

# SECURITIES & EXCHANGE COMMISSION EDGAR FILING

## KINGSTONE COMPANIES, INC.

**Form: 10-Q**

**Date Filed: 2015-11-12**

Corporate Issuer CIK: 33992

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

(Mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2015  
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-1665

**KINGSTONE COMPANIES, INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or  
organization)

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

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

(845) 802-7900  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

As of November 11, 2015, there were 7,335,110 shares of the registrant's common stock outstanding.

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## Forward-Looking Statements

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

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

**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

**KINGSTONE COMPANIES, INC. AND SUBSIDIARIES**

**Condensed Consolidated Balance Sheets**

	September 30, 2015	December 31, 2014
	(unaudited)	
<b>Assets</b>		
Fixed-maturity securities, held-to-maturity, at amortized cost (fair value of \$5,273,419 at September 30, 2015 and \$5,395,054 at December 31, 2014)	\$ 5,137,198	\$ 5,128,735
Fixed-maturity securities, available-for-sale, at fair value (amortized cost of \$61,211,677 at September 30, 2015 and \$50,083,441 at December 31, 2014)	62,095,309	51,120,859
Equity securities, available-for-sale, at fair value (cost of \$9,536,987 at September 30, 2015 and \$7,621,309 at December 31, 2014)	9,493,292	8,017,729
Total investments	76,725,799	64,267,323
Cash and cash equivalents	6,731,629	9,906,878
Premiums receivable, net of provision for uncollectible amounts	10,832,446	8,946,899
Receivables - reinsurance contracts	2,285,356	1,301,549
Reinsurance receivables, net of provision for uncollectible amounts	31,171,559	35,575,276
Deferred policy acquisition costs	10,456,707	8,985,981
Intangible assets, net	1,876,744	2,233,530
Property and equipment, net of accumulated depreciation	3,222,004	2,448,042
Other assets	1,341,376	1,330,944
<b>Total assets</b>	<b>\$ 144,643,620</b>	<b>\$ 134,996,422</b>
<b>Liabilities</b>		
Loss and loss adjustment expense reserves	\$ 38,899,492	\$ 39,912,683
Unearned premiums	47,441,330	40,458,041
Advance premiums	1,555,786	1,006,582
Reinsurance balances payable	1,342,213	2,096,363
Deferred ceding commission revenue	6,069,907	5,956,540
Accounts payable, accrued expenses and other liabilities	4,334,065	3,928,137
Income taxes payable	322,256	-
Deferred income taxes	655,461	1,137,180
<b>Total liabilities</b>	<b>100,620,510</b>	<b>94,495,526</b>
<b>Commitments and Contingencies</b>		
<b>Stockholders' Equity</b>		
Preferred stock, \$.01 par value; authorized 2,500,000 shares	-	-
Common stock, \$.01 par value; authorized 20,000,000 shares; issued 8,287,898 shares at September 30, 2015 and 8,235,095 shares at December 31, 2014; outstanding 7,335,110 shares at September 30, 2015 and 7,308,757 shares at December 31, 2014	82,879	82,351
Capital in excess of par	32,982,715	32,873,383
Accumulated other comprehensive income	554,357	946,332
Retained earnings	12,211,392	8,203,003
	45,831,343	42,105,069
Treasury stock, at cost, 952,788 shares at September 30, 2015 and 926,338 shares at December 31, 2014	(1,808,233)	(1,604,173)
<b>Total stockholders' equity</b>	<b>44,023,110</b>	<b>40,500,896</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 144,643,620</b>	<b>\$ 134,996,422</b>

See accompanying notes to condensed consolidated financial statements.

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

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
<b>Revenues</b>				
Net premiums earned	\$ 13,129,604	\$ 9,895,000	\$ 34,381,118	\$ 22,250,684
Ceding commission revenue	2,643,531	3,278,319	9,388,457	10,365,651
Net investment income	649,441	463,513	1,850,069	1,294,216
Net realized (losses) gains on sales of investments	(40,487)	115,176	(105,718)	438,126
Other income	275,280	263,726	1,299,511	742,191
Total revenues	<u>16,657,369</u>	<u>14,015,734</u>	<u>46,813,437</u>	<u>35,090,868</u>
<b>Expenses</b>				
Loss and loss adjustment expenses	5,050,194	4,538,167	16,884,224	11,871,060
Commission expense	4,021,383	3,106,064	11,033,874	8,592,364
Other underwriting expenses	3,389,024	2,845,708	9,349,842	7,656,532
Other operating expenses	468,352	485,959	1,174,693	1,074,373
Depreciation and amortization	267,424	248,888	749,658	641,943
Total expenses	<u>13,196,377</u>	<u>11,224,786</u>	<u>39,192,291</u>	<u>29,836,272</u>
Income from operations before taxes	3,460,992	2,790,948	7,621,146	5,254,596
Income tax expense	1,115,338	907,267	2,513,811	1,689,280
<b>Net income</b>	<u>2,345,654</u>	<u>1,883,681</u>	<u>5,107,335</u>	<u>3,565,316</u>
<b>Other comprehensive income (loss), net of tax</b>				
Gross change in unrealized gains (losses) on available-for-sale-securities	(92,097)	(410,446)	(699,619)	1,329,219
Reclassification adjustment for gains included in net income	40,487	(115,176)	105,718	(438,126)
Net change in unrealized gains (losses)	(51,610)	(525,622)	(593,901)	891,093
Income tax benefit (expense) related to items of other comprehensive income (loss)	17,547	178,711	201,926	(302,972)
<b>Other comprehensive income (loss), net of tax</b>	<u>(34,063)</u>	<u>(346,911)</u>	<u>(391,975)</u>	<u>588,121</u>
<b>Comprehensive income</b>	<u>\$ 2,311,591</u>	<u>\$ 1,536,770</u>	<u>\$ 4,715,360</u>	<u>\$ 4,153,437</u>
<b>Earnings per common share:</b>				
Basic	\$ 0.32	\$ 0.26	\$ 0.70	\$ 0.49
Diluted	\$ 0.32	\$ 0.26	\$ 0.69	\$ 0.48
<b>Weighted average common shares outstanding</b>				
Basic	7,334,269	7,294,913	7,330,178	7,283,244
Diluted	7,381,626	7,378,097	7,367,714	7,360,294
<b>Dividends declared and paid per common share</b>	<u>\$ 0.05</u>	<u>\$ 0.05</u>	<u>\$ 0.15</u>	<u>\$ 0.13</u>

See accompanying notes to condensed consolidated financial statements.

**Condensed Consolidated Statement of Stockholders'  
Equity (Unaudited)**

Nine months ended  
September 30, 2015

	Preferred Stock		Common Stock		Capital in Excess of Par	Accumulated Other Comprehensive Income	Retained Earnings	Treasury Stock		Total
	Shares	Amount	Shares	Amount				Shares	Amount	
Balance, January 1, 2015	-	\$ -	8,235,095	\$ 82,351	\$ 32,873,383	\$ 946,332	\$ 8,203,003	926,338	\$(1,604,173)	\$ 40,500,896
Stock-based compensation	-	-	-	-	129,546	-	-	-	-	129,546
Shares deducted from exercise of stock options for payment of withholding taxes	-	-	(30,755)	(308)	(243,354)	-	-	-	-	(243,662)
Excess tax benefit from exercise of stock options	-	-	-	-	223,976	-	-	-	-	223,976
Exercise of stock options	-	-	83,558	836	(836)	-	-	-	-	-
Acquisition of treasury stock	-	-	-	-	-	-	-	26,450	(204,060)	(204,060)
Dividends	-	-	-	-	-	-	(1,098,946)	-	-	(1,098,946)
Net income	-	-	-	-	-	-	5,107,335	-	-	5,107,335
Change in unrealized gains on available- for-sale securities, net of tax	-	-	-	-	-	(391,975)	-	-	-	(391,975)
Balance, September 30, 2015	-	\$ -	8,287,898	\$ 82,879	\$ 32,982,715	\$ 554,357	\$ 12,211,392	952,788	\$(1,808,233)	\$ 44,023,110

See accompanying notes to condensed consolidated financial statements.

## Condensed Consolidated Statements of Cash Flows (Unaudited)

Nine months ended September 30,

2015

2014

**Cash flows provided by operating activities :**

Net income	\$ 5,107,335	\$ 3,565,316
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Net realized (losses) gains on sale of investments	105,718	(438,126)
Depreciation and amortization	749,658	641,943
Amortization of bond premium, net	257,996	205,107
Stock-based compensation	129,546	118,582
Excess tax benefit from exercise of stock options	(223,976)	(74,471)
Deferred income tax expense	(279,793)	107,433
(Increase) decrease in operating assets:		
Premiums receivable, net	(1,885,547)	(1,734,722)
Receivables - reinsurance contracts	(983,807)	(776,000)
Reinsurance receivables, net	4,403,717	2,236,751
Deferred policy acquisition costs	(1,470,726)	(1,783,842)
Other assets	(16,634)	(198,361)
Increase (decrease) in operating liabilities:		
Loss and loss adjustment expense reserves	(1,013,191)	2,419,060
Unearned premiums	6,983,289	7,317,198
Advance premiums	549,204	487,030
Reinsurance balances payable	(754,150)	(509,180)
Deferred ceding commission revenue	113,367	(1,295,193)
Accounts payable, accrued expenses and other liabilities	952,160	24,809
<b>Net cash flows provided by operating activities</b>	<b>12,724,166</b>	<b>10,313,334</b>

**Cash flows used in investing activities :**

Purchase - fixed-maturity securities held-to-maturity	-	(2,715,540)
Purchase - fixed-maturity securities available-for-sale	(13,187,405)	(24,041,145)
Purchase - equity securities available-for-sale	(3,552,291)	(7,453,247)
Sale or maturity - fixed-maturity securities available-for-sale	1,680,633	5,092,195
Sale - equity securities available-for-sale	1,642,971	5,537,511
Acquisition of fixed assets	(1,166,834)	(722,053)
Recovery of loss from failed bank	-	51,587
Other investing activities	6,203	22,519
<b>Net cash flows used in investing activities</b>	<b>(14,576,723)</b>	<b>(24,228,173)</b>

**Cash flows used in financing activities :**

Proceeds from exercise of stock options	-	5,876
Withholding taxes paid on net exercise of stock options	(243,662)	(66,095)
Excess tax benefit from exercise of stock options	223,976	74,471
Purchase of treasury stock	(204,060)	(46,728)
Dividends paid	(1,098,946)	(947,186)
<b>Net cash flows used in financing activities</b>	<b>(1,322,692)</b>	<b>(979,662)</b>

Decrease in cash and cash equivalents	\$ (3,175,249)	\$ (14,894,501)
Cash and cash equivalents, beginning of period	9,906,878	19,922,506
<b>Cash and cash equivalents, end of period</b>	<b>\$ 6,731,629</b>	<b>\$ 5,028,005</b>

**Supplemental disclosures of cash flow information:**

Cash paid for income taxes	\$ 1,457,000	\$ 1,712,400
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**Supplemental schedule of non-cash investing and financing activities:**

Value of shares deducted from exercise of stock options for payment of withholding taxes	\$ 243,662	\$ 66,095
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See accompanying notes to condensed consolidated financial statements.



**KINGSTONE COMPANIES, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)**

**Note 1 - Nature of Business and Basis of Presentation**

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

The accompanying unaudited condensed consolidated financial statements included in this report have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and the instructions to Securities and Exchange Commission ("SEC") Form 10-Q and Article 8-03 of SEC Regulation S-X. The principles for condensed interim financial information do not require the inclusion of all the information and footnotes required by generally accepted accounting principles for complete financial statements. Therefore, these financial statements should be read in conjunction with the consolidated financial statements as of and for the year ended December 31, 2014 and notes thereto included in the Company's Annual Report on Form 10-K filed with the SEC on March 25, 2015. The accompanying condensed consolidated financial statements have not been audited by an independent registered public accounting firm in accordance with standards of the Public Company Accounting Oversight Board (United States) but, in the opinion of management, such financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the Company's financial position and results of operations. The results of operations for the nine months ended September 30, 2015 may not be indicative of the results that may be expected for the year ending December 31, 2015.

**Note 2 – Accounting Policies**

Use of Estimates

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

## Principles of Consolidation

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

## Accounting Pronouncements

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

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

In May 2015, FASB issued guidance requiring expanded disclosures for insurance entities that issue short-duration contracts. The expanded disclosures are designed to provide additional insight into an insurance entity's ability to underwrite and anticipate costs associated with insurance claims. The disclosures include information about incurred and paid claims development by accident year, on a net basis after reinsurance, for the number of years claims incurred typically remain outstanding, not to exceed ten years. Each period presented in the disclosure about claims development that precedes the current reporting period is considered required supplementary information. The expanded disclosures also include information about significant changes in methodologies and assumptions, a reconciliation of incurred and paid claims development to the carrying amount of the liability for unpaid claims and claim adjustment expenses, the total amount of incurred but not reported liabilities plus expected development, claims frequency information including the methodology used to determine claim frequency and any changes to that methodology, and claim duration. The guidance is effective for annual periods beginning after December 15, 2015, and interim periods beginning after December 15, 2016, and is to be applied retrospectively. The new guidance affects disclosures only and will have no impact on the Company's results of operations or financial position.

