agreement for a limited time period to further pursue the proposal. TigerRisk Capital Markets & Advisory has been engaged to advise our Board of Directors regarding strategic transactions. Our Board of Directors will carefully review the proposal to determine the course of action that it believes is in the best interest of our company and all of our stockholders. Due to the uncertainty as to the consummation of a transaction of the type sought by Griffin Highline, nothing in this Quarterly Report, including the financial statements comprising a portion hereof, include any adjustments to reflect the possible effects of the consummation of such a transaction.

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Consolidated Results of Operations

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

(\$ in thousands)	Six months ended June 30,			
	2022	2021	Change	Percent
Revenues				
Direct written premiums	\$ 92,762	\$ 82,745	\$ 10,017	12.1%
Assumed written premiums	-	-	-	na%
	<u>92,762</u>	<u>82,745</u>	<u>10,017</u>	<u>12.1%</u>
Ceded written premiums				
Ceded to quota share treaties (1)	21,949	236	21,713	9,200.4%
Ceded to excess of loss treaties	1,743	1,059	684	64.6%
Ceded to catastrophe treaties	14,126	13,336	790	5.9%
Total ceded written premiums	<u>37,818</u>	<u>14,631</u>	<u>23,187</u>	<u>158.5%</u>
Net written premiums	<u>54,944</u>	<u>68,114</u>	<u>(13,170)</u>	<u>(19.3)%</u>
Change in unearned premiums				
Direct and assumed	(393)	1,937	(2,330)	120.3%
Ceded to quota share treaties (1)	25	(25)	50	na%
Change in net unearned premiums	<u>(368)</u>	<u>1,912</u>	<u>(2,280)</u>	<u>119.2%</u>
Premiums earned				
Direct and assumed	92,369	84,681	7,688	9.1%
Ceded to reinsurance treaties	(37,794)	(14,655)	(23,139)	(157.9)%
Net premiums earned	<u>54,575</u>	<u>70,026</u>	<u>(15,451)</u>	<u>(22.1)%</u>
Ceding commission revenue (1)	9,397	45	9,352	na%
Net investment income	1,993	3,461	(1,468)	(42.4)%
Net (losses) gains on investments	(8,916)	5,276	(14,192)	na%
Other income	480	296	184	62.2%
Total revenues	<u>57,530</u>	<u>79,104</u>	<u>(21,575)</u>	<u>(27.3)%</u>
Expenses				
Loss and loss adjustment expenses				
Direct and assumed:				
Loss and loss adjustment expenses excluding the effect of catastrophes	52,832	44,096	8,736	19.8%
Losses from catastrophes (2)	7,032	106	6,926	6,534.0%
Total direct and assumed loss and loss adjustment expenses	<u>59,864</u>	<u>44,202</u>	<u>15,662</u>	<u>35.4%</u>
Ceded loss and loss adjustment expenses:				
Loss and loss adjustment expenses excluding the effect of catastrophes	14,367	882	13,485	1,528.9%
Losses from catastrophes (2)	3,901	-	3,901	na%
Total ceded loss and loss adjustment expenses	<u>18,268</u>	<u>882</u>	<u>17,386</u>	<u>1,971.2%</u>
Net loss and loss adjustment expenses:				
Loss and loss adjustment expenses excluding the effect of catastrophes	38,465	43,214	(4,749)	(11.0)%
Losses from catastrophes (2)	3,132	106	3,026	2,854.7%
Net loss and loss adjustment expenses	<u>41,597</u>	<u>43,320</u>	<u>(1,723)</u>	<u>(4.0)%</u>
Commission expense	16,832	16,509	323	2.0%
Other underwriting expenses	13,441	13,160	281	2.1%
Other operating expenses	1,548	2,286	(738)	(32.3)%
Depreciation and amortization	1,647	1,660	(13)	(0.8)%
Interest expense	913	913	-	-%
Total expenses	<u>75,978</u>	<u>77,848</u>	<u>(1,870)</u>	<u>(2.4)%</u>
(Loss) income before taxes	(18,448)	1,256	(19,704)	na%
Income tax (benefit) expense	(3,871)	244	(4,115)	na%
Net (loss) income	<u>\$ (14,577)</u>	<u>\$ 1,012</u>	<u>\$ (15,589)</u>	<u>na%</u>

(Columns in the table above may not sum to totals due to rounding)

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- Effective December 31, 2021, we entered into a 30% personal lines quota share treaty.
- The six months ended June 30, 2022 and 2021 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.

	2022	2021	Percentage Point Change	Percent Change
Key ratios:				
Net loss ratio	76.2%	61.9%	14.3	23.1%
Net underwriting expense ratio	37.4%	41.9%	(4.5)	(10.7)%
Net combined ratio	113.6%	103.8%	9.8	9.4%

Direct Written Premiums

Direct written premiums during the six months ended June 30, 2022 (“Six Months 2022”) were \$92,762,000 compared to \$82,745,000 during the six months ended June 30, 2021 (“Six Months 2021”). The increase of \$10,017,000, or 12.1%, was primarily due an increase in premiums from our personal lines business. Direct written premiums from our personal lines business for Six Months 2022 were \$86,955,000, an increase of \$8,347,000, or 10.6%, from \$78,608,000 in Six Months 2021. The increase in premiums from our personal lines business was primarily due to rate increases, and, to a lesser extent, an increase in policies in force. Direct written premiums from our livery physical damage business for Six Months 2022 were \$5,727,000, an increase of \$1,704,000, or 42.3%, from \$4,023,000 in Six Months 2021. The increase in livery physical damage direct written premiums was due to the declining effect of the COVID-19 pandemic in our geographic area.

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 Core business were \$74,382,000 in Six Months 2022 compared to \$66,531,000 in Six Months 2021. Direct written premiums from our Expansion business were \$18,380,000 in Six Months 2022 compared to \$16,214,000 in Six Months 2021.

Net Written Premiums and Net Premiums Earned

Effective December 31, 2021, we entered into a quota share reinsurance treaty for our personal lines business covering the period from December 31, 2021 through January 1, 2023 (“2021/2023 Treaty”). There was no quota share reinsurance treaty in effect in Six Months 2021. Net written premiums decreased \$13,170,000, or 19.3%, to \$54,944,000 in Six Months 2022 from \$68,114,000 in Six Months 2021. 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). In Six Months 2022, our premiums ceded under quota share treaties increased by \$23,187,000 in comparison to ceded premiums in Six Months 2021 (see table above). Our personal lines business was subject to the 2021/2023 Treaty in Six Months 2022, compared to no personal lines quota share treaty in Six Months 2021.

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Excess of loss reinsurance treaties

An increase in written premiums will increase the premiums ceded under our excess of loss treaties. In Six Months 2022, our ceded excess of loss reinsurance premiums increased by \$684,000 over the comparable ceded premiums for Six Months 2021. The increase was due to an increase in subject premiums and additional coverage obtained. Effective January 1, 2022, we entered into an underlying excess of loss reinsurance treaty covering the period from January 1, 2022 through January 1, 2023. The treaty provides 50% reinsurance coverage for losses of \$400,000 in excess of \$600,000. Losses from named storms are excluded from the treaty.

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 Six Months 2022, our premiums ceded under catastrophe treaties increased by \$790,000 over the comparable ceded premiums in Six Months 2021. Effective July 1, 2020, and continuing through June 30, 2021, our ceded catastrophe premiums were paid based on the total insured value of our risks calculated as of August 31, 2020. Effective July 1, 2021, and continuing through June 30, 2022, our ceded catastrophe premiums were paid based on the total insured value of our risks as of August 31, 2021. Effective July 1, 2022, and continuing through June 30, 2023, our ceded catastrophe premiums will be paid based on the total insured value of our risks as of August 31, 2022.

Net premiums earned

Net premiums earned decreased \$15,451,000, or 22.1%, to \$54,575,000 in Six Months 2022 from \$70,026,000 in Six Months 2021. The decrease was due to the inception of the 2021/2023 Treaty on December 31, 2021. The decrease resulting from the 2021/2023 Treaty in Six Months 2022 was partially offset by an increase in direct written premium.

Ceding Commission Revenue

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

(\$ in thousands)	Six months ended June 30,			
	2022	2021	Change	Percent
Provisional ceding commissions earned	\$ 9,234	\$ 95	\$ 9,139	9,620.0%
Contingent ceding commissions earned	163	(50)	213	n/a%
Total ceding commission revenue	\$ 9,397	\$ 45	\$ 9,352	20,782.2%

Ceding commission revenue was \$9,397,000 in Six Months 2022 compared to \$45,000 in Six Months 2021. The increase of \$9,352,000 was due to an increase in both provisional ceding commissions earned and contingent ceding commissions earned. See below for a discussion of provisional ceding

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Provisional Ceding Commissions Earned

In Six Months 2022 we earned provisional ceding commissions from personal lines earned premiums ceded under the 2021/2023 Treaty which was effective as of December 31, 2021. There was no personal lines quota share in effect in Six Months 2021.

Contingent Ceding Commissions Earned

The structure of the 2021/2023 Treaty calls for a fixed provisional ceding commission with no opportunity to earn additional contingent ceding commissions. 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 received.