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

### Note 3 - Investments

#### Available-for-Sale Securities

The amortized cost and fair value of investments in available-for-sale fixed-maturity securities and equity securities as of September 30, 2015 and December 31, 2014 are summarized as follows:

Category	September 30, 2015					
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Fair Value	Net Unrealized Gains/ (Losses)
			Less than 12 Months	More than 12 Months		
<b>Fixed-Maturity Securities:</b>						
Political subdivisions of States, Territories and Possessions	\$ 13,682,943	\$ 478,684	\$ (37,619)	\$ -	\$ 14,124,008	\$ 441,065
Corporate and other bonds						
Industrial and miscellaneous	43,005,459	791,305	(333,737)	(40,438)	43,422,589	417,130
Residential mortgage backed securities						
	4,523,275	49,488	(24,051)	-	4,548,712	25,437
Total fixed-maturity securities	<u>61,211,677</u>	<u>1,319,477</u>	<u>(395,407)</u>	<u>(40,438)</u>	<u>62,095,309</u>	<u>883,632</u>
<b>Equity Securities:</b>						
Preferred stocks	2,859,267	23,934	(43,971)	(14,598)	2,824,632	(34,635)
Common stocks	6,677,720	296,774	(305,834)	-	6,668,660	(9,060)
Total equity securities	<u>9,536,987</u>	<u>320,708</u>	<u>(349,805)</u>	<u>(14,598)</u>	<u>9,493,292</u>	<u>(43,695)</u>
Total	<u>\$ 70,748,664</u>	<u>\$ 1,640,185</u>	<u>\$ (745,212)</u>	<u>\$ (55,036)</u>	<u>\$ 71,588,601</u>	<u>\$ 839,937</u>
Category	December 31, 2014					
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Fair Value	Net Unrealized Gains/ (Losses)
			Less than 12 Months	More than 12 Months		
<b>Fixed-Maturity Securities:</b>						
Political subdivisions of States, Territories and Possessions	\$ 13,862,141	\$ 412,490	\$ (23,813)	\$ (6,379)	\$ 14,244,439	\$ 382,298
Corporate and other bonds						
Industrial and miscellaneous	36,221,300	803,440	(118,092)	(30,228)	36,876,420	655,120
Total fixed-maturity securities	<u>50,083,441</u>	<u>1,215,930</u>	<u>(141,905)</u>	<u>(36,607)</u>	<u>51,120,859</u>	<u>1,037,418</u>
<b>Equity Securities:</b>						
Preferred stocks	3,172,632	19,180	(2,647)	(62,886)	3,126,280	(46,352)
Common stocks	4,448,677	444,950	-	(2,177)	4,891,449	442,772
Total equity securities	<u>7,621,309</u>	<u>464,130</u>	<u>(2,647)</u>	<u>(65,063)</u>	<u>8,017,729</u>	<u>396,420</u>
Total	<u>\$ 57,704,750</u>	<u>\$ 1,680,060</u>	<u>\$ (144,552)</u>	<u>\$ (101,670)</u>	<u>\$ 59,138,588</u>	<u>\$ 1,433,838</u>

A summary of the amortized cost and fair value of the Company's investments in available-for-sale fixed-maturity securities by contractual maturity as of September 30, 2015 and December 31, 2014 is shown below:

Remaining Time to Maturity	September 30, 2015		December 31, 2014	
	Amortized		Amortized	
	Cost	Fair Value	Cost	Fair Value
Less than one year	\$ 1,003,870	\$ 1,025,475	\$ 482,833	\$ 487,507
One to five years	13,012,835	13,408,879	11,640,381	11,943,127
Five to ten years	39,868,480	40,201,676	32,283,921	32,865,231
More than 10 years	2,803,217	2,910,567	5,676,306	5,824,994
Residential mortgage backed securities	4,523,275	4,548,712	-	-
Total	<u>\$ 61,211,677</u>	<u>\$ 62,095,309</u>	<u>\$ 50,083,441</u>	<u>\$ 51,120,859</u>

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

#### Held-to-Maturity Securities

The amortized cost and fair value of investments in held-to-maturity fixed-maturity securities as of September 30, 2015 and December 31, 2014 are summarized as follows:

Category	September 30, 2015					Net Unrealized Gains/ (Losses)
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Fair Value	
			Less than 12 Months	More than 12 Months		
U.S. Treasury securities	\$ 606,380	\$ 163,096	\$ -	\$ -	\$ 769,476	\$ 163,096
Political subdivisions of States, Territories and Possessions	1,416,537	58,142	-	(46,621)	1,428,058	11,521
Corporate and other bonds						
Industrial and miscellaneous	<u>3,114,281</u>	<u>91,875</u>	<u>(2,577)</u>	<u>(127,694)</u>	<u>3,075,885</u>	<u>(38,396)</u>
Total	<u>\$ 5,137,198</u>	<u>\$ 313,113</u>	<u>\$ (2,577)</u>	<u>\$ (174,315)</u>	<u>\$ 5,273,419</u>	<u>\$ 136,221</u>

December 31, 2014

Category	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Fair Value	Net Unrealized Gains/ (Losses)
			Less than 12 Months	More than 12 Months		
U.S. Treasury securities	\$ 606,353	\$ 183,200	\$ -	\$ -	\$ 789,553	\$ 183,200
Political subdivisions of States, Territories and Possessions	1,413,303	49,981	-	(12,247)	1,451,037	37,734
Corporate and other bonds						
Industrial and miscellaneous	3,109,079	98,306	(52,921)	-	3,154,464	45,385
<b>Total</b>	<b>\$ 5,128,735</b>	<b>\$ 331,487</b>	<b>\$ (52,921)</b>	<b>\$ (12,247)</b>	<b>\$ 5,395,054</b>	<b>\$ 266,319</b>

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

A summary of the amortized cost and fair value of the Company's investments in held-to-maturity securities by contractual maturity as of September 30, 2015 and December 31, 2014 is shown below:

Remaining Time to Maturity	September 30, 2015		December 31, 2014	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Less than one year	\$ -	\$ -	\$ -	\$ -
One to five years	500,000	505,150	-	-
Five to ten years	4,030,818	3,998,793	3,522,927	3,563,401
More than 10 years	606,380	769,476	1,605,808	1,831,653
<b>Total</b>	<b>\$ 5,137,198</b>	<b>\$ 5,273,419</b>	<b>\$ 5,128,735</b>	<b>\$ 5,395,054</b>

#### Investment Income

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2015	2014	2015	2014
<b>Income:</b>				
Fixed-maturity securities	\$ 595,529	\$ 433,028	\$ 1,671,821	\$ 1,182,083
Equity securities	125,379	116,683	378,084	372,901
Cash and cash equivalents	250	232	465	23,672
Other	-	-	-	594
<b>Total</b>	<b>721,158</b>	<b>549,943</b>	<b>2,050,370</b>	<b>1,579,250</b>
<b>Expenses:</b>				
Investment expenses	71,717	86,430	200,301	285,034
<b>Net investment income</b>	<b>\$ 649,441</b>	<b>\$ 463,513</b>	<b>\$ 1,850,069</b>	<b>\$ 1,294,216</b>

Proceeds from the sale and maturity of fixed-maturity securities were \$1,680,633 and \$5,092,195 for the nine months ended September 30, 2015 and 2014, respectively.

Proceeds from the sale of equity securities were \$1,642,971 and \$5,537,511 for the nine months ended September 30, 2015 and 2014, respectively.

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
<b>Fixed-maturity securities:</b>				
Gross realized gains	\$ 20	\$ 25,870	\$ 20	\$ 183,349
Gross realized losses	(25,886)	(20,436)	(112,097)	(48,729)
	<u>(25,866)</u>	<u>5,434</u>	<u>(112,077)</u>	<u>134,620</u>
<b>Equity securities:</b>				
Gross realized gains	12,549	77,535	48,970	294,786
Gross realized losses	(27,170)	(19,380)	(42,611)	(42,867)
	<u>(14,621)</u>	<u>58,155</u>	<u>6,359</u>	<u>251,919</u>
<b>Cash and short term investments (1)</b>				
	-	51,587	-	51,587
Net realized gains (losses)	<u>\$ (40,487)</u>	<u>\$ 115,176</u>	<u>\$ (105,718)</u>	<u>\$ 438,126</u>

#### Impairment Review

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

OTTI losses are recorded in the condensed consolidated statements of income and comprehensive income as net realized losses on investments and result in a permanent reduction of the cost basis of the underlying investment. The determination of OTTI is a subjective process and different judgments and assumptions could affect the timing of loss realization. At September 30, 2015, there were 47 securities that accounted for the gross unrealized loss. The Company determined that none of the unrealized losses were deemed to be OTTI for its portfolio of fixed-maturity securities and equity securities for the nine months ended September 30, 2015 and 2014. Significant factors influencing the Company's determination that unrealized losses were temporary included the magnitude of the unrealized losses in relation to each security's cost, the nature of the investment and management's intent and ability to retain the investment for a period of time sufficient to allow for an anticipated recovery of fair value to the Company's cost basis.

The Company held securities with unrealized losses representing declines that were considered temporary at September 30, 2015 and December 31, 2014 as follows:

Category	September 30, 2015							
	Less than 12 months			12 months or more			Total	
	Fair Value	Unrealized Losses	No. of Positions Held	Fair Value	Unrealized Losses	No. of Positions Held	Aggregate Fair Value	Unrealized Losses
<b>Fixed-Maturity Securities:</b>								
Political subdivisions of States, Territories and Possessions	\$ 852,736	\$ (37,619)	3	\$ -	\$ -	-	\$ 852,736	\$ (37,619)
Corporate and other bonds industrial and miscellaneous	8,963,637	(333,737)	17	450,035	(40,438)	1	9,413,672	(374,175)
Residential mortgage backed securities	1,132,899	(24,051)	5	-	-	-	1,132,899	(24,051)
Total fixed-maturity securities	\$ 10,949,272	\$ (395,407)	25	\$ 450,035	\$ (40,438)	1	\$ 11,399,307	\$ (435,845)
<b>Equity Securities:</b>								
Preferred stocks	\$ 727,065	\$ (43,971)	2	\$ 697,517	\$ (14,598)	3	\$ 1,424,582	\$ (58,569)
Common stocks	3,553,900	(305,834)	16	-	-	-	3,553,900	(305,834)
Total equity securities	\$ 4,280,965	\$ (349,805)	18	\$ 697,517	\$ (14,598)	3	\$ 4,978,482	\$ (364,403)
Total	\$ 15,230,237	\$ (745,212)	43	\$ 1,147,552	\$ (55,036)	4	\$ 16,377,789	\$ (800,248)

December 31, 2014

Category	Less than 12 months			12 months or more			Total	
	Fair Value	Unrealized Losses	No. of Positions Held	Fair Value	Unrealized Losses	No. of Positions Held	Aggregate Fair Value	Unrealized Losses
<b>Fixed-Maturity Securities:</b>								
Political subdivisions of States, Territories and Possessions	\$ 3,013,648	\$ (23,813)	9	\$ 126,658	\$ (6,379)	1	\$ 3,140,306	\$ (30,192)
Corporate and other bonds industrial and miscellaneous	6,325,579	(118,092)	15	714,640	(30,228)	2	7,040,219	(148,320)
Total fixed-maturity securities	\$ 9,339,227	\$ (141,905)	24	\$ 841,298	\$ (36,607)	3	\$ 10,180,525	\$ (178,512)
<b>Equity Securities:</b>								
Preferred stocks	\$ 656,325	\$ (2,647)	1	\$ 1,448,376	\$ (62,886)	6	\$ 2,104,701	\$ (65,533)
Common stocks	-	-	-	267,000	(2,177)	1	267,000	(2,177)
Total equity securities	\$ 656,325	\$ (2,647)	1	\$ 1,715,376	\$ (65,063)	7	\$ 2,371,701	\$ (67,710)
Total	\$ 9,995,552	\$ (144,552)	25	\$ 2,556,674	\$ (101,670)	10	\$ 12,552,226	\$ (246,222)



#### Note 4 - Fair Value Measurements

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

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

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

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

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

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

The Company's investments are allocated among pricing input levels at September 30, 2015 and December 31, 2014 as follows:

(\$ in thousands)	September 30, 2015			Total
	Level 1	Level 2	Level 3	
<b>Fixed-maturity securities available-for-sale</b>				
Political subdivisions of States, Territories and Possessions	\$ -	\$ 14,124,008	\$ -	\$ 14,124,008
Corporate and other bonds industrial and miscellaneous	35,363,872	8,058,717	-	43,422,589
Residential mortgage backed securities	-	4,548,712	-	4,548,712
Total fixed maturities	35,363,872	26,731,437	-	62,095,309
<b>Equity securities</b>	9,493,292	-	-	9,493,292
Total investments	<u>\$ 44,857,164</u>	<u>\$ 26,731,437</u>	<u>\$ -</u>	<u>\$ 71,588,601</u>
	<b>December 31, 2014</b>			
(\$ in thousands)	Level 1	Level 2	Level 3	Total
<b>Fixed-maturity investments available-for-sale</b>				
Political subdivisions of States, Territories and Possessions	\$ -	\$ 14,244,439	\$ -	\$ 14,244,439
Corporate and other bonds industrial and miscellaneous	29,257,850	7,618,570	-	36,876,420
Total fixed maturities	29,257,850	21,863,009	-	51,120,859
<b>Equity investments</b>	8,017,729	-	-	8,017,729
Total investments	<u>\$ 37,275,579</u>	<u>\$ 21,863,009</u>	<u>\$ -</u>	<u>\$ 59,138,588</u>

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

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

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

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

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

**Real estate:** The fair value of the land and building included in property and equipment, which is used in the Company's operations, approximates the carrying value. The fair value was based on an appraisal dated September 8, 2015 prepared using the sales comparison approach and income approach, and accordingly the real estate is a Level 3 asset under the fair value hierarchy.