Net Investment Income

Net investment income was \$1,993,000 in Six Months 2022 compared to \$3,461,000 in Six Months 2021, a decrease of \$1,468,000, or 42.4%. The decrease in investment income is attributable to a \$766,000 reversal of prior years' estimated accrued interest income stemming from an error in third party investment reporting. The decline of investment income is also attributable to the disposal of income bearing equity securities. The average yield on invested assets was 3.51% as of June 30, 2022 compared to 3.45% as of June 30, 2021.

Cash and invested assets were \$193,784,000 as of June 30, 2022 compared to \$234,100,000 as of June 30, 2021. The \$40,316,000 decrease in cash and invested assets was primarily attributable to cash paid to reinsurers at the inception of the 2021/2023 Treaty, losses paid in connection with catastrophe losses incurred in 2021 and 2022 and unrealized losses on our investment portfolio.

Net Gains and Losses on Investments

Net losses on investments were \$8,916,000 in Six Months 2022 compared to net gains of \$5,276,000 in Six Months 2021. Unrealized losses on our equity securities and other investments in Six Months 2022 were \$8,705,000, compared to net gains of \$3,431,000 in Six Months 2021. Realized losses on sales of investments were \$210,900 in Six Months 2022 compared to realized gains of \$1,844,000 in Six Months 2021.

Other Income

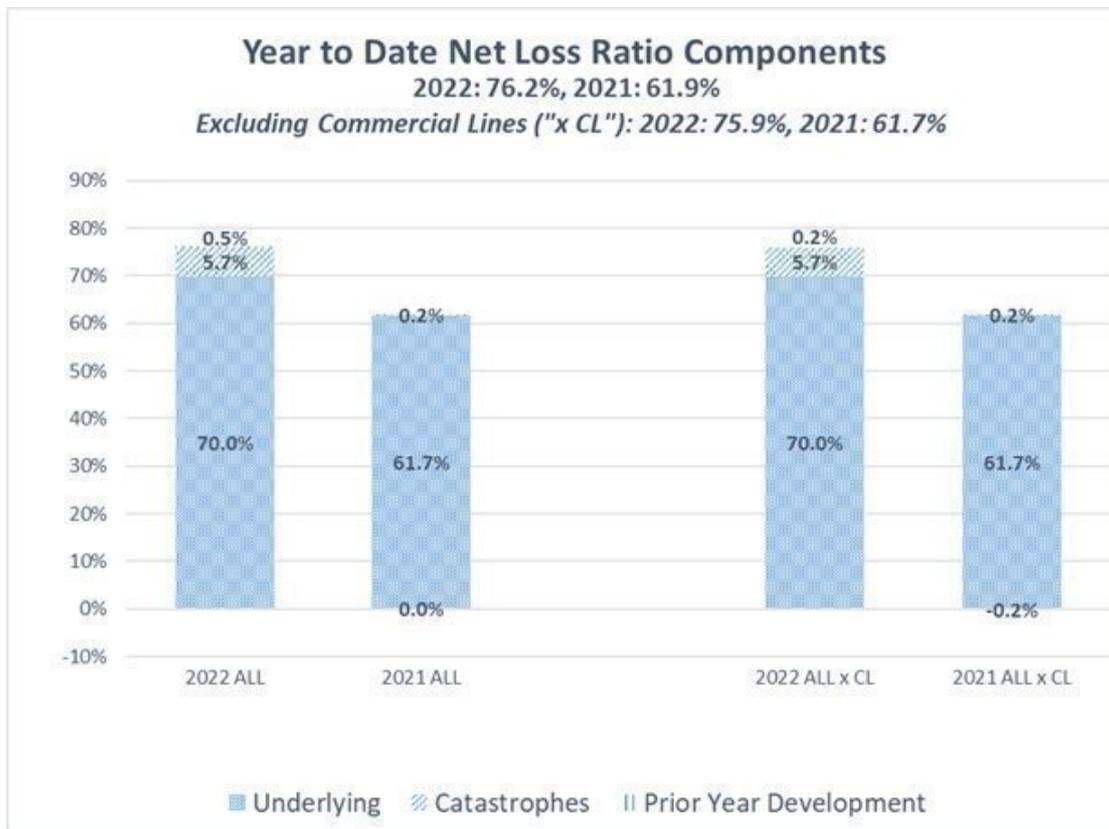
Other income was \$480,000 in Six Months 2022 compared to \$296,000 in Six Months 2021, an increase of \$184,000, or 62.2%.

Net Loss and LAE

Net loss and LAE was \$41,597,000 for Six Months 2022 compared to \$43,320,000 for Six Months 2021. The net loss ratio was 76.2% in Six Months 2022 compared to 61.9% in Six Months 2021, an increase of 14.3 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:



For Six Months 2022, the loss ratio was higher than Six Months 2021 due to water damage property claims, which were primarily driven by winter-related water damage claims resulting from freezing temperature.

The estimated net catastrophe losses were \$3,132,000 for Six Months 2022, which contributed 5.7 points to the loss ratio. This is mostly driven by two winter events in the first quarter. There were also five minor wind catastrophe events during Six Months 2022, but the impact was not significant. As a comparison, catastrophe events had a loss ratio impact of only 0.2 point for Six Months 2021 due to a very mild winter season last year.

Prior years in total have unfavorable development of \$270,000 for Six Months 2022, driven by large fire losses, which occurred in 2021. This contributed 0.5 point to the loss ratio.

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

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Commission Expense

Commission expense was \$16,832,000 in Six Months 2022 or 18.2% of direct earned premiums. Commission expense was \$16,509,000 in Six Months 2021 or 19.5% of direct earned premiums. The increase of \$323,000 was primarily due to an increase in direct earned premiums of \$7,688,000 to \$92,369,000 offset in part by a reduction of commission rate on our Select Products and the reduction to contingent commissions, which the producers now earn only if KICO has an operating profit.

Other Underwriting Expenses

Other underwriting expenses were \$13,441,000, or 14.6% of direct earned premiums, in Six Months 2022 compared to \$13,160,000, or 15.5% of direct earned premiums, in Six Months 2021. The increase of \$281,000, or 2.1%, was primarily due to increases in expenses related to our growth in direct earned premiums, and the reduction as a percentage of direct earned premiums is due to our continuing initiative to reduce expenses with the use of technology.

Our largest single component of other underwriting expenses is salaries and employment costs, with costs of \$5,066,000 in Six Months 2022 compared to \$5,079,000 in Six Months 2021. The modest decrease of \$13,000, or 0.3%, compares favorably with the 12.1% increase in direct written premiums.

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Our net underwriting expense ratio in Six Months 2022 was 37.4% compared to 41.9% in Six Months 2021. The following table shows the individual components of our net underwriting expense ratio for the periods indicated:

Six months ended June 30,	Percentage Point Changes
--------------------------------------	-------------------------------------

	2022	2021	
Other underwriting expenses			
Employment costs	9.3%	7.3%	2.0
Underwriting fees (inspections/surveys)	1.8	1.4	0.4
IT expenses	4.2	3.1	1.1
Professional fees	1.6	1.4	0.2
Other expenses	7.7	5.5	2.2
Total other underwriting expenses	<u>24.6</u>	<u>18.7</u>	<u>5.9</u>
Commission expense	<u>30.8</u>	<u>23.6</u>	<u>7.2</u>
Ceding commission revenue			
Provisional	(16.9)	(0.1)	(16.8)
Contingent	(0.3)	0.1	(0.4)
Total ceding commission revenue	<u>(17.2)</u>	<u>-</u>	<u>(17.2)</u>
Other income	<u>(0.9)</u>	<u>(0.4)</u>	<u>(0.5)</u>
Net underwriting expense ratio	<u>37.4%</u>	<u>41.9%</u>	<u>(4.5)</u>

(Components may not sum to totals due to rounding)

The overall 17.2 percentage point increase in the benefit from ceding commissions in Six Months 2022 was driven by the increase in provisional ceding commission revenue due to the inception of the 2021/2023 Treaty on December 31, 2021. The components of our net underwriting expense ratio related to other underwriting expenses and commissions increased due to a higher percentage of our direct earned premiums in Six Months 2022 being ceded due to the inception of the 2021/2023 Treaty.

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Other Operating Expenses

Other operating expenses, related to the expenses of our holding company and Cosi, were \$1,548,000 for Six Months 2022 compared to \$2,286,000 for Six Months 2021. The following table shows a breakdown of the significant components of other operating expenses for the periods indicated:

(\$ in thousands)	Six months ended June 30,		Change	Percent
	2022	2021		
Other operating expenses				
Employment costs	\$ (96)	\$ 597	\$ (692)	na%
Bonuses	-	-	-	na
Equity compensation	1,016	981	35	3.6
Professional	147	157	(10)	(6.4)
Directors fees	164	164	-	-
Insurance	77	120	(43)	(35.8)
Other expenses	240	267	(28)	(10.4)
Total other operating expenses	<u>\$ 1,548</u>	<u>\$ 2,286</u>	<u>\$ (738)</u>	<u>(32.3)%</u>

(Components may not sum to totals due to rounding)

The decrease in Six Months 2022 of \$738,000, or 32.3%, as compared to Six Months 2021 was primarily due to a decrease in employment costs. The decrease in employment costs was due to staff reductions and fluctuations in deferred compensation liability related to changes in the underlying invested portfolio.

Depreciation and Amortization

Depreciation and amortization was \$1,647,000 in Six Months 2022 compared to \$1,660,000 in Six Months 2021. The decrease of \$13,000, or 0.8%, in depreciation and amortization was primarily due to assets previously put into service that are currently being utilized and being fully depreciated. In the last quarter of 2021, due to the extended useful life of assets related to our system platforms, Management determined that such systems, currently put into service, should be depreciated over five years reflecting their expected useful lives as compared to the previous three years.

Interest Expense

Interest expense was \$913,000 for both Six Months 2022 and Six Months 2021. We incurred interest expense in connection with our \$30.0 million issuance of long-term debt in December 2017.

Income Tax (Benefit) Expense

Income tax benefit in Six Months 2022 was \$3,871,000, which resulted in an effective tax benefit rate of 21.0%. Income tax expense in Six Months 2021 was \$244,000, which resulted in an effective tax rate of 19.4%. Loss before taxes was \$18,448,000 in Six Months 2022 compared to income

before taxes of \$1,256,000 in Six Months 2021. The difference in effective tax rate is due to the effect of permanent differences in Six Months 2022 compared to Six Months 2021.

Net (Loss) Income

Net loss was \$14,577,000 in Six Months 2022 compared to net income of \$1,012,000 in Six Months 2021. The increase in net loss of \$15,589,000 was due to the circumstances described above.

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Three Months Ended June 30, 2022 Compared to Three Months Ended June 30, 2021

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

(\$ in thousands)	Three months ended June 30,			
	2022	2021	Change	Percent
Revenues				
Direct written premiums	\$ 49,778	\$ 44,616	\$ 5,162	11.6%
Assumed written premiums	-	-	-	na%
	<u>49,778</u>	<u>44,616</u>	<u>5,162</u>	<u>11.6%</u>
Ceded written premiums				
Ceded to quota share treaties (1)	11,803	98	11,705	11,943.9%
Ceded to excess of loss treaties	886	535	351	65.6%
Ceded to catastrophe treaties	7,063	6,669	394	5.9%
Total ceded written premiums	<u>19,752</u>	<u>7,302</u>	<u>12,450</u>	<u>170.5%</u>
Net written premiums	<u>30,026</u>	<u>37,314</u>	<u>(7,288)</u>	<u>(19.5)%</u>
Change in unearned premiums				
Direct and assumed	(2,786)	(1,852)	(934)	(50.4)%
Ceded to quota share treaties (1)	663	(25)	688	na%
Change in net unearned premiums	<u>(2,123)</u>	<u>(1,877)</u>	<u>(246)</u>	<u>(13.1)%</u>
Premiums earned				
Direct and assumed	46,993	42,762	4,231	9.9%
Ceded to reinsurance treaties	(19,091)	(7,326)	(11,765)	(160.6)%
Net premiums earned	<u>27,902</u>	<u>35,436</u>	<u>(7,534)</u>	<u>(21.3)%</u>
Ceding commission revenue (1)	4,716	46	4,670	na%
Net investment income	634	1,678	(1,044)	(62.2)%
Net (losses) gains on investments	(4,517)	2,315	(6,832)	na%
Other income	245	125	120	96.0%
Total revenues	<u>28,979</u>	<u>39,600</u>	<u>(10,621)</u>	<u>(26.8)%</u>
Expenses				
Loss and loss adjustment expenses				
Direct and assumed:				
Loss and loss adjustment expenses excluding the effect of catastrophes	26,323	20,940	5,383	25.7%
Losses from catastrophes (2)	195	(123)	318	na%
Total direct and assumed loss and loss adjustment expenses	<u>26,519</u>	<u>20,817</u>	<u>5,701</u>	<u>27.4%</u>
Ceded loss and loss adjustment expenses:				
Loss and loss adjustment expenses excluding the effect of catastrophes	7,780	58	7,722	13,313.8%
Losses from catastrophes (2)	83	-	83	na%
Total ceded loss and loss adjustment expenses	<u>7,863</u>	<u>58</u>	<u>7,805</u>	<u>13,456.9%</u>
Net loss and loss adjustment expenses:				
Loss and loss adjustment expenses excluding the effect of catastrophes	18,544	20,882	(2,338)	(11.2)%
Losses from catastrophes (2)	112	(123)	235	na%
Net loss and loss adjustment expenses	<u>18,656</u>	<u>20,759</u>	<u>(2,103)</u>	<u>(10.1)%</u>
Commission expense	8,481	8,286	195	2.4%
Other underwriting expenses	6,625	6,693	(68)	(1.0)%
Other operating expenses	666	933	(267)	(28.6)%
Depreciation and amortization	877	837	40	4.8%
Interest expense	457	457	-	-%
Total expenses	<u>35,762</u>	<u>37,965</u>	<u>(2,203)</u>	<u>(5.8)%</u>
(Loss) income before taxes	(6,782)	1,635	(8,418)	na%
Income tax (benefit) expense	(1,403)	312	(1,715)	na%
Net (loss) income	<u>\$ (5,380)</u>	<u>\$ 1,323</u>	<u>\$ (6,703)</u>	<u>na%</u>

(Columns in the table above may not sum to totals due to rounding)

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- (1) Effective December 31, 2021, we entered into a 30% personal lines quota share treaty.
- (2) The three months ended June 30, 2022 and 2021 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.

	Three months ended June 30,			
	2022	2021	Percentage Point Change	Percent Change
Key ratios:				
Net loss ratio	66.9%	58.6%	8.3	14.2%
Net underwriting expense ratio	36.4%	41.8%	(5.4)	(12.9)%
Net combined ratio	103.3%	100.4%	2.9	2.9%

[Direct Written Premiums](#)

Direct written premiums during the three months ended June 30, 2022 (“Three Months 2022”) were \$49,778,000 compared to \$44,616,000 during the three months ended June 30, 2021 (“Three Months 2021”). The increase of \$5,162,000, or 11.6%, was primarily due an increase in premiums from our personal lines business. Direct written premiums from our personal lines business for Three Months 2022 were \$46,792,000, an increase of \$4,342,000, or 10.2%, from \$42,450,000 in Three Months 2021. The increase in premiums from our personal lines business was primarily due to rate increases, and, to a lesser extent, an increase in policies in force. Direct written premiums from our livery physical damage business for Three Months 2022 were \$2,954,000, an increase of \$835,000, or 39.4%, from \$2,119,000 in Three Months 2021. The increase in livery physical damage direct written premiums was due to the declining effect of the COVID-19 pandemic in our geographic area.

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 Core business were \$39,734,000 in Three Months 2022 compared to \$35,614,000 in Three Months 2021. Direct written premiums from our Expansion business were \$10,044,000 in Three Months 2022 compared to \$9,002,000 in Three Months 2021.

[Net Written Premiums and Net Premiums Earned](#)

Effective December 31, 2021, we entered into a quota share reinsurance treaty for our personal lines business covering the period from December 31, 2021 through January 1, 2023 (“2021/2023 Treaty”). There was no quota share reinsurance treaty in effect in Three Months 2021. Net written premiums decreased \$7,288,000, or 19.5%, to \$30,026,000 in Three Months 2022 from \$37,314,000 in Three Months 2021. 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). In Three Months 2022, our premiums ceded under quota share treaties increased by \$12,450,000 in comparison to ceded premiums in Three Months 2021 (see table above). Our personal lines business was subject to the 2021/2023 Treaty in Three Months 2022, compared to no personal lines quota share treaty in Three Months 2021.

[Table of Contents](#)*Excess of loss reinsurance treaties*

An increase in written premiums will increase the premiums ceded under our excess of loss treaties. In Three Months 2022, our ceded excess of loss reinsurance premiums increased by \$351,000 over the comparable ceded premiums for Three Months 2021. The increase was due to an increase in subject premiums and additional coverage obtained. Effective January 1, 2022, we entered into an underlying excess of loss reinsurance treaty covering the period from January 1, 2022 through January 1, 2023. The treaty provides 50% reinsurance coverage for losses of \$400,000 in excess of \$600,000. Losses from named storms are excluded from the treaty.

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 2022, our premiums ceded under catastrophe treaties increased by \$394,000 over the comparable ceded premiums in Three Months 2021. Effective July 1, 2020, and continuing through June 30, 2021, our ceded catastrophe premiums were paid based on the total insured value of our risks calculated as of August 31, 2020. Effective July 1, 2021, and continuing through June 30, 2022, our ceded catastrophe premiums were paid based on the total insured value of our risks as of August 31, 2021. Effective July 1, 2022, and continuing through June 30, 2023, our ceded catastrophe premiums will be paid based on the total insured value of our risks as of August 31, 2022.

Net premiums earned

Net premiums earned decreased \$7,534,000, or 21.3%, to \$27,902,000 in Three Months 2022 from \$35,436,000 in Three Months 2021. The decrease was due to the inception of the 2021/2023 Treaty on December 31, 2021. The decrease resulting from the 2021/2023 Treaty in Three Months 2022 was partially offset by an increase in direct written premium.