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

The estimated fair values of the Company's financial instruments as of September 30, 2015 and December 31, 2014 are as follows:

	September 30, 2015		December 31, 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Fixed-maturity securities held-to-maturity	\$ 5,137,198	\$ 5,273,419	\$ 5,128,735	\$ 5,395,054
Cash and cash equivalents	6,731,629	6,731,629	9,906,878	9,906,878
Premiums receivable	10,832,446	10,832,446	8,946,899	8,946,899
Receivables - reinsurance contracts	2,285,356	2,285,356	1,301,549	1,301,549
Reinsurance receivables	31,171,559	31,171,559	35,575,276	35,575,276
Real estate, net of accumulated depreciation	1,723,759	1,925,000	1,762,345	1,816,122
Reinsurance balances payable	1,342,213	1,342,213	2,096,363	2,096,363

#### Note 6 – Property and Casualty Insurance Activity

##### Premiums Earned

Premiums written, ceded and earned are as follows:

	Direct	Assumed	Ceded	Net
<b>Nine months ended September 30, 2015</b>				
Premiums written	\$ 67,225,990	\$ 34,815	\$ (21,913,608)	\$ 45,347,197
Change in unearned premiums	(6,984,651)	1,362	(3,982,790)	(10,966,079)
Premiums earned	<u>\$ 60,241,339</u>	<u>\$ 36,177</u>	<u>\$ (25,896,398)</u>	<u>\$ 34,381,118</u>
<b>Nine months ended September 30, 2014</b>				
Premiums written	\$ 56,729,057	\$ 39,263	\$ (24,013,732)	\$ 32,754,588
Change in unearned premiums	(7,311,116)	(6,082)	(3,186,706)	(10,503,904)
Premiums earned	<u>\$ 49,417,941</u>	<u>\$ 33,181</u>	<u>\$ (27,200,438)</u>	<u>\$ 22,250,684</u>
<b>Three months ended September 30, 2015</b>				
Premiums written	\$ 24,570,496	\$ 12,945	\$ (3,245,871)	\$ 21,337,570
Change in unearned premiums	(3,330,333)	(1,015)	(4,876,618)	(8,207,966)
Premiums earned	<u>\$ 21,240,163</u>	<u>\$ 11,930</u>	<u>\$ (8,122,489)</u>	<u>\$ 13,129,604</u>
<b>Three months ended September 30, 2014</b>				
Premiums written	\$ 20,131,112	\$ 22,961	\$ (2,485,929)	\$ 17,668,144
Change in unearned premiums	(2,438,306)	(12,433)	(5,322,405)	(7,773,144)
Premiums earned	<u>\$ 17,692,806</u>	<u>\$ 10,528</u>	<u>\$ (7,808,334)</u>	<u>\$ 9,895,000</u>

Premium receipts in advance of the policy effective date are recorded as advance premiums. The balance of advance premiums as o September 30, 2015 and December 31, 2014 was approximately \$1,556,000 and \$1,007,000, respectively.

#### Loss and Loss Adjustment Expense Reserves

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

	Nine months ended September 30,	
	2015	2014
Balance at beginning of period	\$ 39,912,683	\$ 34,503,229
Less reinsurance recoverables	(18,249,526)	(17,363,975)
Net balance, beginning of period	<u>21,663,157</u>	<u>17,139,254</u>
Incurred related to:		
Current year	17,353,585	11,043,919
Prior years	(469,361)	827,141
Total incurred	<u>16,884,224</u>	<u>11,871,060</u>
Paid related to:		
Current year	9,083,229	4,725,526
Prior years	6,843,425	4,834,120
Total paid	<u>15,926,654</u>	<u>9,559,646</u>
Net balance at end of period	22,620,727	19,450,668
Add reinsurance recoverables	16,278,765	17,471,621
Balance at end of period	<u>\$ 38,899,492</u>	<u>\$ 36,922,289</u>

Incurred losses and LAE are net of reinsurance recoveries under reinsurance contracts of \$11,026,027 and \$11,881,366 for the nine months ended September 30, 2015 and 2014, respectively.

Prior year incurred loss and LAE development is based upon estimates by line of business and accident year. Prior year loss and LAE development incurred during the nine months ended September 30, 2015 and 2014 was \$(469,361) and \$827,141, respectively. The Company's management continually monitors claims activity to assess the appropriateness of carried case and incurred but not reported ("IBNR") reserves, giving consideration to Company and industry trends.

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

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

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

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

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

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

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

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

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

In New York State, lawsuits for negligence are subject to certain limitations and must be commenced within three years from the date of the accident or are otherwise barred. Accordingly, the Company's exposure to unreported claims ('pure' IBNR) for accident dates of September 30, 2012 and prior is limited although there remains the possibility of adverse development on reported claims ('case development' IBNR).

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

#### Commercial Auto Line of Business

Effective October 1, 2014 the Company decided that it would no longer accept applications for new commercial auto policies. The action was taken following a series of underwriting and pricing measures which were intended to improve the profitability of this line of business. The actions taken did not yield the hoped for results. In February 2015, the Company made the decision that it would no longer offer renewals on its existing commercial auto policies beginning with those that expire on or after May 1, 2015. The Company had 238 and 730 commercial auto policies in force as of September 30, 2015 and December 31, 2014, respectively.

#### Reinsurance

The Company's quota share reinsurance treaties are on a July 1 through June 30 calendar year basis; therefore, for year to date fiscal periods after June 30, two separate treaties will be included in such periods.

The Company's quota share reinsurance treaty in effect for the nine months ended September 30, 2015 for its personal lines business, which primarily consists of homeowners' policies, was covered under the July 1, 2014/June 30, 2015 and July 1, 2015/June 30, 2016 treaty years. The Company's quota share reinsurance treaties in effect for the nine months ended September 30, 2014 for its personal lines business, which primarily consists of homeowners' policies, were covered under the July 1, 2013/June 30, 2014 and July 1, 2014/June 30, 2015 treaty years. The Company's quota share reinsurance treaty in effect for the nine months ended September 30, 2014 for its commercial lines business was covered under the July 1, 2013/June 30, 2014 treaty year. The Company did not renew its expiring commercial lines quota share reinsurance treaty on July 1, 2014.

The Company's personal lines quota share treaty that covered the July 1, 2013/June 30, 2014 treaty year was a two year treaty that expired on June 30, 2015. Effective July 1, 2014, the Company had the option to increase the quota share percentage from 75% to a maximum of 85% or decrease the quota share percentage from 75% to a minimum of 55% by giving no less than 30 days advance notice. On May 12, 2014, the Company notified the personal lines reinsurers of its election to reduce the ceding percentage in the personal lines quota share treaty from 75% to 55% effective July 1, 2014. The Company entered into new annual treaties with different terms effective July 1, 2015. The Company's treaties for the July 1, 2013/ June 30, 2014, July 1, 2014/June 30, 2015 and July 1, 2015/June 30, 2016 treaty years provide for the following material terms:

Line of Business	Treaty Year		
	July 1, 2015 to June 30, 2016	July 1, 2014 to June 30, 2015	July 1, 2013 to June 30, 2014
<b>Personal Lines:</b>			
Homeowners, dwelling fire and canine legal liability			
Quota share treaty:			
Percent ceded	40%	55%	75%
Risk retained	\$ 450,000	\$ 360,000	\$ 300,000
Losses per occurrence subject to quota share reinsurance coverage	\$ 750,000	\$ 800,000	\$ 1,200,000
Excess of loss coverage above quota share coverage	\$ 3,750,000	\$ 3,200,000	\$ 1,700,000
	in excess of	in excess of	in excess of
	\$ 750,000	\$ 800,000	\$ 1,200,000
Total reinsurance coverage per occurrence	\$ 4,050,000	\$ 3,640,000	\$ 2,600,000
Losses per occurrence subject to reinsurance coverage	\$ 4,500,000	\$ 4,000,000	\$ 2,900,000
Expiration date	June 30, 2016	June 30, 2015	June 30, 2015
<b>Personal Umbrella</b>			
Quota share treaty:			
Percent ceded - first million dollars of coverage	90%	90%	90%
Percent ceded - excess of one million dollars of coverage	100%	100%	100%
Risk retained	\$ 100,000	\$ 100,000	\$ 100,000
Total reinsurance coverage per occurrence	\$ 2,900,000	\$ 2,900,000	\$ 1,900,000
Losses per occurrence subject to quota share reinsurance coverage	\$ 3,000,000	\$ 3,000,000	\$ 2,000,000
Expiration date	June 30, 2016	June 30, 2015	June 30, 2014
<b>Commercial Lines:</b>			
General liability commercial policies, except for commercial auto			
Quota share treaty:			
Percent ceded (terminated effective July 1, 2014)	None	None	25%
Risk retained	\$ 425,000	\$ 400,000	\$ 300,000
Losses per occurrence subject to quota share reinsurance coverage	None	None	\$ 400,000
Excess of loss coverage above quota share coverage	\$ 4,075,000	\$ 3,600,000	\$ 2,500,000
	in excess of	in excess of	in excess of
	\$ 425,000	\$ 400,000	\$ 400,000
Total reinsurance coverage per occurrence	\$ 4,075,000	\$ 3,600,000	\$ 2,600,000
Losses per occurrence subject to reinsurance coverage	\$ 4,500,000	\$ 4,000,000	\$ 2,900,000
<b>Commercial Auto:</b>			
Risk retained	\$ 300,000	\$ 300,000	\$ 300,000
Excess of loss coverage in excess of risk retained	\$ 1,700,000	\$ 1,700,000	\$ 1,700,000
	in excess of	in excess of	in excess of
	\$ 300,000	\$ 300,000	\$ 300,000
<b>Catastrophe Reinsurance:</b>			
Initial loss subject to personal lines quota share treaty	\$ 4,000,000	\$ 4,000,000	\$ 4,000,000
Risk retained per catastrophe occurrence (1)	\$ 2,400,000	\$ 1,800,000	\$ 1,000,000
Catastrophe loss coverage in excess of quota share coverage (2) (3)	\$ 176,000,000	\$ 137,000,000	\$ 86,000,000
Severe winter weather aggregate (3)	Yes	Yes	No
Reinstatement premium protection (4)	Yes	No	No

1. Plus losses in excess of catastrophe coverage.

2. Catastrophe coverage is limited on an annual basis to two times the per occurrence amounts. Effective July 1, 2015, the duration of a catastrophe occurrence from windstorm, hail, tornado, hurricane and cyclone was extended to 120 consecutive hours from 96 consecutive hours.

3. Effective July 1, 2014, our catastrophe treaty also covers losses caused by severe winter weather during any consecutive 28 day period.

4. Effective July 1, 2015, reinstatement premium protection for \$16,000,000 of catastrophe coverage in excess of \$4,000,000.

The single maximum risks per occurrence to which the Company is subject under the new treaties effective July 1, 2015 are as follows:

Treaty	July 1, 2015 - June 30, 2016	
	Extent of Loss	Risk Retained
Personal Lines	Initial \$750,000	\$450,000
	\$750,000 - \$4,500,000	None(1)
	Over \$4,500,000	100%
Personal Umbrella	Initial \$1,000,000	\$100,000
	\$1,000,000 - \$3,000,000	None(1)
	Over \$3,000,000	100%
Commercial Lines	Initial \$425,000	\$425,000
	\$425,000 - \$4,500,000	None(1)
	Over \$4,500,000	100%
Commercial Auto	Initial \$300,000	\$300,000
	\$300,000 - \$2,000,000	None(1)
	Over \$2,000,000	100%
Catastrophe (2)	Initial \$4,000,000	\$2,400,000
	\$4,000,000 - \$180,000,000	None
	Over \$180,000,000	100%

The single maximum risks per occurrence to which the Company is subject under the treaties that expired on June 30, 2015 and 2014 are as follows:

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

(1) Covered by excess of loss treaties.

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



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

#### Ceding Commission Revenue

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

The Company's estimated ultimate treaty year loss ratios ("Loss Ratio(s)") for treaties in effect for the nine months and three months ended September 30, 2015 are attributable to contracts for the July 1, 2015/June 30, 2016 treaty year ("2015/2016 Treaty") and the July 1, 2014/June 30, 2015 treaty year ("2014/2015 Treaty"). The Company's Loss Ratios for treaties in effect for the nine months and three months ended September 30, 2014 are attributable to contracts for the 2014/2015 Treaty and the July 1, 2013/June 30, 2014 treaty year ("2013/2014 Treaties").

#### *Treaties in effect for the nine months and three months ended September 30, 2015*

The Company's Loss Ratio for the period July 1, 2015 through September 30, 2015, which is attributable to the 2015/2016 Treaty, was higher than the contractual Loss Ratio at which provisional ceding commissions are earned. Accordingly, for the three months ended September 30, 2015, the Company's contingent ceding commission earned was reduced as a result of the estimated Loss Ratio for the 2015/2016 Treaty.

The Company's Loss Ratio for the period July 1, 2014 through June 30, 2015, which is attributable to the 2014/2015 Treaty, was lower than the contractual Loss Ratio at which provisional ceding commissions are earned. Accordingly, for the six months ended June 30, 2015, the Company earned contingent ceding commission revenue with respect to the 2014/2015 Treaty. However, as a result of severe winter weather during February and March 2015, the Loss Ratio was greater than what would have been expected during an ordinary winter. Such severe winter weather had the effect of reducing contingent ceding commission revenue that would have otherwise been earned.

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

The Company's Loss Ratio for the period July 1, 2014 through September 30, 2014, which is attributable to the 2014/2015 Treaty, was lower than the contractual Loss Ratio at which provisional ceding commissions are earned. Accordingly, for the three month period ended September 30, 2014, the Company recorded contingent ceding commission earned with respect to the 2014/2015 Treaty.

The Company's Loss Ratios for the period July 1, 2013 through June 30, 2014, which are attributable to the 2013/2014 Treaties, were lower than the contractual Loss Ratios at which provisional ceding commissions are earned. Accordingly, for the six months ended June 30, 2014, the Company earned contingent ceding commission revenue with respect to the 2013/2014 Treaties. However, as a result of severe winter weather during January and February 2014, the Loss Ratios attributable to these treaties as of June 30, 2014 were greater than the Loss Ratios as of December 31, 2013. Such severe winter weather had the effect of reducing contingent ceding commission revenue that would have otherwise been earned.

In addition to the treaties that were in effect for nine months and three months ended September 30, 2015 and 2014, the Loss Ratios from prior years' treaties are subject to change as loss reserves from those periods increase or decrease, resulting in an increase or decrease in the commission rate and contingent ceding commissions earned.

Ceding commissions earned consists of the following:

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Provisional ceding commissions earned	\$ 2,854,524	\$ 2,653,690	\$ 8,734,477	\$ 9,660,437
Contingent ceding commissions earned	(210,993)	624,629	653,980	705,214
	<u>\$ 2,643,531</u>	<u>\$ 3,278,319</u>	<u>\$ 9,388,457</u>	<u>\$ 10,365,651</u>

Provisional ceding commissions are settled monthly. Balances due from reinsurers for contingent ceding commissions on quota share treaties are settled annually based on the loss ratio of each treaty year that ends on June 30.

#### Note 7 – Bank Line of Credit

Kingstone maintains a Promissory Note pursuant to a line of credit (together, the "Trustco Agreement") with Trustco Bank ("Lender"). Under the Trustco Agreement, Kingstone may receive advances from Lender not to exceed an unpaid principal balance of \$600,000 (the "Credit Limit"). Advances extended under the Trustco Agreement will bear interest at a floating rate based on the Lender's prime rate, which was 3.75% at September 30, 2015.

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

The line of credit is used for general corporate purposes.

There were no outstanding balances under the bank line of credit as of September 30, 2015 and December 31, 2014, or during the nine months ended September 30, 2015 and 2014. There are no other fees in connection with this credit line.

## Note 8 – Stockholders' Equity

### Dividend Declared

Dividends declared and paid on Common Stock were \$1,098,946 and \$947,186 for the nine months ended September 30, 2015 and 2014, respectively. Dividends declared and paid on Common Stock were \$366,756 and \$364,747 for the three months ended September 30, 2015 and 2014, respectively. The Company's Board of Directors approved a quarterly dividend on November 10, 2015 of \$.0625 per share payable in cash on December 14, 2015 to stockholders of record as of November 30, 2015 (see Note 13).

### Stock Options

Pursuant to the Company's 2005 Equity Participation Plan (the "2005 Plan"), which provides for the issuance of incentive stock options, non-statutory stock options and restricted stock, a maximum of 700,000 shares of the Company's Common Stock are permitted to be issued pursuant to options granted and restricted stock issued. Effective August 12, 2014, the Company adopted the 2014 Equity Participation Plan (the "2014 Plan") pursuant to which, subject to stockholder approval on or before August 12, 2015, a maximum of 700,000 shares of Common Stock of the Company are authorized to be issued pursuant to the grant of incentive stock options, non-statutory stock options, stock appreciation rights, restricted stock and stock bonuses. The stockholders approved the 2014 Plan on August 11, 2015. Incentive stock options granted under the 2014 Plan and 2005 Plan expire no later than ten years from the date of grant (except no later than five years for a grant to a 10% stockholder). The Board of Directors or the Stock Option Committee determines the expiration date with respect to non-statutory stock options and the vesting provisions for restricted stock granted under the 2014 Plan and 2005 Plan.

The results of operations for the nine months ended September 30, 2015 and 2014 include stock-based stock option compensation expense totaling approximately \$130,000 and \$119,000, respectively. The results of operations for the three months ended September 30, 2015 and 2014 include stock-based stock option compensation expense totaling approximately \$52,000 and \$92,000, respectively. Stock-based compensation expense related to stock options is net of estimated forfeitures of 17% for the nine months and three months ended September 30, 2015 and 20% for the nine months and three months ended September 30, 2014. Such amounts have been included in the condensed consolidated statements of income and comprehensive income within other operating expenses.

Stock-based compensation expense in 2015 and 2014 is the estimated fair value of options granted amortized on a straight-line basis over the requisite service period for the entire portion of the award. The weighted average estimated fair value of stock options granted during the three and nine months ended September 30, 2015 and 2014 was \$1.87 and \$1.60 per share, respectively. The fair value of stock options at the grant date was estimated using the Black-Scholes option-pricing model. The following weighted average assumptions were used for grants during the following periods:

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Dividend Yield	2.62%	2.97%	2.62%	2.97%
Volatility	34.54%	40.53%	34.54%	40.53%
Risk-Free Interest Rate	1.03%	0.92%	1.03%	0.92%
Expected Life	3.0 years	3.25 years	3.0 years	3.25 years

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

A summary of stock option activity under the Company's 2005 and 2014 Plans for the nine months ended September 30, 2015 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, 2015	421,250	\$ 5.16	3.13	\$ 1,258,013
Granted (1)	50,000	\$ 6.73		\$ 95,500
Exercised	(123,750)	\$ 2.58		\$ 662,488
Forfeited	(2,500)	\$ 5.09		
Outstanding at September 30, 2015	<u>345,000</u>	<u>\$ 6.32</u>	<u>3.60</u>	<u>\$ 801,075</u>
Vested and Exercisable at September 30, 2015	<u>186,875</u>	<u>\$ 6.22</u>	<u>3.55</u>	<u>\$ 451,706</u>

(1) On August 12, 2014, 50,000 options were awarded under the 2014 Plan, which were subject to stockholder approval. The options were granted upon the stockholders' approval of the 2014 Plan on August 11, 2015.

The aggregate intrinsic value of options outstanding and options exercisable at September 30, 2015 is calculated as the difference between the exercise price of the underlying options and the market price of the Company's Common Stock for the options that had exercise prices that were lower than the \$8.64 closing price of the Company's Common Stock on September 30, 2015. The total intrinsic value of options exercised in the nine months ended September 30, 2015 was \$662,488, determined as of the date of exercise.

Participants in the 2005 and 2014 Plans 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"). All of the 123,750 options exercised during the nine months ended September 30, 2015 were Net Exercises. A total of 70,115 options were exercised during the nine months ended September 30, 2014.

As of September 30, 2015, the fair value of unamortized compensation cost related to unvested stock option awards was approximately \$126,000. Unamortized compensation cost as of September 30, 2015 is expected to be recognized over a remaining weighted-average vesting period of 1.25 years.

As of September 30, 2015, there were 1,135 shares reserved for grants under the 2005 Plan and 650,000 shares reserved for grants under the 2014 Plan.

## Note 9 – Income Taxes

Income taxes for the nine months ended September 30, 2015 and 2014 were computed using the effective tax rate estimated to be applicable for the full year, which is subject to ongoing review and evaluation by management. The Company files a consolidated U.S. federal income tax return that includes all wholly owned subsidiaries. State tax returns are filed on a consolidated or separate basis depending on applicable laws. The Company records adjustments related to prior years' taxes during the period when they are identified, generally when the tax returns are filed. The effect of these adjustments on the current and prior periods (during which the differences originated) is evaluated based upon quantitative and qualitative factors and are considered in relation to the financial statements taken as a whole for the respective periods. The Company has evaluated this year's amounts in relation to the current and prior reporting periods and determined that a restatement of those prior reporting periods is not appropriate. The Company's effective tax rate from operations for the nine months ended September 30, 2015 and 2014 was 33.0% and 32.1%, respectively.

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

	September 30, 2015	December 31, 2014
Deferred tax asset:		
Net operating loss carryovers (1)	\$ 187,613	\$ 211,550
Claims reserve discount	396,089	562,941
Unearned premium	2,524,398	1,741,360
Deferred ceding commission revenue	2,063,768	2,025,224
Other	110,286	88,148
Total deferred tax assets	<u>5,282,154</u>	<u>4,629,223</u>
Deferred tax liability:		
Investment in KICO (2)	1,169,000	1,169,000
Deferred acquisition costs	3,555,280	3,055,234
Intangibles	638,093	759,400
Depreciation and amortization	286,684	291,689
Net unrealized appreciation of securities - available for sale	288,558	491,080
Total deferred tax liabilities	<u>5,937,615</u>	<u>5,766,403</u>
Net deferred income tax liability	<u>\$ (655,461)</u>	<u>\$ (1,137,180)</u>

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

Type of NOL	September 30, 2015	December 31, 2014	Expiration
State only (A)	\$ 518,426	\$ 567,188	December 31, 2035
Valuation allowance	(344,413)	(372,638)	
State only, net of valuation allowance	<u>174,013</u>	<u>194,550</u>	
Amount subject to Annual Limitation, federal only (B)	13,600	17,000	December 31, 2019
Total deferred tax asset from net operating loss carryovers	<u>\$ 187,613</u>	<u>\$ 211,550</u>	

(A) Kingstone generates operating losses for state purposes and has prior year NOLs available. The state NOL as of September 30, 2015 and December 31, 2014 was approximately \$7,976,000 and \$6,834,000, respectively. KICO, the Company's insurance underwriting subsidiary, is not subject to state income taxes. KICO's state tax obligations are paid through a gross premiums tax, which is included in the condensed consolidated statements of income and comprehensive income within other underwriting expenses. A valuation allowance has been recorded due to the uncertainty of generating enough state taxable income to utilize 100% of the available state NOLs over their remaining lives, which expire between 2027 and 2035. Effective January 1, 2015, the enacted state tax rate was reduced to 6.5% from 8.33%, resulting in a current period decrease in the available benefit of the state NOL, net of the corresponding valuation adjustment. The decrease in the available benefit of the state net NOL increased the tax provision in the current period by \$49,881.

(B) The Company has an NOL of \$40,000 that is subject to Internal Revenue Code Section 382, which places a limitation on the utilization of the federal NOL loss to approximately \$10,000 per year ("Annual Limitation") as a result of a greater than 50% ownership change of the Company in 1999. The losses subject to the Annual Limitation will be available for future years, expiring through December 31, 2019.

(1) Deferred tax liability - investment in KICO

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

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

The Company had no material unrecognized tax benefit and no adjustments to liabilities or operations were required. There were no interest or penalties related to income taxes that have been accrued or recognized as of and for the six months ended June 30, 2015 and 2014. If any had been recognized these would be reported in income tax expense.

IRS Tax Audit

The tax returns for years ended December 31, 2012 through 2014 are subject to examination, generally for three years after filing.

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

**Note 10 - Net Income Per Common Share**

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

The computation of diluted earnings per common share excludes outstanding options in periods where the exercise of such options would be anti-dilutive. For the nine months ended September 30, 2015 and 2014, the inclusion of 50,000 and 32,473 options, respectively, in the computation of diluted earnings per common share would have been anti-dilutive for the periods and, as a result, the weighted average number of common shares used in the calculation of diluted earnings per common share has not been adjusted for the effect of such options. For the three months ended September 30, 2015 and 2014, the inclusion of 50,000 and 86,522 options, respectively, in the computation of diluted earnings per common share would have been anti-dilutive for the periods and, as a result, the weighted average number of common shares used in the calculation of diluted earnings per common share has not been adjusted for the effect of such options.