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 June 30,			
	2022	2021	Change	Percent
Provisional ceding commissions earned	\$ 4,693	\$ 50	\$ 4,643	9,286.0%
Contingent ceding commissions earned	23	(4)	27	n/a%
Total ceding commission revenue	<u>\$ 4,716</u>	<u>\$ 46</u>	<u>\$ 4,670</u>	10,152.2%

Ceding commission revenue was \$4,716,000 in Three Months 2022 compared to \$46,000 in Three Months 2021. The increase of \$4,670,000 was due to an increase in both provisional ceding commissions earned and contingent ceding commissions earned. See below for a discussion of provisional ceding commissions earned and contingent ceding commissions earned.

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Provisional Ceding Commissions Earned

In Three Months 2022 we earned provisional ceding commissions from personal lines earned premiums ceded under the 2021/2023 Treaty which was effective as of December 31, 2021. There was no personal lines quota share in effect in Three Months 2021.

Contingent Ceding Commissions Earned

The structure of the 2021/2023 Treaty calls for a fixed provisional ceding commission with no opportunity to earn additional contingent ceding commissions. 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 received.

Net Investment Income

Net investment income was \$634,000 in Three Months 2022 compared to \$1,678,000 in Three Months 2021, a decrease of \$1,044,000, or 62.2%. The decrease in investment income is attributable to a \$766,000 reversal of prior years' estimated accrued interest income stemming from an error in third party investment reporting. The decline of investment income is also attributable to the disposal of income bearing equity securities. The average yield on invested assets was 3.51% as of June 30, 2022 compared to 3.45% as of June 30, 2021.

Cash and invested assets were \$193,784,000 as of June 30, 2022 compared to \$234,100,000 as of June 30, 2021. The \$40,316,000 decrease in cash and invested assets was primarily attributable to cash paid to reinsurers at the inception of the 2021/2023 Treaty, losses paid in connection with catastrophe losses incurred in 2021 and 2022, and unrealized losses on our investment portfolio.

Net Gains and Losses on Investments

Net losses on investments were \$4,517,000 in Three Months 2022 compared to net gains of \$2,315,000 in Three Months 2021. Unrealized losses on our equity securities and other investments in Three Months 2022 were \$4,229,000, compared to net gains of \$1,598,000 in Three Months 2021. Realized losses on sales of investments were \$289,000 in Three Months 2022 compared to realized gains of \$717,000 in Three Months 2021.

Other Income

Other income was \$245,000 in Three Months 2022 compared to \$125,000 in Three Months 2021, an increase of \$120,000, or 96.0%.

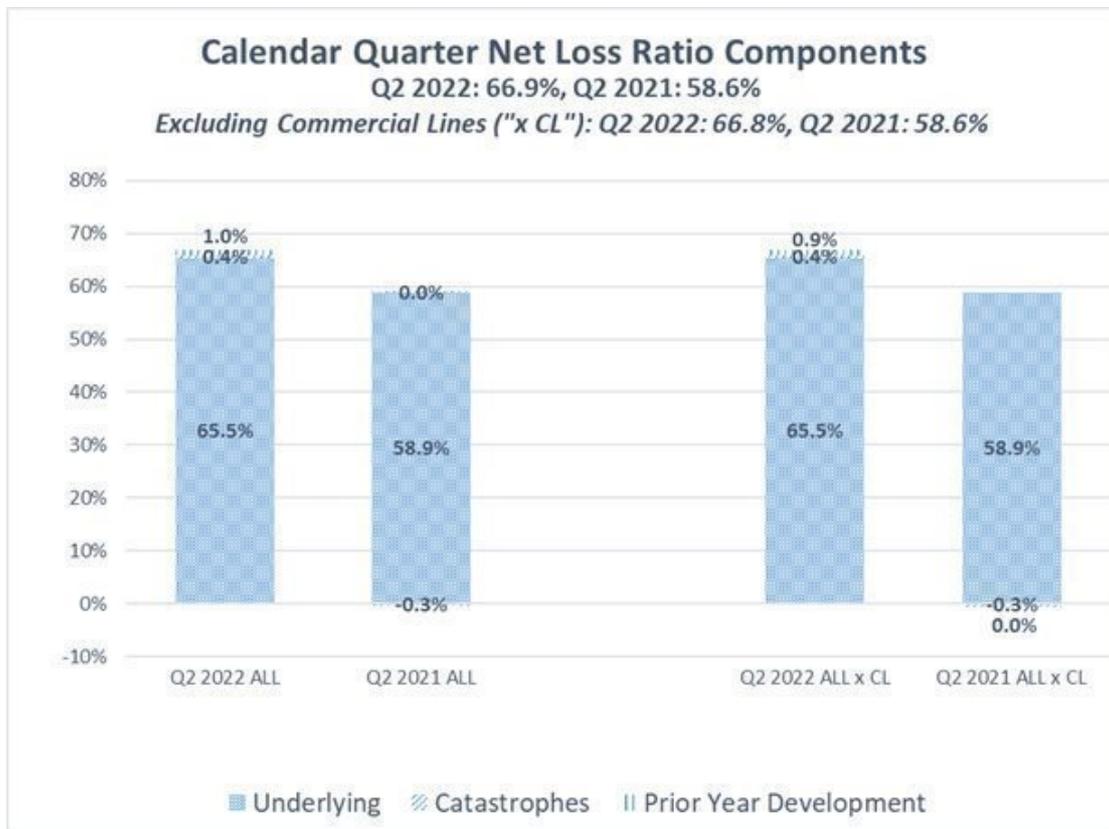
Net Loss and LAE

Net loss and LAE was \$18,656,000 for Three Months 2022 compared to \$20,759,000 for Three Months 2021. The net loss ratio was 66.9% in Three Months 2022 compared to 58.6% in Three Months 2021, an increase of 8.3 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:



For Three Months 2022, the loss ratio was higher than Three Months 2021 mainly due to water damage property claims and fire severity. Although the water experience for Three Months 2022 was a bit worse than historical average, it is reasonably within the historical range. For fire losses, there were more large loss activities during Three Months 2022, but the year-to-date experience has been in line with the past.

The impact of catastrophe losses was low for Three Months 2022. There were only three minor wind events classified as a catastrophe for Three Months 2022. There was also favorable development on catastrophe losses occurring for Three Months 2022. The estimated total net catastrophe losses were \$112,000, which contributed 0.4 point to the loss ratio. This compares to a -0.3 point impact from catastrophe events from the corresponding period from prior year, which also had minimal catastrophe activities.

Prior years in total have unfavorable development of \$274,000 for Three Months 2022, driven by an emergence of large fire losses, which occurred in 2021.

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

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Commission Expense

Commission expense increased \$195,000 to \$8,481,000, or 18.0% of direct earned premiums, in Three Months 2022. The increase was due to an increase in direct earned premiums of \$4,231,000 to \$46,993,000, offset in part by a reduction in the commission rate on our Select Products and the reduction in contingent commissions, which producers now earn only if KICO has an underwriting profit.

Other Underwriting Expenses

Other underwriting expenses were \$6,625,000, or 14.1% of direct earned premiums, in Three Months 2022 compared to \$6,693,000, or 15.7% of direct earned premiums, in Three Months 2021. The decrease of \$68,000, or 1.0%, was primarily due to decreases in professional fees and state insurance department fees, partially offset by increases in expenses related to our growth in direct earned premiums and our continuing initiative to reduce expenses with the use of technology.

Our largest single component of other underwriting expenses is salaries and employment costs, with costs of \$2,518,000 in Three Months 2022 compared to \$2,540,000 in Three Months 2021. The modest decrease of \$22,000, or 0.9%, compares favorably with the 11.6% increase in direct written premiums.

Our net underwriting expense ratio in Three Months 2022 was 36.4% compared to 41.8% in Three Months 2021. The following table shows the individual components of our net underwriting expense ratio for the periods indicated:

	Three months ended		Percentage Point Change
	June 30,		
	2022	2021	
Other underwriting expenses			

Employment costs	9.0%	7.2%	1.8
Underwriting fees (inspections/surveys)	1.7	1.4	0.3
IT expenses	4.2	3.1	1.1
Professional fees	1.3	1.4	(0.1)
Other expenses	7.6	5.8	1.8
Total other underwriting expenses	23.8	18.9	4.9
Commission expense	30.4	23.4	7.0
Ceding commission revenue			
Provisional	(16.8)	(0.1)	(16.7)
Contingent	(0.1)	-	(0.1)
Total ceding commission revenue	(16.9)	(0.1)	(16.8)
Other income	(0.9)	(0.4)	(0.5)
Net underwriting expense ratio	36.4%	41.8%	(5.4)

The overall 16.8 percentage point increase in the benefit from ceding commissions in Three Months 2022 was driven by the increase in provisional ceding commission revenue due to the inception of the 2021/2023 Treaty on December 31, 2021. The components of our net underwriting expense ratio related to other underwriting expenses and commissions increased due to a higher percentage of our direct earned premiums in Three Months 2022 being ceded due to the inception of the 2021/2023 Treaty.