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Weighted average number of shares outstanding	7,334,269	7,294,913	7,330,178	7,283,244
Effect of dilutive securities, common share equivalents	47,357	83,184	37,536	77,050
Weighted average number of shares outstanding, used for computing diluted earnings per share	<u>7,381,626</u>	<u>7,378,097</u>	<u>7,367,714</u>	<u>7,360,294</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 asserted by a third party in a law suit against one of the Company's insureds covered by a particular policy, the Company may have a duty to defend the insured party against the claim. These claims may relate to bodily injury, property damage or other compensable injuries as set forth in the policy. Such proceedings are considered in estimating the liability for loss and LAE expenses. The Company is not subject to any other pending legal proceedings that management believes are likely to have a material adverse effect on the financial statements.

### State Insurance Regulation

In the aftermath of Superstorm Sandy, the New York State Department of Financial Services (the "DFS") adopted various regulations that affect insurance companies that operate in the state of New York. Included among the regulations are accelerated claims investigation and settlement requirements and mandatory participation in non-binding mediation proceedings funded by the insurer. Further, in February 2013, the state of New York announced that the DFS commenced an investigation into the claims practices of three insurance companies, including KICO, in connection with Superstorm Sandy claims. The DFS stated that the three insurers had a much larger than average consumer complaint rate with regard to Superstorm Sandy claims and indicated that the three insurers were being investigated for (i) failure to send adjusters in a timely manner; (ii) failure to process claims in a timely manner; and (iii) inability of homeowners to contact insurance company representatives. KICO received a letter from the DFS seeking information and data with regard to the foregoing. KICO has cooperated with the DFS in connection with its investigation. On March 14, 2013, KICO supplied requested information and met with the DFS on May 23, 2013. KICO has not received a response from the DFS since its meeting on May 23, 2013 and believes that such matter will not have any effect on the Company's financial position or results of operations.

### Office Lease

On March 27, 2015, the Company entered into a lease agreement for an additional office facility for KICO located in Valley Stream, NY under a non-cancelable operating lease. In addition to the base rental costs, occupancy lease agreements generally provide for rent escalations resulting from increased assessments from real estate taxes and other charges.

The lease commencement date was July 1, 2015 and rent commencement begins January 1, 2016. The lease has a term of seven years and six months.

Rent expense under the lease will be recognized on a straight-line basis over the lease term. At September 30, 2015, cumulative rent expense exceeded cumulative rent payments by \$26,126. This difference is recorded as deferred rent and is included in accounts payable, accrued expenses and other liabilities in the accompanying condensed consolidated balance sheets.



As of September 30, 2015, aggregate future minimum rental commitments under this agreement are as follows:

For the Year Ending December 31,	Total
2015	\$ -
2016	100,750
2017	104,276
2018	107,926
2019	111,703
Thereafter	359,119
Total	<u>\$ 783,774</u>

Rent expense for the nine months and three months ended September 30, 2015 amounted to \$26,126 and is included in the condensed consolidated statements of income and comprehensive income within other underwriting expenses.

#### Note 12 – Premium Finance Placement Fees

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

On July 17, 2014, the Purchaser terminated the Agreement effective February 1, 2015. Following any expiration or termination of the obligation of the Purchaser to purchase premium finance contracts, Payments was entitled to receive the fees for an additional two years ("Termination Period") with regard to contracts for policies from the Company's producers. On March 26, 2015, the Company and the Purchaser agreed to amend the Termination Period to end as of March 31, 2015. The Company received a one-time payment of \$350,000 in exchange for the fees that the Company would have received during the Termination Period. The Company's premium financing business consisted of the placement fees that Payments earned from placing contracts.

Placement fee revenue included in other income and the related direct expenses included in other operating expenses in the condensed consolidated statements of net income and comprehensive income are as follows (unaudited):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Placement fee revenue	\$ -	\$ 51,810	\$ 54,343	\$ 180,970
Early termination fee	-	-	350,000	-
Direct expenses	-	(13,966)	(12,989)	(43,002)
Net income before taxes from placement fees	<u>\$ -</u>	<u>\$ 37,844</u>	<u>\$ 391,354</u>	<u>\$ 137,968</u>

#### Note 13 – Subsequent Events

The Company has evaluated events that occurred subsequent to September 30, 2015 through the date these financial statements were issued for matters that required disclosure or adjustment in these condensed consolidated financial statements.

#### Dividends Declared and Paid

On November 10, 2015, the Company's Board of Directors approved a quarterly dividend of \$.0625 per share payable in cash on December 14, 2015 to stockholders of record as of November 30, 2015.

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

### **Overview**

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

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 for a one year period. Earned premiums represent premiums received from insureds, which are recognized as revenue over the period of time that insurance coverage is provided (i.e., ratably over the one year life of the policy). A significant period of time normally elapses between the receipt of insurance premiums and the payment of insurance claims. During this time, KICO invests the premiums, earns investment income and generates net realized and unrealized investment gains and losses on investments.

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

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

### **Product Lines**

Our product lines include the following:

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

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

**Commercial automobile:** We provided physical damage and liability coverage for light vehicles owned by small contractors and artisans. Due to the poor performance of this line, effective October 1, 2014, we decided to no longer accept new commercial auto policies. In February 2015, we decided to no longer offer renewals to our existing commercial auto policies beginning with those that expired on or after May 1, 2015.

**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 also 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 loss adjustment expenses ("LAE") incurred to net premiums earned.

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

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

**Underwriting income:** Underwriting income is net pre-tax income attributable to our insurance underwriting business 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 accounting principles generally accepted in the United States requires our management to make estimates and assumptions in certain circumstances that affect amounts reported in our consolidated financial statements and related notes. In preparing these financial statements, our management has utilized information available including our past history, industry standards and the current economic environment, among other factors, in forming its estimates and judgments of certain amounts included in the consolidated financial statements, giving due consideration to materiality. It is possible that the ultimate outcome as anticipated by our management in formulating its estimates inherent in these financial statements might not materialize. However, application of the critical accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. In addition, other companies may utilize different estimates, which may impact comparability of our results of operations to those of companies in similar businesses.

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

## Consolidated Results of Operations

### Nine Months Ended September 30, 2015 Compared to Nine Months Ended September 30, 2014

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

(\$ in thousands)	Nine months ended September 30,			
	2015	2014	Change	Percent
<b>Revenues</b>				
Direct written premiums	\$ 67,227	\$ 56,729	\$ 10,498	18.5%
Assumed written premiums	34	39	(5)	(12.8) %
	<u>67,261</u>	<u>56,768</u>	<u>10,493</u>	<u>18.5%</u>
Ceded written premiums				
Ceded to quota share treaties in force during the period	22,427	28,046	(5,619)	(20.0) %
Return of premiums previously ceded to prior quota share treaties	(5,866)	(6,597)	731	(11.1) %
Ceded to quota share treaties	16,561	21,449	(4,888)	(22.8) %
Ceded to excess of loss treaties	967	765	202	26.4%
Ceded to catastrophe treaties	4,386	1,740	2,646	152.1%
Catastrophe reinstatement (1)	-	60	(60)	(100.0) %
Total ceded written premiums	<u>21,914</u>	<u>24,014</u>	<u>(2,100)</u>	<u>(8.7) %</u>
Net written premiums	45,347	32,754	12,593	38.4%
Change in net unearned premiums	(10,966)	(10,503)	(463)	4.4%
Net premiums earned	<u>34,381</u>	<u>22,251</u>	<u>12,130</u>	<u>54.5%</u>
Ceding commission revenue				
Excluding the effect of catastrophes	10,669	10,883	(214)	(2.0) %
Effect of catastrophes (1)	(1,281)	(517)	(764)	147.8%
Total ceding commission revenue	<u>9,388</u>	<u>10,366</u>	<u>(978)</u>	<u>(9.4) %</u>
Net investment income	1,850	1,294	556	43.0%
Net realized gain on investments	(106)	437	(543)	(124.3) %
Other income	1,300	742	558	75.2%
Total revenues	<u>46,813</u>	<u>35,090</u>	<u>11,723</u>	<u>33.4%</u>
<b>Expenses</b>				
Loss and loss adjustment expenses				
Direct and assumed:				
Loss and loss adjustment expenses excluding the effect of catastrophes	23,264	19,988	3,276	16.4%
Losses from catastrophes (1)	4,646	3,764	882	23.4%
Total direct and assumed loss and loss adjustment expenses	<u>27,910</u>	<u>23,752</u>	<u>4,158</u>	<u>17.5%</u>
Ceded loss and loss adjustment expenses:				
Loss and loss adjustment expenses excluding the effect of catastrophes	8,471	9,058	(587)	(6.5) %
Losses from catastrophes (1)	2,555	2,823	(268)	(9.5) %
Total ceded loss and loss adjustment expenses	<u>11,026</u>	<u>11,881</u>	<u>(855)</u>	<u>(7.2) %</u>
Net loss and loss adjustment expenses:				
Loss and loss adjustment expenses excluding the effect of catastrophes	14,793	10,930	3,863	35.3%
Losses from catastrophes (1)	2,091	941	1,150	122.2%
Net loss and loss adjustment expenses	<u>16,884</u>	<u>11,871</u>	<u>5,013</u>	<u>42.2%</u>
Commission expense	11,034	8,592	2,442	28.4%
Other underwriting expenses	9,350	7,657	1,693	22.1%
Other operating expenses	1,174	1,074	100	9.3%
Depreciation and amortization	749	642	107	16.7%
Total expenses	<u>39,192</u>	<u>29,836</u>	<u>9,355</u>	<u>31.4%</u>
Income from operations before taxes	7,621	5,254	2,368	45.1%
Provision for income tax	2,514	1,689	825	48.8%
<b>Net income</b>	<u>\$ 5,107</u>	<u>\$ 3,565</u>	<u>\$ 1,543</u>	<u>43.3%</u>

(1) For the nine months ended September 30, 2015 and 2014, includes the effects of severe winter weather (which we define as a catastrophe). The nine months ended September 30, 2014 also includes catastrophe reinstatement premiums resulting from Superstorm Sandy, which occurred on October 29, 2012. We define a "catastrophe" as an event or series of related events that involve multiple first party policyholders, or an event or series of events that produce a number of claims in excess of a preset, per-event threshold of average claims in a specific area, occurring within a certain amount of time constituting the event or series of events. Catastrophes are caused by various natural events including high winds, excessive rain, winter storms, severe winter weather, tornadoes, hailstorms, wildfires, tropical storms, and hurricanes.

	Nine months ended September 30,			
	2015	2014	Percentage Point Change	Percent Change
<b>Key ratios:</b>				
Net loss ratio	49.1%	53.4%	(4.3)	(8.1) %
Net underwriting expense ratio	29.9%	24.0%	5.9	24.6%
Net combined ratio	79.0%	77.4%	1.6	2.1%

#### Direct Written Premiums

Direct written premiums during the nine months ended September 30, 2015 ("2015") were \$67,227,000 compared to \$56,729,000 during the nine months ended September 30, 2014 ("2014"). The increase of \$10,498,000, or 18.5%, was primarily due to an increase in policies in-force during 2015 as compared to 2014. We wrote more new policies as a result of continued demand for our products in the markets that we serve. Policies in-force increased by 18.0% as of September 30, 2015 compared to September 30, 2014.

Our growth rate in direct premiums written was dampened somewhat due to the suspension, effective October 1, 2014, of the writing of new policies in our commercial auto line of business due to a history of poor underwriting results. In February 2015, we made the decision to no longer offer renewals on our existing commercial auto policies beginning with those that expire on or after May 1, 2015. Our direct written premiums in our other lines of business grew by 23.6% in 2015 compared to 2014. Policies-in-force in our other lines of business increased by 19.8% as of September 30, 2015 compared to September 30, 2014.

#### Net Written Premiums and Net Premiums Earned

The following table describes the quota share reinsurance ceding rates in effect during 2015 and 2014. For purposes of the discussion herein, the change in quota share ceding rates on July 1 of each year will be referred to as "the Cut-off". This table should be referred to in conjunction with the discussions for net written premiums, net premiums earned, ceding commission revenue and net loss and loss adjustment expenses that follow.

Nine months ended September 30, 2015		Nine months ended September 30, 2014	
January 1, to June 30, ("2014/2015 Treaty")	July 1, to September 30, ("2015/2016 Treaty")	January 1, to June 30, ("2013/2014 Treaties")	July 1, to September 30, ("2014/2015 Treaty")

#### **Quota share reinsurance rates**

Personal lines	55%	40%	75%	55%
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Net written premiums increased \$12,593,000, or 38.4%, to \$45,347,000 in 2015 from \$32,754,000 in 2014. 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). Our personal lines business is currently subject to a quota share treaty and our commercial lines business was subject to a quota share treaty through June 30, 2014. A reduction to the quota share percentage or elimination of a quota share treaty will reduce our ceded written premiums, which will result in a corresponding increase to our net written premiums.

Effective July 1, 2015, we decreased the quota share ceding rate in our personal lines quota share treaty from 55% to 40%. The Cut-off of this treaty on July 1, 2015 resulted in a \$5,866,000 return of unearned premiums from our reinsurers that were previously ceded under the expiring personal lines quota share treaty. The new treaty is on a “net” of catastrophe reinsurance basis, as opposed to the “gross” arrangement that existed in prior years. Under a “net” arrangement, all catastrophe reinsurance coverage is now purchased directly by us.

Effective July 1, 2014, we terminated our commercial lines quota share treaty. The previous commercial lines quota share treaty effective July 1, 2013 had a quota share percentage of 25%. Also, effective July 1, 2014, we decreased the quota share percentage in our personal lines quota share treaty from 75% to 55%. The Cut-off of these treaties on July 1, 2014 results in a \$6,597,000 return of unearned premiums from our reinsurers that were previously ceded under the expiring quota share treaties.

Most of the premiums written under our personal lines are also subject to our catastrophe treaty. An increase in our personal lines business gives rise to more property exposure, which increases our exposure to catastrophe risk; therefore, our premiums for catastrophe insurance will increase. This results in an increase in premiums ceded under our catastrophe treaty, which reduces net written premiums. With the inception of our personal lines quota share treaty being on a “net” basis effective July 1, 2015, our catastrophe premiums are paid based on our direct written premiums, compared to catastrophe premiums being paid only on the amount of written premiums that we retained under the expired “gross” basis. As a result of the increase in our personal lines business and the change to a “net” basis for our personal lines quota share treaty, ceded catastrophe premiums increased by \$2,646,000, or 152.1%, to \$4,386,000 in 2015 from \$1,740,000 in 2014.

An increase in written premiums will also increase the premiums ceded under our excess of loss treaties, which will also reduce our net written premiums. In 2015, our ceded excess of loss reinsurance premiums increased by \$202,000 over the ceded premiums for 2014.

Net premiums earned increased \$12,130,000, or 54.5%, to \$34,381,000 in 2015 from \$22,251,000 in 2014. The increase was primarily due to us retaining more earned premiums as result of the reduction of the quota share percentage in our personal lines quota share treaty and the elimination of the commercial lines treaty on July 1, 2014. The decreases in our quota share ceding percentages from the July 1, 2015 and 2014 Cut-offs gave us a return of premiums previously ceded, which has the effect of increasing our net premiums earned during the twelve month periods after the Cut-offs. In addition, as premiums written earn ratably over a twelve month period, net premiums earned in 2015 increased due to the higher net written premiums generated for the twelve months ended September 30, 2015 compared to the twelve months ended September 30, 2014.

## Ceding Commission Revenue

The following table describes the quota share provisional ceding commission rates in effect during 2015 and 2014. This table should be referred to in conjunction with the discussion for ceding commission revenue that follows.

Nine months ended September 30, 2015		Nine months ended September 30, 2014	
January 1, to June 30, ("2014/2015 Treaty")	July 1, to September 30, ("2015/2016 Treaty")	January 1, to June 30, ("2013/2014 Treaties")	July 1, to September 30, ("2014/2015 Treaty")

### Provisional ceding commission rate on quota share treaty

	40%	55%	40%	40%
Personal lines	40%	55%	40%	40%
Commercial lines	none	none	36%	none

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

(\$ in thousands)	Nine months ended September 30,			
	2015	2014	Change	Percent
Provisional ceding commissions earned	\$ 8,734	\$ 9,661	\$ (927)	(9.6) %
Contingent ceding commissions earned				
Contingent ceding commissions earned excluding the effect of catastrophes	1,935	1,222	713	58.3%
Effect of catastrophes on ceding commissions earned	(1,281)	(517)	(764)	147.8%
Contingent ceding commissions earned	654	705	(51)	(7.2) %
Total ceding commission revenue	\$ 9,388	\$ 10,366	\$ (978)	(9.4) %

Ceding commission revenue was \$9,388,000 in 2015 compared to \$10,366,000 in 2014. The decrease of \$978,000, or 9.4%, was due to a decrease in provisional ceding commissions earned and a decrease in contingent ceding commissions earned.

### Provisional Ceding Commissions Earned

We receive a provisional ceding commission based on ceded written premiums. Under the terms of the 2015/2016 Treaty, the provisional ceding commission rate increased to 55% from 40% under the 2014/2015 Treaty. The \$927,000 decrease in provisional ceding commissions earned is due to: (1) a decrease in the amount of premiums subject to provisional ceding commissions, (2) a decrease in the percentage of ceded premiums subject to quota share under the "net" 2015/2016 Treaty compared to the "gross" 2014/2015 Treaty, (3) partially offset by the increase in the provisional ceding commission rates under the 2015/2016 Treaty.

### Contingent Ceding Commissions Earned

As a result of the increase in the provisional ceding commission rate to 55% under the 2015/2016 Treaty from 40% under the 2014/2015 Treaty, we do not have an opportunity to earn as much contingent ceding commissions. Under the "net" treaty in effect as of July 1, 2015, catastrophe losses in excess of the first \$4,000,000 will fall outside of the quota share treaty and such losses will not have an impact on contingent ceding commissions, as was the case under previous "gross" treaties. The new structure eliminates the adverse impact that catastrophe losses above \$4,000,000 would have on contingent ceding commissions.

We receive a contingent ceding commission based on a sliding scale in relation to the losses incurred under our quota share treaties. The lower the ceded loss ratio, the more contingent commission we receive. The amount of contingent ceding commissions we are eligible to receive under the two personal lines quota share treaties described in the table above that were in effect during 2015 are subject to change based on losses incurred from claims with accident dates beginning July 1, 2014. The amount of contingent ceding commissions we are eligible to receive under our prior years' quota share treaties is subject to change based on losses incurred related to claims with accident dates before July 1, 2014 under those treaties. In addition, our total ceding contingent commission revenue was reduced in 2015 due to us not renewing our commercial lines quota share treaty upon its expiration on June 30, 2014.

The term of our expired personal lines reinsurance quota share treaty covered the period from July 1, 2013 to June 30, 2015 ("2013/2015 Treaty"). The computation to arrive at contingent ceding commission revenue under the 2013/2015 Treaty included catastrophe losses and LAE incurred from severe winter weather during 2015 and 2014 (see discussion of "Net Loss and LAE" below). Such losses increased our ceded loss ratio in our 2013/2015 Treaty, which reduced our contingent ceding commission revenue in accordance with the sliding scale discussed above in 2015 and 2014 by \$1,281,000 and \$517,000, respectively. See "Reinsurance" below for changes to our personal lines quota share treaty effective July 1, 2015.

#### Net Investment Income

Net investment income was \$1,850,000 in 2015 compared to \$1,294,000 in 2014. The increase of \$556,000, or 43.0%, was due to an increase in average invested assets in 2015. The increase in cash and invested assets resulted primarily from: (1) the proceeds of \$18,804,000 that we received on December 13, 2013 from our public offering being fully deployed in 2015 as compared to the partial deployment in 2014 and (2) increased operating cash flows for the period after September 30, 2014. The increase in operating cash flows is due in part from the reduction in quota share rates on July 1, 2015 and 2014. The reduction in quota share rates results in a decline in ceded premiums, which leads to more cash flow and more invested funds. The pre-tax equivalent investment yield on estimated annual income, excluding cash, was 4.81% and 4.69% as of September 30, 2015 and 2014, respectively.

#### Other Income

Other income was \$1,300,000 in 2015 compared to \$742,000 in 2014. The increase of \$558,000, or 75.2%, was primarily due to the \$350,000 we received as early settlement of the termination agreement that generated placement fees in our premium finance business (see Note 12 to the Condensed Consolidated Financial Statements).



Net Loss and LAE

Net loss and LAE was \$16,884,000 in 2015 compared to \$11,871,000 in 2014. The net loss ratio was 49.1% in 2015 compared to 53.4% in 2014, a decrease of 4.3 percentage points. The following graphs summarize the changes in the components of net loss ratio for the periods indicated:



During 2015, our net loss ratio has decreased compared to 2014 due to several factors. The primary driver of the decrease is an improvement in prior year loss development, as we recorded 1.4 points of favorable prior year loss development in 2015 compared to 3.6 points of adverse (unfavorable) prior year development over the same period in 2014, or an improvement of 5.0 points. Additionally, the core loss ratio (excluding prior year loss development and severe winter weather) has declined to 44.4% in 2015 from 45.5% in 2014, an improvement of 1.1 points. The improvement in the core net loss ratio was driven by favorable results for personal lines compared to 2014 and a continued shift in the net earned premium mix towards lines of business that have a lower core loss ratio such as personal lines and livery physical damage. Offsetting some of the above improvements was the impact of severe winter weather, determined as the losses incurred over and above those expected in an average winter season. Severe winter weather had a 6.1% impact on the net loss ratio in 2015 compared to 4.2% in 2014, an increase of 1.9 points. The provision in our current year catastrophe reinsurance treaty that added coverage for winter storm losses in excess of \$4,000,000 over any 28 day period was not triggered by the winter weather in 2015. See table below under "Additional Financial Information" summarizing net loss ratios by line of business.

Effective October 1, 2014 we decided to no longer accept applications for new commercial auto coverage. The action was taken following a series of underwriting and pricing measures which were intended to improve the profitability of this line of business. The actions taken did not yield the hoped for results. In February 2015, we decided to no longer offer renewals to our existing commercial auto policies beginning with those that expired on or after May 1, 2015. As of December 31, 2014, we had 730 commercial auto policies in force, which represented 1.6% of our policies in force. As of September 30, 2015, we had 238 commercial auto policies in force, which represented 0.5% of our policies in force.

Commission Expense

Commission expense was \$11,034,000 in 2015 or 18.3% of direct earned premiums. Commission expense was \$8,592,000 in 2014 or 17.4% of direct earned premiums. The increase of \$2,442,000, or 28.4%, is due to the increase in direct written premiums in 2015 as compared to 2014 and a change in the mix of business to lines of business with higher commission rates, and an increase in bonus commissions.

Other Underwriting Expenses

Other underwriting expenses were \$9,350,000 in 2015 compared to \$7,657,000 in 2014. The increase of \$1,693,000, or 22.1%, in other underwriting expenses was primarily due to expenses directly and indirectly related to growth in direct written premiums, rate increases in state assessed regulatory fees, and state taxes based on premiums written. Expenses directly related to the increase in direct written premiums primarily consist of underwriting expenses, software usage fees and state premium taxes. Expenses indirectly related to the increase in direct written premiums primarily consist of salaries along with related other employment costs. Salaries and employment costs were \$4,361,000 in 2015 compared to \$3,660,000 in 2014. The increase of \$701,000, or 19.2%, was due to hiring of additional staff to service our current level of business and anticipated growth in volume. In addition, there were annual rate increases in both salaries and the cost of employee benefits. Other underwriting expenses as a percentage of direct written premiums increased to 13.9% in 2015 from 13.5% in 2014. Other underwriting expenses as a percentage of direct earned premiums remained constant at 15.5% for both periods.

Our net underwriting expense ratio in 2015 was 29.9% compared with 24.0% in 2014. The following table shows the individual components of our net underwriting expense ratio for the periods indicated:

	Nine months ended September 30,		Percentage Point Change
	2015	2014	
Ceding commission revenue - provisional	(25.4)%	(43.4)%	18.0
Ceding commission revenue - contingent	(1.9)	(3.2)	1.3
Other income	(2.1)	(2.4)	0.3
Acquisition costs and other underwriting expenses:			
Commission expense	32.1	38.6	(6.5)
Other underwriting expenses	27.2	34.4	(7.2)
Net underwriting expense ratio	<u>29.9%</u>	<u>24.0%</u>	5.9

The increase of 5.9 percentage points was due to the individual components of provisional ceding commission revenue, commission expense and other underwriting expenses and their relation to the increase in net premiums earned as a result of the additional retention resulting from the Cut-offs to our quota share treaties on July 1, 2015.

Other Operating Expenses

Other operating expenses, related to the expenses of our holding company, were \$1,174,000 in 2015 compared to \$1,074,000 in 2014. The increase in 2015 of \$100,000, or 9.3%, was primarily due to an increase in the rate of executive compensation, higher stock-based compensation expense from additional options granted to our chief executive officer in August 2014 pursuant to his amended employment agreement, and an increase in investor relation fees.

Depreciation and Amortization

Depreciation and amortization was \$749,000 in 2015 compared to \$642,000 in 2014. The increase of \$107,000, or 16.7%, in depreciation and amortization was primarily due to depreciation on newly purchased assets used to upgrade our systems infrastructure and the Kingston home office building from which we operate.