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[Other Operating Expenses](#)

Other operating expenses, related to the expenses of our holding company and Cosi, were \$666,000 for Three Months 2022 compared to \$933,000 for Three Months 2021. The following table shows a breakdown of the significant components of other operating expenses for the periods indicated:

(\$ in thousands)	Three months ended		Change	Percent
	2022	2021		
Other operating expenses				
Employment costs	\$ (101)	\$ 153	\$ (254)	na%
Bonuses	-	-	-	na
Equity compensation	486	486	-	-
Professional	97	46	51	110.9
Directors fees	82	82	-	-
Insurance	37	44	(7)	(15.9)
Other expenses	65	122	(57)	(46.4)
Total other operating expenses	\$ 666	\$ 933	\$ (267)	(28.6)%

(Components may not sum to totals due to rounding)

The decrease in Three Months 2022 of \$267,000, or 28.6%, as compared to Three Months 2021 was primarily due to a decrease in employment costs. The decrease in employment costs was due to staff reductions and fluctuations in deferred compensation liability related to changes in the underlying invested portfolio.

[Depreciation and Amortization](#)

Depreciation and amortization was \$877,000 in Three Months 2022 compared to \$837,000 in Three Months 2021. The decrease of \$40,000, or 4.8%, in depreciation and amortization was primarily due to assets previously put into service that are currently being utilized and being fully depreciated. In the last quarter of 2021, due to the extended useful life of assets related to our system platforms, Management determined that such systems, currently put into service, should be depreciated over five years reflecting their expected useful lives as compared to the previous three years.

[Interest Expense](#)

Interest expense was \$457,000 for both Three Months 2022 and Three Months 2021. We incurred interest expense in connection with our \$30.0 million issuance of long-term debt in December 2017.

[Income Tax \(Benefit\) Expense](#)

Income tax benefit in Three Months 2022 was \$1,403,000, which resulted in an effective tax benefit rate of 20.7%. Income tax expense in Three Months 2021 was \$312,000, which resulted in an effective tax rate of 19.1%. Loss before taxes was \$6,782,000 in Three Months 2022 compared to income before taxes of \$1,635,000 in Three Months 2021. The difference in effective tax rate is due to the effect of permanent differences in Three Months 2022 compared to Three Months 2021.

[Net \(Loss\) Income](#)

Net loss was \$5,380,000 in Three Months 2022 compared to net income of \$1,323,000 in Three Months 2021. The increase in net loss of \$6,703,000 was due to the circumstances described above.

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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	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Gross premiums written:				
Personal lines(3)	\$ 46,792,267	\$ 42,449,870	\$ 86,955,416	\$ 78,608,363
Livery physical damage	2,953,588	2,119,436	5,726,868	4,023,428
Other(1)	32,608	46,719	80,076	113,826
Total without commercial lines	49,778,463	44,616,025	92,762,360	82,745,617
Commercial lines (in run-off effective July 2019)(2)	-	(381)	-	(856)
Total gross premiums written	\$ 49,778,463	\$ 44,615,644	\$ 92,762,360	\$ 82,744,761
Net premiums written:				
Personal lines(3)	\$ 27,048,585	\$ 35,149,321	\$ 49,159,250	\$ 63,979,133
Livery physical damage	2,953,588	2,119,436	5,726,868	4,023,428
Other(1)	23,607	45,903	57,850	112,184
Total without commercial lines	30,025,780	37,314,660	54,943,968	68,114,745
Commercial lines (in run-off effective July 2019)(2)	-	(381)	-	(856)
Total net premiums written	\$ 30,025,780	\$ 37,314,279	\$ 54,943,968	\$ 68,113,889
Net premiums earned:				
Personal lines(3)	\$ 25,178,854	\$ 33,573,620	\$ 49,339,070	\$ 66,338,707
Livery physical damage	2,687,273	1,804,543	5,161,838	3,569,819
Other(1)	35,941	58,644	74,540	117,974
Total without commercial lines	27,902,068	35,436,807	54,575,448	70,026,500
Commercial lines (in run-off effective July 2019)(2)	-	(381)	-	(856)
Total net premiums earned	\$ 27,902,068	\$ 35,436,426	\$ 54,575,448	\$ 70,025,644
Net loss and loss adjustment expenses(4):				
Personal lines	\$ 16,356,939	\$ 18,638,287	\$ 36,783,580	\$ 39,394,940
Livery physical damage	1,180,223	1,015,064	2,010,792	1,702,476
Other(1)	(967)	223,472	(24,367)	253,821
Unallocated loss adjustment expenses	1,164,649	909,591	2,743,555	1,915,872
Total without commercial lines	18,700,844	20,786,414	41,513,560	43,267,109
Commercial lines (in run-off effective July 2019)(2)	(44,803)	(27,204)	83,679	52,773
Total net loss and loss adjustment expenses	\$ 18,656,041	\$ 20,759,210	\$ 41,597,239	\$ 43,319,882
Net loss ratio(4):				
Personal lines	65.0%	55.5%	74.6%	59.4%
Livery physical damage	43.9%	56.3%	39.0%	47.7%
Other(1)	-2.7%	381.1%	-32.7%	215.1%
Total without commercial lines	67.0%	58.7%	76.1%	61.8%
Commercial lines (in run-off effective July 2019)(2)	na	na	na	na
Total	66.9%	58.6%	76.2%	61.9%

- (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 change in quota share ceding rate, effective December 31, 2021.
- (4) See discussion above with regard to "Net Loss and LAE", as to catastrophe losses in the three months and six months ended June 30, 2022 and 2021.

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

	Three Months ended		Six Months ended	
	June 30,		June 30,	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Revenues				
Net premiums earned	\$ 27,902,068	\$ 35,436,426	\$ 54,575,448	\$ 70,025,644
Ceding commission revenue	4,715,587	45,741	9,396,983	44,676
Net investment income	634,325	1,678,075	1,993,425	3,461,271
Net (losses) gains on investments	(4,379,853)	2,254,299	(8,731,597)	5,166,824
Other income	242,620	124,243	471,127	294,552
Total revenues	<u>29,114,747</u>	<u>39,538,784</u>	<u>57,705,386</u>	<u>78,992,967</u>
Expenses				
Loss and loss adjustment expenses	18,656,041	20,759,210	41,597,239	43,319,882
Commission expense	8,481,031	8,285,341	16,832,117	16,509,180
Other underwriting expenses	6,624,997	6,692,920	13,440,946	13,159,962
Depreciation and amortization	867,186	804,462	1,627,201	1,593,297
Total expenses	<u>34,629,255</u>	<u>36,541,933</u>	<u>73,497,503</u>	<u>74,582,321</u>
(Loss) income from operations	(5,514,508)	2,996,851	(15,792,117)	4,410,646
Income tax (benefit) expense	(1,170,034)	569,266	(3,357,294)	820,831
Net (loss) income	<u>\$ (4,344,474)</u>	<u>\$ 2,427,585</u>	<u>\$ (12,434,823)</u>	<u>\$ 3,589,815</u>
Key Measures:				
Net loss ratio	66.9%	58.6%	76.2%	61.9%
Net underwriting expense ratio	36.4%	41.8%	37.4%	41.9%
Net combined ratio	<u>103.3%</u>	<u>100.4%</u>	<u>113.6%</u>	<u>103.8%</u>
Reconciliation of net underwriting expense ratio:				
Acquisition costs and other underwriting expenses	\$ 15,106,028	\$ 14,978,261	\$ 30,273,063	\$ 29,669,142
Less: Ceding commission revenue	(4,715,587)	(45,741)	(9,396,983)	(44,676)
Less: Other income	(242,620)	(124,243)	(471,127)	(294,552)
Net underwriting expenses	<u>\$ 10,147,821</u>	<u>\$ 14,808,277</u>	<u>\$ 20,404,953</u>	<u>\$ 29,329,914</u>
Net premiums earned	<u>\$ 27,902,068</u>	<u>\$ 35,436,426</u>	<u>\$ 54,575,448</u>	<u>\$ 70,025,644</u>
Net Underwriting Expense Ratio	<u>36.4%</u>	<u>41.8%</u>	<u>37.4%</u>	<u>41.9%</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>
Six months ended June 30, 2022				
Written premiums	\$ 92,762,360	\$ -	\$ (37,818,392)	\$ 54,943,968
Change in unearned premiums	(393,353)	-	24,833	(368,520)
Earned premiums	<u>\$ 92,369,007</u>	<u>\$ -</u>	<u>\$ (37,793,559)</u>	<u>\$ 54,575,448</u>
Loss and loss adjustment expenses excluding the effect of catastrophes	\$ 52,832,153	\$ -	\$ (14,366,628)	\$ 38,465,525
Catastrophe loss	7,032,470	-	(3,900,756)	3,131,714
Loss and loss adjustment expenses	<u>\$ 59,864,623</u>	<u>\$ -</u>	<u>\$ (18,267,384)</u>	<u>\$ 41,597,239</u>
Loss ratio excluding the effect of catastrophes	57.2%	0.0%	38.0%	70.5%
Catastrophe loss	7.6%	0.0%	10.3%	5.7%
Loss ratio	<u>64.8%</u>	<u>0.0%</u>	<u>48.3%</u>	<u>76.2%</u>
Six months ended June 30, 2021				
Written premiums	\$ 82,744,761	\$ -	\$ (14,630,872)	\$ 68,113,889
Change in unearned premiums	1,936,706	-	(24,951)	1,911,755
Earned premiums	<u>\$ 84,681,467</u>	<u>\$ -</u>	<u>\$ (14,655,823)</u>	<u>\$ 70,025,644</u>
Loss and loss adjustment expenses excluding the effect of catastrophes	\$ 44,096,040	\$ -	\$ (881,729)	\$ 43,214,311
Catastrophe loss	105,571	-	-	105,571
Loss and loss adjustment expenses	<u>\$ 44,201,611</u>	<u>\$ -</u>	<u>\$ (881,729)</u>	<u>\$ 43,319,882</u>