Income Tax Expense

Income tax expense in 2015 was \$2,514,000, which resulted in an effective tax rate of 33.0%. Income tax expense in 2014 was \$1,689,000, which resulted in an effective tax rate of 32.1%. Income before taxes was \$7,621,000 in 2015 compared to \$5,254,000 in 2014. The increase in the effective tax rate by 0.9 percentage points in 2015 is a result of the change in the enacted state tax rate resulting in a current period decrease in the deferred tax benefit of our state net operating losses, net of the corresponding valuation adjustment. This increase was partially offset by the benefits of permanent differences generated from investment income as a result of the increase in our invested assets.

Net Income

Net income was \$5,107,000 in 2015 compared to \$3,565,000 in 2014. The increase in net income of \$1,543,000, or 43.3%, was due to the circumstances described above that caused the increase in our net premiums earned, net investment income, and other income, and a decrease in our net loss ratio, partially offset by a decrease in net realized gains and ceding commission revenue, and increases in other underwriting expenses related to premium growth and other operating expenses.

Three Months Ended September 30, 2015 Compared to Three Months Ended September 30, 2014

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

(\$ in thousands)	Three months ended September 30,			
	2015	2014	Change	Percent
<b>Revenues</b>				
Direct written premiums	\$ 24,571	\$ 20,131	\$ 4,440	22.1%
Assumed written premiums	12	23	(11)	(47.8) %
	<u>24,583</u>	<u>20,154</u>	<u>4,429</u>	<u>22.0%</u>
Ceded written premiums				
Ceded to quota share treaties in force during the period	6,415	8,049	(1,634)	(20.3) %
Return of premiums previously ceded to prior quota share treaties	(5,866)	(6,597)	731	(11.1) %
Ceded to quota share treaties	549	1,452	(903)	(62.2) %
Ceded to excess of loss treaties	390	341	49	14.4%
Ceded to catastrophe treaties	2,307	633	1,674	264.5%
Catastrophe reinstatement (1)	-	60	(60)	(100.0) %
Total ceded written premiums	<u>3,246</u>	<u>2,486</u>	<u>760</u>	<u>30.6%</u>
Net written premiums	21,337	17,668	3,669	20.8%
Change in net unearned premiums	(8,208)	(7,773)	(435)	5.6%
Net premiums earned	<u>13,129</u>	<u>9,895</u>	<u>3,234</u>	<u>32.7%</u>
Ceding commission revenue				
Excluding the effect of catastrophes	2,643	3,278	(635)	(19.4) %
Effect of catastrophes (1)	-	-	-	na
Total ceding commission revenue	<u>2,643</u>	<u>3,278</u>	<u>(635)</u>	<u>(19.4) %</u>
Net investment income	649	464	185	39.9%
Net realized gain on investments	(40)	115	(155)	(134.8) %
Other income	275	264	11	4.2%
Total revenues	<u>16,656</u>	<u>14,016</u>	<u>2,640</u>	<u>18.8%</u>
<b>Expenses</b>				
Loss and loss adjustment expenses				
Direct and assumed:				
Loss and loss adjustment expenses excluding the effect of catastrophes	6,787	4,765	2,022	42.4%
Losses from catastrophes (1)	174	-	174	na
Total direct and assumed loss and loss adjustment expenses	<u>6,961</u>	<u>4,765</u>	<u>2,196</u>	<u>46.1%</u>
Ceded loss and loss adjustment expenses:				
Loss and loss adjustment expenses excluding the effect of catastrophes	1,816	227	1,589	700.0%
Losses from catastrophes (1)	95	-	95	na
Total ceded loss and loss adjustment expenses	<u>1,911</u>	<u>227</u>	<u>1,684</u>	<u>741.9%</u>
Net loss and loss adjustment expenses:				
Loss and loss adjustment expenses excluding the effect of catastrophes	4,971	4,538	433	9.5%
Losses from catastrophes (1)	79	-	79	na %
Net loss and loss adjustment expenses	<u>5,050</u>	<u>4,538</u>	<u>512</u>	<u>11.3%</u>
Commission expense	4,021	3,106	915	29.5%
Other underwriting expenses	3,389	2,846	543	19.1%
Other operating expenses	468	486	(18)	(3.7) %
Depreciation and amortization	267	249	18	7.2%
Total expenses	<u>13,195</u>	<u>11,225</u>	<u>1,970</u>	<u>17.6%</u>
Income from operations before taxes	3,461	2,791	670	24.0%
Provision for income tax	1,115	907	208	22.9%
<b>Net income</b>	<u>\$ 2,346</u>	<u>\$ 1,884</u>	<u>\$ 462</u>	<u>24.5%</u>

(1) For the three months ended September 30, 2015, includes the effects of severe winter weather (which we define as a catastrophe). The three months ended September 30, 2014 includes catastrophe reinstatement premiums resulting from Superstorm Sandy, which occurred on October 29, 2012. We define a "catastrophe" as an event or series of related events that involve multiple first party policyholders, or an event or series of events that produce a number of claims in excess of a preset, per-event threshold of average claims in a specific area, occurring within a certain amount of time constituting the event or series of events. Catastrophes are caused by various natural events including high winds, excessive rain, winter storms, severe winter weather, tornadoes, hailstorms, wildfires, tropical storms, and hurricanes.

	Three months ended September 30,			
	2015	2014	Percentage Point Change	Percent Change
<b>Key ratios:</b>				
Net loss ratio	38.5%	45.9%	(7.4)	(16.1) %
Net underwriting expense ratio	34.3%	25.0%	9.3	37.2%
Net combined ratio	72.8%	70.9%	1.9	2.7%

#### Direct Written Premiums

Direct written premiums during the three months ended September 30, 2015 ("Q3-2015") were \$24,571,000 compared to \$20,131,000 during the three months ended September 30, 2014 ("Q3-2014"). The increase of \$4,440,000, or 22.1%, was primarily due to an increase in policies in-force during Q3-2015 as compared to Q3-2014. We wrote more new policies as a result of continued demand for our products in the markets that we serve. Policies in-force increased by 18.0% as of September 30, 2015 compared to September 30, 2014.

Our growth rate in direct premiums written was dampened somewhat due to the suspension, effective October 1, 2014, of the writing of new policies in our commercial auto line of business due to a history of poor underwriting results. In February 2015, we made the decision to no longer offer renewals on our existing commercial auto policies beginning with those that expire on or after May 1, 2015. Our direct written premiums in our other lines of business grew by 26.3% in Q3-2015 compared to Q3-2014. Policies-in-force in our other lines of business increased by 19.8% as of September 30, 2015 compared to September 30, 2014.

#### Net Written Premiums and Net Premiums Earned

The following table describes the quota share reinsurance ceding rates in effect during Q3-2015 and Q3-2014. For purposes of the discussion herein, the change in quota share ceding rates on July 1 of each year will be referred to as "the Cut-off". This table should be referred to in conjunction with the discussions for net written premiums, net premiums earned, ceding commission revenue and net loss and loss adjustment expenses that follow.

Three months ended September 30,	
2015	2014
("2015/2016 Treaty")	("2014/2015 Treaty")

#### **Quota share reinsurance rates**

Personal lines	40%	55%
Commercial lines	none	none

Net written premiums increased \$3,669,000, or 20.8%, to \$21,337,000 in Q3-2015 from \$17,668,000 in Q3-2014. 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). Our personal lines business is subject to a quota share treaty. A reduction to the quota share ceding rates will reduce our ceded written premiums, which will result in a corresponding increase to our net written premiums.

Effective July 1, 2015, we decreased the quota share ceding rates in our personal lines quota share treaty from 55% to 40%. The Cut-off of this treaty on July 1, 2015 resulted in a \$5,866,000 return of unearned premiums from our reinsurers that were previously ceded under the expiring personal lines quota share treaty. The new treaty is on a "net" of catastrophe reinsurance basis, as opposed to the "gross" arrangement that existed in prior years. Under a "net" arrangement, all catastrophe reinsurance coverage is now purchased directly by us.

Most of the premiums written under our personal lines are also subject to our catastrophe treaty. An increase in our personal lines business gives rise to more property exposure, which increases our exposure to catastrophe risk; therefore, our premiums for catastrophe insurance will increase. This results in an increase in premiums ceded under our catastrophe treaty, which reduces net written premiums. With the inception of our personal lines quota share treaty being on a "net" basis effective July 1, 2015, our catastrophe premiums are paid based on our direct written premiums, compared to catastrophe premiums being paid only on the amount of written premiums that we retained under the expired "gross" basis. As a result of the increase in our personal lines business and the change to a "net" basis for our personal lines quota share treaty, ceded catastrophe premiums increased by \$1,674,000, or 264.5%, to \$2,307,000 in Q3-2015 from \$633,000 in Q3-2014.

An increase in written premiums will also increase the premiums ceded under our excess of loss treaties, which will also reduce our net written premiums. In Q3-2015, our excess of loss reinsurance ceded premiums increased by \$49,000 over the ceded premiums in Q3-2014.

Net premiums earned increased \$3,234,000, or 32.7%, to \$13,129,000 in Q3-2015 from \$9,895,000 in Q3-2014. The increase was primarily due to us retaining more earned premiums as result of the reduction of the quota share ceding rate in our personal lines quota share treaty. The decreases in our quota share ceding rate from the July 1, 2015 Cut-off gave us a return of premiums previously ceded, which has the effect of increasing our net premiums earned during the twelve month periods after the Cut-off. In addition, as premiums written earn ratably over a twelve month period, net premiums earned in Q3-2015 increased due to the higher net written premiums generated for the twelve months ended September 30, 2015 compared to the twelve months ended September 30, 2014.

Ceding Commission Revenue

The following table describes the quota share provisional ceding commission rates in effect during Q3-2015 and Q3-2014. This table should be referred to in conjunction with the discussion for ceding commission revenue that follows.

	Three months ended September 30,	
	2015 ("2015/2016 Treaty")	2014 ("2014/2015 Treaty")
<b>Provisional ceding commission rate on quota share treaty</b>		
Personal lines	55%	40%
Commercial lines	none	none

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

(\$ in thousands)	Three months ended September 30,			
	2015	2014	Change	Percent
Provisional ceding commissions earned	\$ 2,854	\$ 2,653	\$ 201	7.6%
Contingent ceding commissions earned				
Contingent ceding commissions earned excluding the effect of catastrophes	(211)	625	(836)	(133.8) %
Effect of catastrophes on ceding commissions earned	-	-	-	na %
Contingent ceding commissions earned	(211)	625	(836)	(133.8) %
Total ceding commission revenue	\$ 2,643	\$ 3,278	\$ (635)	(19.4) %

Ceding commission revenue was \$2,643,000 in Q3-2015 compared to \$3,278,000 in Q3-2014. The decrease of \$635,000, or 19.4%, was due to an increase in provisional ceding commissions earned and a decrease in contingent ceding commissions earned.

#### *Provisional Ceding Commissions Earned*

The \$201,000 increase in provisional ceding commissions earned is primarily due to the increase in provisional ceding rates under the 2015/2016 Treaty, partially offset by (1) a decrease in the quota share rate to 40% from 55%, which decreased the ceded premiums subject to provisional ceding commissions, and (2) a decrease in the percentage of ceded premiums subject to quota share under the "net" 2015/2016 Treaty compared to the "gross" 2014/2015 Treaty.

#### *Contingent Ceding Commissions Earned*

As a result of the increase in the provisional ceding commission rate to 55% under the 2015/2016 Treaty from 40% under the 2014/2015 Treaty, we do not have an opportunity to earn as much contingent ceding commissions. Under the "net" treaty in effect as of July 1, 2015, catastrophe losses in excess of the first \$4,000,000 will fall outside of the quota share treaty and such losses will not have an impact on contingent ceding commissions, as was the case under previous "gross" treaties. The new structure eliminates the adverse impact that catastrophe losses above \$4,000,000 would have on contingent ceding commissions.

The amount of contingent ceding commissions we are eligible to receive under the 2015/2016 Treaty described in the table above that was in effect during Q3-2015 is subject to change based on losses incurred from claims with accident dates beginning July 1, 2015. The amount of contingent ceding commissions we are eligible to receive under our prior years' quota share treaties is subject to change based on losses incurred related to claims with accident dates before July 1, 2014 under those treaties.

The \$836,000 decrease in contingent ceding commissions earned is due to a decrease in the amount of premiums ceded as a result of a reduction to the personal lines quota share ceding percentages under the July 1, 2015 Cut-off from our personal lines from 55% to 40%. In addition, under the terms of the 2015/2016 Treaty our contingent ceding commission rates were reduced in exchange for an increase in our provisional ceding commission rates. See "Reinsurance" below for changes to our personal lines quota share treaty effective July 1, 2015.

Net Investment Income

Net investment income was \$649,000 in Q3-2015 compared to \$464,000 in Q3-2014. The increase of \$185,000, or 39.9%, was due to an increase in average invested assets in 2015. The increase in cash and invested assets resulted primarily from increased operating cash flows for the period after September 30, 2014. The increase in operating cash flows is due in part from the reduction in quota share rates on July 1, 2015 and 2014. The reduction in quota share rates results in a decline in ceded premiums, which leads to more cash flow and more invested funds. The pre-tax equivalent investment yield on estimated annual income, excluding cash, was 4.81% and 4.69% as of September 30, 2015 and 2014, respectively.