Loss ratio excluding the effect of catastrophes	52.1%	0.0%	6.0%	61.8%
Catastrophe loss	0.1%	0.0%	0.0%	0.2%
Loss ratio	<u>52.2%</u>	<u>0.0%</u>	<u>6.0%</u>	<u>61.9%</u>

Three months ended June 30, 2022

Written premiums	\$ 49,778,463	\$ -	\$ (19,752,683)	\$ 30,025,780
Change in unearned premiums	(2,786,080)	-	662,368	(2,123,712)
Earned premiums	<u>\$ 46,992,383</u>	<u>\$ -</u>	<u>\$ (19,090,315)</u>	<u>\$ 27,902,068</u>

Loss and loss adjustment expenses excluding the effect of catastrophes	\$ 26,323,489	\$ -	\$ (7,779,738)	\$ 18,543,751
Catastrophe loss	195,070	-	(82,780)	112,290
Loss and loss adjustment expenses	<u>\$ 26,518,559</u>	<u>\$ -</u>	<u>\$ (7,862,518)</u>	<u>\$ 18,656,041</u>

Loss ratio excluding the effect of catastrophes	56.0%	0.0%	40.8%	66.5%
Catastrophe loss	0.4%	0.0%	0.4%	0.4%
Loss ratio	<u>56.4%</u>	<u>0.0%</u>	<u>41.2%</u>	<u>66.9%</u>

Three months ended June 30, 2021

Written premiums	\$ 44,615,644	\$ -	\$ (7,301,365)	\$ 37,314,279
Change in unearned premiums	(1,852,772)	-	(25,081)	(1,877,853)
Earned premiums	<u>\$ 42,762,872</u>	<u>\$ -</u>	<u>\$ (7,326,446)</u>	<u>\$ 35,436,426</u>

Loss and loss adjustment expenses excluding the effect of catastrophes	\$ 20,940,307	\$ -	\$ (57,873)	\$ 20,882,434
Catastrophe loss	(123,224)	-	-	(123,224)
Loss and loss adjustment expenses	<u>\$ 20,817,083</u>	<u>\$ -</u>	<u>\$ (57,873)</u>	<u>\$ 20,759,210</u>

Loss ratio excluding the effect of catastrophes	49.0%	0.0%	0.8%	59.0%
Catastrophe loss	-0.3%	0.0%	0.0%	-0.3%
Loss ratio	<u>48.7%</u>	<u>0.0%</u>	<u>0.8%</u>	<u>58.6%</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 June 30,		Six Months ended June 30,	
	2022	2021	2022	2021
Net premiums earned	\$ 27,902,068	\$ 35,436,426	\$ 54,575,448	\$ 70,025,644
Ceding commission revenue	4,715,587	45,741	9,396,983	44,676
Other income	242,620	124,243	471,127	294,552
Loss and loss adjustment expenses (1)	18,656,041	20,759,210	41,597,239	43,319,882
Acquisition costs and other underwriting expenses:				
Commission expense	8,481,031	8,285,341	16,832,117	16,509,180
Other underwriting expenses	6,624,997	6,692,920	13,440,946	13,159,962
Total acquisition costs and other underwriting expenses	<u>15,106,028</u>	<u>14,978,261</u>	<u>30,273,063</u>	<u>29,669,142</u>
Underwriting loss	<u>\$ (901,794)</u>	<u>\$ (131,061)</u>	<u>\$ (7,426,744)</u>	<u>\$ (2,624,152)</u>
Key Measures:				
Net loss ratio excluding the effect of catastrophes	66.5%	58.9%	70.5%	61.7%
Effect of catastrophe loss on net loss ratio (1)	0.4%	-0.3%	5.7%	0.2%
Net loss ratio	<u>66.9%</u>	<u>58.6%</u>	<u>76.2%</u>	<u>61.9%</u>
Net underwriting expense ratio excluding the effect of catastrophes	36.4%	41.8%	37.4%	41.9%
Effect of catastrophe loss on net underwriting expense ratio	0.0%	0.0%	0.0%	0.0%
Net underwriting expense ratio	<u>36.4%</u>	<u>41.8%</u>	<u>37.4%</u>	<u>41.9%</u>
Net combined ratio excluding the effect of catastrophes	102.9%	100.7%	107.9%	103.6%
Effect of catastrophe loss on net combined				

ratio (1)	0.4%	-0.3%	5.7%	0.2%
Net combined ratio	103.3%	100.4%	113.6%	103.8%
Reconciliation of net underwriting expense ratio:				
Acquisition costs and other underwriting expenses	\$ 15,106,028	\$ 14,978,261	\$ 30,273,063	\$ 29,669,142
Less: Ceding commission revenue	(4,715,587)	(45,741)	(9,396,983)	(44,676)
Less: Other income	(242,620)	(124,243)	(471,127)	(294,552)
	<u>\$ 10,147,821</u>	<u>\$ 14,808,277</u>	<u>\$ 20,404,953</u>	<u>\$ 29,329,914</u>
Net earned premium	\$ 27,902,068	\$ 35,436,426	\$ 54,575,448	\$ 70,025,644
Net Underwriting Expense Ratio	36.4%	41.8%	37.4%	41.9%

- (1) For the three months ended June 30, 2022 and 2021, includes the sum of net catastrophe losses and loss adjustment expenses of \$112,290 and \$(123,224), respectively. For the six months ended June 30, 2022 and 2021, includes the sum of net catastrophe losses and loss adjustment expenses of \$3,131,714 and \$105,571, 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 June 30, 2022 and December 31, 2021:

Category	June 30, 2022					
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Estimated Fair Value	% of Estimated Fair Value
			Less than 12 Months	More than 12 Months		
Political subdivisions of States, Territories and Possessions	\$ 17,218,274	\$ -	\$ (3,020,486)	\$ -	\$ 14,197,788	10.0%
Corporate and other bonds						
Industrial and miscellaneous	84,235,861	9,782	(6,562,506)	-	77,683,137	54.9%
Residential mortgage and other asset backed securities	55,228,980	114,844	(5,387,294)	(339,668)	49,616,862	35.1%
Total fixed-maturity securities	<u>\$ 156,683,115</u>	<u>\$ 124,626</u>	<u>\$ (14,970,286)</u>	<u>\$ (339,668)</u>	<u>\$ 141,497,787</u>	<u>100.0%</u>
Category	December 31, 2021					
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Estimated Fair Value	% of Estimated Fair Value
			Less than 12 Months	More than 12 Months		
Political subdivisions of States, Territories and Possessions	\$ 17,236,750	\$ 246,748	\$ (197,984)	\$ -	\$ 17,285,514	10.9%
Corporate and other bonds						
Industrial and miscellaneous	80,534,769	2,603,411	(126,926)	-	83,011,254	52.5%
Residential mortgage and other asset backed securities	58,036,959	355,985	(489,258)	(120,344)	57,783,342	36.6%
Total fixed-maturity securities	<u>\$ 155,808,478</u>	<u>\$ 3,206,144</u>	<u>\$ (814,168)</u>	<u>\$ (120,344)</u>	<u>\$ 158,080,110</u>	<u>100.0%</u>

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Equity Securities

The following table presents a breakdown of the cost and estimated fair value of, and gross gains and losses on, investments in equity securities as of June 30, 2022 and December 31, 2021:

Category	June 30, 2022				
	Cost	Gross Gains	Gross Losses	Estimated Fair Value	% of Estimated Fair Value
Equity Securities:					
Preferred stocks	\$ 18,430,554	\$ 175,745	\$ (3,347,910)	\$ 15,258,389	58.5%
Common stocks and exchange traded funds	11,808,966	392,745	(1,395,555)	10,806,156	41.5%
Total	<u>\$ 30,239,520</u>	<u>\$ 568,490</u>	<u>\$ (4,743,465)</u>	<u>\$ 26,064,545</u>	<u>100.0%</u>
Category	December 31, 2021				
	Cost	Gross Gains	Gross Losses	Estimated Fair Value	% of Estimated Fair Value
Equity Securities:					
Preferred stocks	\$ 22,019,509	\$ 1,007,009	\$ (184,617)	\$ 22,841,901	57.6%
Common stocks and exchange traded funds	15,451,160	1,573,653	(179,712)	16,845,101	42.4%
Total	<u>\$ 37,470,669</u>	<u>\$ 2,580,662</u>	<u>\$ (364,329)</u>	<u>\$ 39,687,002</u>	<u>100.0%</u>

Other Investments

The following table presents a breakdown of the cost and estimated fair value of, and gross gains on, our other investments as of June 30, 2022 and December 31, 2021:

Category	June 30, 2022			December 31, 2021		
	Cost	Gross Gains	Estimated Fair Value	Cost	Gross Gains	Estimated Fair Value
Other Investments:						
Hedge fund	<u>\$3,999,381</u>	<u>\$1,254,201</u>	<u>\$5,253,582</u>	<u>\$3,999,381</u>	<u>\$3,562,034</u>	<u>\$7,561,415</u>

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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 June 30, 2022 and December 31, 2021:

Category	June 30, 2022					
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Estimated Fair Value	% of Estimated Fair Value
			Less than 12 Months	More than 12 Months		
Held-to-Maturity Securities:						
U.S. Treasury securities	\$ 1,228,410	\$ 86,141	\$ (10,175)	\$ -	\$ 1,304,376	18.9%
Political subdivisions of States, Territories and Possessions	498,378	4,637	-	-	503,015	7.3%
Exchange traded debt	304,111	-	(29,111)	-	275,000	4.0%
Corporate and other bonds						
Industrial and miscellaneous	5,737,319	39,429	(945,603)	-	4,831,145	69.9%
Total	<u>\$7,768,218</u>	<u>\$ 130,207</u>	<u>\$ (984,889)</u>	<u>\$ -</u>	<u>\$ 6,913,536</u>	<u>100.0%</u>
Category	December 31, 2021					
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Estimated Fair Value	% of Estimated Fair Value
			Less than 12 Months	More than 12 Months		
Held-to-Maturity Securities:						
U.S. Treasury securities	\$ 729,642	\$ 209,633	\$ -	\$ -	\$ 939,275	10.7%

Political subdivisions of States, Territories and Possessions	998,239	22,856	-	-	1,021,095	11.7%
Exchange traded debt	304,111	85	(13,921)		290,275	3.3%
Corporate and other bonds						
Industrial and miscellaneous	6,234,342	280,951	(12,779)	-	6,502,514	74.3%
Total	<u>\$ 8,266,334</u>	<u>\$ 513,525</u>	<u>\$ (26,700)</u>	<u>\$ -</u>	<u>\$ 8,753,159</u>	<u>100.0%</u>

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 June 30, 2022 and December 31, 2021 is shown below:

Remaining Time to Maturity	June 30, 2022		December 31, 2021	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Less than one year	\$ 459,032	\$ 497,110	\$ 994,712	\$ 1,008,180
One to five years	1,246,206	1,246,690	1,205,829	1,290,465
Five to ten years	1,519,749	1,370,950	1,513,942	1,648,808
More than 10 years	4,543,231	3,798,786	4,551,851	4,805,706
Total	<u>\$ 7,768,218</u>	<u>\$ 6,913,536</u>	<u>\$ 8,266,334</u>	<u>\$ 8,753,159</u>

Credit Rating of Fixed-Maturity Securities

The table below summarizes the credit quality of our available-for-sale fixed-maturity securities as of June 30, 2022 and December 31, 2021 as rated by Standard & Poor's (or, if unavailable from Standard & Poor's, then Moody's, Fitch, or Kroll):

Rating	June 30, 2022		December 31, 2021	
	Estimated Fair Value	Percentage of Estimated Fair Value	Estimated Fair Value	Percentage of Estimated Fair Value
U.S. Treasury securities	\$ -	0.0%	\$ -	0.0%
Corporate and municipal bonds				
AAA	2,471,838	1.7%	1,321,809	0.8%
AA	11,076,880	7.8%	11,532,572	7.3%
A	34,119,838	24.1%	38,272,571	24.2%
BBB+	16,901,741	11.9%	17,936,359	11.3%
BBB	23,676,363	16.7%	25,161,776	15.9%
BBB-	1,926,040	1.4%	4,193,401	2.7%
Total corporate and municipal bonds	<u>90,172,700</u>	<u>63.6%</u>	<u>98,418,488</u>	<u>62.2%</u>
Residential mortgage backed, asset backed, and other collateralized obligations				
AAA	18,165,288	12.8%	17,350,192	11.0%
AA	25,008,366	17.7%	34,241,907	21.7%
A	7,023,595	5.0%	6,306,161	4.0%
BBB	21,608	0.0%	24,254	0.0%
CCC	520,237	0.4%	664,628	0.4%
CC	115,309	0.1%	125,412	0.1%
D	63,629	0.0%	55,306	0.0%
Non rated	407,055	0.3%	893,762	0.6%
Total residential mortgage backed, asset backed, and other collateralized obligations	<u>51,325,087</u>	<u>36.3%</u>	<u>59,661,622</u>	<u>37.8%</u>
Total	<u>\$ 141,497,787</u>	<u>99.9%</u>	<u>\$ 158,080,110</u>	<u>100.0%</u>

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The table below summarizes the average yield by type of fixed-maturity security as of June 30, 2022 and December 31, 2021:

Category	June 30, 2022	December 31, 2021
U.S. Treasury securities and		

obligations of U.S. government corporations and agencies	3.26%	3.06%
Political subdivisions of States, Territories and Possessions	3.35%	2.77%
Corporate and other bonds		
Industrial and miscellaneous	3.38%	3.23%
Residential mortgage backed securities	2.74%	2.77%
Total	3.16%	2.92%

The table below lists the weighted average maturity and effective duration in years on our fixed-maturity securities as of June 30, 2022 and December 31, 2021:

	June 30, 2022	December 31, 2021
Weighted average effective maturity	7.0	8.0
Weighted average final maturity	15.5	13.8
Effective duration	5.5	5.1

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 June 30, 2022 and December 31, 2021, 62% 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 June 30, 2022 and December 31, 2021:

Category	June 30, 2022								
	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	14,197,788	(3,020,486)	14	-	-	-	14,197,788	(3,020,486)	
Corporate and other bonds industrial and miscellaneous	76,672,772	(6,562,506)	92	-	-	-	76,672,772	(6,562,506)	
Residential mortgage and other asset backed securities	45,843,567	(5,387,294)	37	2,724,188	(339,668)	3	48,567,755	(5,726,962)	
Total fixed-maturity securities	\$ 136,714,127	\$ (14,970,286)	143	\$ 2,724,188	\$ (339,668)	3	\$ 139,438,315	\$ (15,309,954)	

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December 31, 2021		
Less than 12 months	12 months or more	Total

Category	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	6,768,123	(197,984)	5	-	-	-	6,768,123	(197,984)
Corporate and other bonds industrial and miscellaneous	17,593,707	(126,926)	15	-	-	-	17,593,707	(126,926)
Residential mortgage and other asset backed securities	45,399,451	(489,258)	26	2,923,182	(120,344)	2	48,322,633	(609,602)
Total fixed-maturity securities	\$69,761,281	\$ (814,168)	46	\$ 2,923,182	\$ (120,344)	2	\$72,684,463	\$ (934,512)

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There were 146 securities at June 30, 2022 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 48 securities at December 31, 2021 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 credit quality considerations, the magnitude of the unrealized losses in relation to each security's cost, the nature of the investment and interest rate environment factors, 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 six months ended June 30, 2022, the primary source of cash flow for our holding company was the dividends received from KICO, subject to statutory restrictions. For the six months ended June 30, 2022, KICO paid dividends of \$1,500,000 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. KICO currently does not have any securities pledged to FHLBNY; as such, there were no borrowings under this facility during the six months ended June 30, 2022 and 2021. On August 10, 2022, KICO transferred and pledged ten FNMA bonds to the FHLBNY. As of August 8, 2022 the book value of these bonds is \$15,144,568 and their fair value is \$13,567,331. KICO will have a credit facility with respect to the transferred bonds and the maximum advance KICO will be able to receive is approximately \$12,000,000

On December 19, 2017, we issued \$30 million of our 5.50% Senior Unsecured Notes due December 30, 2022. As of June 30, 2022, invested assets and cash in our holding company was approximately \$2,780,000. If the aforementioned sources of cash flow currently available are insufficient to cover our holding company debt service and other cash requirements, we will seek to obtain additional financing. See Notes 2 and 7 to our Condensed Consolidated Financial Statements included in this Quarterly Report for a discussion of our plans in this regard.

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>Six months ended June 30,</i>	2022	2021
Cash flows (used in) provided by:		

Operating activities	\$(13,716,630)	\$ 14,364,315
Investing activities	3,857,225	11,307,718
Financing activities	(1,231,065)	(2,076,028)
Net (decrease) increase in cash and cash equivalents	(11,090,470)	23,596,005
Cash and cash equivalents, beginning of period	24,290,598	19,463,742
Cash and cash equivalents, end of period	\$ 13,200,128	\$ 43,059,747

Net cash used in operating activities was \$13,717,000 in Six Months 2022 as compared to \$14,364,000 provided by operating activities in Six Months 2021. The \$28,081,000 decrease in cash flows provided by operating activities in Six Months 2022 was primarily the result of a decrease in cash arising from net fluctuations in operating assets and liabilities, partially offset by net loss (adjusted for non-cash items) of \$5,394,000. The increase in cash used in operating activities is also attributable to the payment of \$13,245,000 to reinsurers in Six Months 2022 pursuant to the inception of our quota share reinsurance treaty, effective December 31, 2021. In addition, the increase of reinsurance recoverables by \$14,360,000 also contributed to the increase in cash used during Six Months 2022. 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 other changes, which are described above.

Net cash provided by investing activities was \$3,857,000 in Six Months 2022 compared to \$11,308,000 provided by investing activities in Six Months 2021. The \$7,451,000 decrease in net cash provided by investing activities was the result of a \$10,598,000 decrease in disposals of invested assets and a \$345,000 increase in the acquisition of property and equipment in Six Months 2022.

Net cash used in financing activities was \$1,231,000 in Six Months 2022 compared to \$2,076,000 used in Six Months 2021. The \$845,000 decrease in net cash used in financing activities was attributable to the purchase of treasury stock of \$1,040,000 in Six Months 2021 partially offset by an increase in withholding taxes paid on the vesting of restricted stock awards in Six Months 2022 compared to Six Months 2021.

Reinsurance

Effective December 31, 2021, we entered into a quota share reinsurance treaty for our personal lines business, which primarily consists of homeowners' and dwelling fire policies, covering the period from December 31, 2021 through January 1, 2023 ("2021/2023 Treaty").

Our excess of loss and catastrophe reinsurance treaties expired on June 30, 2022 and we entered into new excess of loss and catastrophe reinsurance treaties effective July 1, 2022. Effective October 18, 2021, we entered into a stub catastrophe reinsurance treaty covering the period from October 18, 2021 through December 31, 2021. The treaty provides reinsurance coverage for catastrophe losses of \$5,000,000 in excess of \$5,000,000. Effective January 1, 2022, we entered into an underlying excess of loss reinsurance treaty covering the period from January 1, 2022 through January 1, 2023. The treaty provides 50% reinsurance coverage for losses of \$400,000 in excess of \$600,000. Losses from named storms are excluded from the treaty. Material terms for our reinsurance treaties in effect for the treaty years shown below are as follows:

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Line of Business	Treaty Period				
	January 2, 2023 to June 30, 2023	(2021/2023 Treaty)			July 1, 2021 to December 30, 2021
July 1, 2022 to January 1, 2023		December 31, 2021 to June 30, 2022	July 1, 2021 to December 30, 2021	December 31, 2020 to June 30, 2021	
Personal Lines:					
Homeowners, dwelling fire and and canine legal liability					
Quota share treaty:					
Percent ceded (9)	None (8)	30%	30%	None (5)	None (5)
Risk retained on initial \$1,000,000 of losses (5) (7) (8) (9)	\$ 1,000,000	\$ 700,000	\$ 700,000	\$ 1,000,000	\$ 1,000,000
Losses per occurrence					
subject to quota share reinsurance coverage	None (8)	\$ 1,000,000	\$ 1,000,000	None (5)	None (5)
Expiration date	(8)	January 1, 2023	January 1, 2023	NA (5)	NA (5)
Excess of loss coverage and facultative facility					
coverage (1) (7)	\$ 8,000,000	\$ 8,400,000	\$ 8,400,000	\$ 8,000,000	\$ 8,000,000
	in excess of	in excess of	in excess of	in excess of	in excess of
	\$ 1,000,000	\$ 600,000	\$ 600,000	\$ 1,000,000	\$ 1,000,000
Total reinsurance coverage per occurrence (5) (7) (8)	\$ 8,000,000	\$ 8,500,000	\$ 8,500,000	\$ 8,000,000	\$ 8,000,000
Losses per occurrence					
subject to reinsurance coverage (5) (8)	\$ 8,000,000	\$ 9,000,000	\$ 9,000,000	\$ 9,000,000	\$ 9,000,000
Expiration date (8)	June 30, 2023	June 30, 2023	June 30, 2022	June 30, 2022	June 30, 2021
Catastrophe Reinsurance:					
Initial loss subject to personal lines quota share treaty					
	(8)	10,000,000	10,000,000	None (5)	None (5)
Risk retained per catastrophe					

occurrence (5) (8) (9) (10)	\$ 10,000,000	\$ 7,400,000	\$ 7,400,000	\$ 10,000,000	\$ 10,000,000
Catastrophe loss coverage in excess of quota share coverage (2) (5) (8)	\$ 335,000,000	\$ 335,000,000	\$ 490,000,000	\$ 490,000,000	\$ 475,000,000
Catastrophe stub coverage for the period from October 18, 2021 through December 31, 2021 (6)	NA	NA	NA	\$ 5,000,000 in excess of \$ 5,000,000	NA
Reinstatement premium protection (3) (4)	Yes	Yes	Yes	Yes	Yes

- For personal lines, includes the addition of an automatic facultative facility allowing KICO to obtain homeowners single risk coverage up to \$9,000,000 in total insured value, which covers direct losses from \$3,500,000 to \$9,000,000 through June 30, 2023.
- 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.
- For the period July 1, 2020 through June 30, 2021, reinstatement premium protection for \$70,000,000 of catastrophe coverage in excess of \$10,000,000. For the period July 1, 2021 through June 30, 2022, reinstatement premium protection for \$70,000,000 of catastrophe coverage in excess of \$10,000,000.

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- For the period July 1, 2022 through June 30, 2023, reinstatement premium protection for \$9,800,000 of catastrophe coverage in excess of \$10,000,000.
- The personal lines quota share (homeowners, dwelling fire and canine legal liability) expired on December 30, 2020; reinsurance coverage from December 31, 2020 through December 30, 2021 is only for excess of loss and catastrophe reinsurance.
- Excludes freeze and freeze related claims.
- For the period January 1, 2022 through January 1, 2023, underlying excess of loss treaty provides 50% reinsurance coverage for losses of \$400,000 in excess of \$600,000. Reduces retention to \$500,000 from \$700,000 under the 2021/2023 Treaty. Excludes losses from named storms.
- Personal lines quota share (homeowners, dwelling fire and canine liability) and underlying excess of loss reinsurance will expire on January 1, 2023; reinsurance coverage in effect from January 2, 2023 through June 30, 2023 is only for excess of loss and catastrophe reinsurance treaties.
- For the 2021/2023 Treaty, 4% of the 30% total of losses ceded under this treaty are excluded from a named catastrophe event.
- Plus losses in excess of catastrophe coverage.

Line of Business	Treaty Year		
	July 1, 2022 to June 30, 2023	July 1, 2021 to June 30, 2022	July 1, 2020 to June 30, 2021
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 dollars of coverage	95%	95%	95%
Risk retained	\$ 300,000	\$ 300,000	\$ 300,000
Total reinsurance coverage per occurrence	\$ 4,700,000	\$ 4,700,000	\$ 4,700,000
Losses per occurrence subject to quota share reinsurance coverage	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000
Expiration date	June 30, 2023	June 30, 2022	June 30, 2021
Commercial Lines (1):			
General liability commercial policies			
Quota share treaty			None
Risk retained			\$ 750,000
Excess of loss coverage above risk retained			\$ 3,750,000
			in excess of \$ 750,000
Total reinsurance coverage per occurrence			\$ 3,750,000
Losses per occurrence subject to reinsurance coverage			\$ 4,500,000
Commercial Umbrella			
Quota share treaty			None

- Coverage on all commercial lines policies expired in September 2020; reinsurance coverage is based on treaties in effect on the date of loss.

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Inflation

Premiums are established before we know the amount of losses and loss adjustment expenses or the extent to which inflation may affect such amounts. We attempt to anticipate the potential impact of inflation in establishing our reserves, especially as it relates to medical and hospital rates where historical inflation rates have exceeded the general level of inflation. Inflation in excess of the levels we have assumed could cause loss and loss adjustment expenses to be higher than we anticipated, which would require us to increase reserves and reduce earnings.

Fluctuations in rates of inflation also influence interest rates, which in turn impact the market value of our investment portfolio and yields on new investments. Operating expenses, including salaries and benefits, generally are impacted by inflation.

Six Months 2022 included elevated economic inflation, which resulted in a significant increase in interest rates, a widening of credit spreads, lower public equity valuations, and significant financial market volatility. The higher interest rates and widening of credit spreads reduced the value of our fixed income securities, which lowered our stockholders' equity materially for Six Months 2022. The higher economic inflation impacted our loss and loss adjustment expenses as well; should these trends continue in the near-term, it would in all likelihood negatively impact our profitability.

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 COVID-19 pandemic caused significant financial market volatility, economic uncertainty, and interruptions to normal business activities. As of the date of this report, we expect the effect of the COVID-19 pandemic on claims currently under our coverages to be manageable, based on the information presently available. However, the effects of the COVID-19 pandemic, including the emergence of variant strains, continue to evolve and we cannot predict the extent to which our business, results of operations, financial condition, liquidity, capital position, the value of investments we hold in our investment portfolio, premiums and the demand for our products and our ability to collect premiums or requirement to return premiums to our policyholders will ultimately be impacted. 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 I, Item 1A— "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2021, filed with the SEC.

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 may 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. While we are now seeing a reversal of this impact, it may resume in the future, but the degree of any new impact will depend on the extent and duration of any 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 may 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 June 30, 2022, our disclosure controls and procedures were: (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 June 30, 2022.

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.

None.

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 2021 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. Except as discussed under Part I, Item 2 – "Management's Discussion and Analysis of Financial Condition and Results of Operations – Preliminary Non-binding Indication of Interest" herein, there have been no material changes to the risk factors disclosed in Part I, Item 1A of the Company's 2021 Annual Report.

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

- (a) None.
- (b) Not applicable.
- (c) None.

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 Chief 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: August 15, 2022

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

Dated: August 15, 2022

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: August 15, 2022

/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: August 15, 2022

/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 June 30, 2022 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: August 15, 2022

/s/ Barry B. Goldstein

Barry B. Goldstein
Chief Executive Officer

/s/ Richard Swartz

Richard Swartz
Principal Financial Officer