Net Loss and LAE

Net loss and LAE was \$5,050,000 in Q3-2015 compared to \$4,538,000 in Q3-2014. The net loss ratio was 38.5% in Q3-2015 compared to 45.9% in Q3-2014, a decrease of 7.4 percentage points. The following graphs summarize the changes in the components of net loss ratio for the periods indicated:



During Q3-2015, our net loss ratio decreased compared to Q3-2014 due primarily to a decrease in prior year development. In Q3-2015, prior year development was favorable by 4.2 points, compared to adverse (unfavorable) development of 4.4 points in Q3-2014, or a year-over-year decrease of 8.6 points. Favorable prior year loss development was recorded for both personal lines and legacy lead paint claims. The impact of severe winter weather increased the net loss ratio reported for Q3-2015 by 0.6 points, as one additional large pipe freeze claims developed in the quarter. No additional impact from severe winter weather was recorded in Q3-2014. The core net loss ratio increased slightly to 42.1% in Q3-2015 from 41.5% in Q3-2014. This was driven by higher claims severity for personal lines during Q3-2015. See table below under "Additional Financial Information" summarizing the net loss ratios by line of business.

Effective October 1, 2014 we decided to no longer accept applications for new commercial auto coverage. The action was taken following a series of underwriting and pricing measures which were intended to improve the profitability of this line of business. The actions taken did not yield the hoped for results. In February 2015, we decided to no longer offer renewals to our existing commercial auto policies beginning with those that expired on or after May 1, 2015. We had 238 and 835 commercial auto policies in force, as of September 30, 2015 and 2014, respectively, which represented 0.5% and 1.9% of our policies in force.

Commission Expense

Commission expense was \$4,021,000 in Q3-2015, or 18.9% of direct earned premiums. Commission expense was \$3,106,000 in Q3-2014, or 17.6% of direct earned premiums. The increase of \$915,000, or 29.5%, is due to the increase in direct written premiums in Q3-2015 as compared to Q3-2014, a change in the mix of business to lines of business with higher commission rates, and an increase in bonus commissions.

Other Underwriting Expenses

Other underwriting expenses were \$3,389,000 in Q3-2015 compared to \$2,846,000 in Q3-2014. The increase of \$543,000, or 19.1%, in other underwriting expenses was primarily due to expenses directly and indirectly related to growth in direct written premiums, rate increases in state assessed regulatory fees, and state taxes based on premiums written.

Expenses directly related to the increase in direct written premiums primarily consist of underwriting expenses, software usage fees and state premium taxes. Expenses indirectly related to the increase in direct written premiums primarily consist of salaries along with related other employment costs. Salaries and employment costs were \$1,683,000 in Q3-2015 compared to \$1,477,000 in Q3-2014. The increase of \$206,000, or 13.9%, was due to hiring of additional staff to service our current level of business and anticipated growth in volume. In addition, there were annual rate increases in both salaries and the cost of employee benefits. Other underwriting expenses as a percentage of direct written premiums decreased to 13.8% in Q3-2015 from 14.1% in Q3-2014. Other underwriting expenses as a percentage of direct earned premiums decreased to 16.0% in Q3-2015 from 16.1% in Q3-2014.



Our net underwriting expense ratio in Q3-2015 was 34.3% compared with 25.0% in Q3-2014. The following table shows the individual components of our net underwriting expense ratio for the periods indicated:

	Three months ended September 30,		Percentage Point Change
	2015	2014	
Ceding commission revenue - provisional	(21.7) %	(26.8) %	5.1
Ceding commission revenue - contingent	1.6	(6.3)	7.9
Other income	(2.0)	(2.1)	0.1
Acquisition costs and other underwriting expenses:			
Commission expense	30.6	31.4	(0.8)
Other underwriting expenses	25.8	28.8	(3.0)
Net underwriting expense ratio	<u>34.3%</u>	<u>25.0%</u>	9.3

The increase of 9.3 percentage points was due to the individual components of provisional ceding commission revenue, commission expense and other underwriting expenses and their relation to the increase in net premiums earned as a result of the additional retention resulting from the Cut-offs to our quota share treaties on July 1, 2015.

#### Other Operating Expenses

Other operating expenses, related to the expenses of our holding company, were \$468,000 in Q3-2015 compared to \$486,000 in Q3-2014. The decrease in Q3-2015 of \$18,000, or 3.7%, was primarily due to immaterial net fluctuations of various other operating expenses.

#### Depreciation and Amortization

Depreciation and amortization was \$267,000 in Q3-2015 compared to \$249,000 in Q3-2014. The increase of \$18,000, or 7.2%, in depreciation and amortization was primarily due to depreciation on newly purchased assets used to upgrade our systems infrastructure and the Kingston home office building from which we operate.

#### Income Tax Expense

Income tax expense in Q3-2015 was \$1,115,000, which resulted in an effective tax rate of 32.2%. Income tax expense in Q3-2014 was \$907,000, which resulted in an effective tax rate of 32.5%. Income before taxes was \$3,461,000 in Q3-2015 compared to \$2,791,000 in Q3-2014. The decrease in the effective tax rate by 0.3 percentage points in Q3-2015 is a result of the effect of permanent differences and tax true-ups

#### Net Income

Net income was \$2,346,000 in Q3-2015 compared to \$1,884,000 in Q3-2014. The increase in net income of \$462,000, or 24.5%, was due to the circumstances described above that caused the increase in our net premiums earned and net investment income, and a decrease in our net loss ratio, partially offset by a decrease in net realized gains and ceding commission revenue, and increases in other underwriting expenses related to premium growth.

## Additional Financial Information

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Gross premiums written:				
Personal lines	\$ 19,145,024	\$ 15,711,055	\$ 50,346,928	\$ 41,545,193
Commercial lines	3,075,096	2,522,580	9,376,315	8,868,681
Commercial auto	(42,630)	660,352	537,123	2,796,350
Livery physical damage	2,342,470	1,196,027	6,800,527	3,337,415
Other(1)	63,481	64,058	199,912	220,681
Total	<u>\$ 24,583,441</u>	<u>\$ 20,154,072</u>	<u>\$ 67,260,805</u>	<u>\$ 56,768,320</u>
Net premiums written:				
Personal lines				
Excluding the effect of quota share adjustments on July 1	\$ 10,271,498	\$ 6,997,928	\$ 23,443,844	\$ 13,346,410
Return of premiums previously ceded to prior quota share treaties	5,866,300	5,159,646	5,866,300	5,159,646
Total Personal lines	<u>16,137,798</u>	<u>12,157,574</u>	<u>29,310,144</u>	<u>18,506,056</u>
Commercial lines				
Excluding the effect of quota share adjustments on July 1	2,833,838	2,157,528	8,592,916	6,583,539
Return of premiums previously ceded to prior quota share treaties	-	1,437,345	-	1,437,345
Total Commercial lines	<u>2,833,838</u>	<u>3,594,873</u>	<u>8,592,916</u>	<u>8,020,884</u>
Commercial auto	(41,136)	662,763	487,735	2,723,895
Livery physical damage	2,342,470	1,196,027	6,800,527	3,337,415
Other(1)	64,599	56,907	155,875	166,338
Total	<u>\$ 21,337,569</u>	<u>\$ 17,668,144</u>	<u>\$ 45,347,197</u>	<u>\$ 32,754,588</u>
Net premiums earned:				
Personal lines	\$ 8,171,882	\$ 5,570,792	\$ 20,371,281	\$ 10,939,049
Commercial lines	2,616,290	2,381,999	7,481,031	5,716,654
Commercial auto	333,338	969,934	1,517,246	3,105,243
Livery physical damage	1,962,121	938,287	4,882,588	2,360,959
Other(1)	45,973	33,988	128,972	128,779
Total	<u>\$ 13,129,604</u>	<u>\$ 9,895,000</u>	<u>\$ 34,381,118</u>	<u>\$ 22,250,684</u>
Net loss and loss adjustment expenses:				
Personal lines	\$ 2,705,526	\$ 877,100	\$ 8,857,444	\$ 4,239,455
Commercial lines	1,339,960	1,343,194	4,638,848	2,881,640
Commercial auto	8,122	1,548,361	585,658	2,840,763
Livery physical damage	666,838	389,951	1,796,867	901,779
Other(1)	1,821	94,855	113,621	240,664
Unallocated loss adjustment expenses	327,927	284,706	891,786	766,759
Total	<u>\$ 5,050,194</u>	<u>\$ 4,538,167</u>	<u>\$ 16,884,224</u>	<u>\$ 11,871,060</u>
Net loss ratio:				
Personal lines	33.1%	15.7%	43.5%	38.8%
Commercial lines	51.2%	56.4%	62.0%	50.4%
Commercial auto	2.4%	159.6%	38.6%	91.5%
Livery physical damage	34.0%	41.6%	36.8%	38.2%
Other(1)	4.0%	279.1%	88.1%	186.9%
Total	38.5%	45.9%	49.1%	53.4%

(1) "Other" includes, among other things, premiums and loss and loss adjustment expenses from our participation in a mandatory state joint underwriting association.

## Insurance Underwriting Business on a Standalone Basis

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
<b>Revenues</b>				
Net premiums earned	\$ 13,129,604	\$ 9,895,000	\$ 34,381,118	\$ 22,250,684
Ceding commission revenue	2,643,531	3,278,319	9,388,457	10,365,651
Net investment income	649,441	463,513	1,850,069	1,294,216
Net realized gain on investments	(40,487)	115,176	(105,718)	438,126
Other income	268,698	204,494	721,087	535,847
Total revenues	<u>16,650,787</u>	<u>13,956,502</u>	<u>46,235,013</u>	<u>34,884,524</u>
<b>Expenses</b>				
Loss and loss adjustment expenses	5,050,194	4,538,167	16,884,224	11,871,060
Commission expense	4,021,383	3,106,064	11,033,874	8,592,364
Other underwriting expenses	3,389,024	2,845,708	9,349,842	7,656,532
Depreciation and amortization	266,578	248,042	747,118	639,403
Total expenses	<u>12,727,179</u>	<u>10,737,981</u>	<u>38,015,058</u>	<u>28,759,359</u>
Income from operations	3,923,608	3,218,521	8,219,955	6,125,165
Income tax expense	1,282,497	1,039,149	2,678,834	1,961,849
<b>Net income</b>	<u>\$ 2,641,111</u>	<u>\$ 2,179,372</u>	<u>\$ 5,541,121</u>	<u>\$ 4,163,316</u>
<b>Key Measures:</b>				
Net loss ratio	38.5%	45.9%	49.1%	53.4%
Net underwriting expense ratio	34.3%	25.0%	29.9%	24.0%
Net combined ratio	<u>72.8%</u>	<u>70.9%</u>	<u>79.0%</u>	<u>77.4%</u>
Reconciliation of net underwriting expense ratio:				
Acquisition costs and other underwriting expenses	\$ 7,410,407	\$ 5,951,772	\$ 20,383,716	\$ 16,248,896
Less: Ceding commission revenue	(2,643,531)	(3,278,319)	(9,388,457)	(10,365,651)
Less: Other income	(268,698)	(204,494)	(721,087)	(535,847)
Net underwriting expenses	<u>\$ 4,498,178</u>	<u>\$ 2,468,959</u>	<u>\$ 10,274,172</u>	<u>\$ 5,347,398</u>
Net premiums earned	<u>\$ 13,129,604</u>	<u>\$ 9,895,000</u>	<u>\$ 34,381,118</u>	<u>\$ 22,250,684</u>
Net Underwriting Expense Ratio	<u>34.3%</u>	<u>25.0%</u>	<u>29.9%</u>	<u>24.0%</u>

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

	Direct	Assumed	Ceded	Net
<b>Nine months ended September 30, 2015</b>				
Written premiums	\$ 67,225,990.00	\$ 34,815	\$ (21,913,608.00)	\$ 45,347,197.00
Change in unearned premiums	(6,984,651)	1,362	(3,982,790)	(10,966,079)
Earned premiums	<u>\$ 60,241,339</u>	<u>\$ 36,177</u>	<u>\$ (25,896,398)</u>	<u>\$ 34,381,118</u>
Loss and loss adjustment expenses excluding the effect of catastrophes				
Catastrophe loss	\$ 23,162,707	\$ 101,782	\$ (8,470,858)	\$ 14,793,631
Loss and loss adjustment expenses	4,645,762	-	(2,555,169)	2,090,593
	<u>\$ 27,808,469</u>	<u>\$ 101,782</u>	<u>\$ (11,026,027)</u>	<u>\$ 16,884,224</u>
Loss ratio excluding the effect of catastrophes	38.5%	281.3%	32.7%	43.0%
Catastrophe loss	7.7%	0.0%	9.9%	6.1%
Loss ratio	<u>46.2%</u>	<u>281.3%</u>	<u>42.6%</u>	<u>49.1%</u>
<b>Nine months ended September 30, 2014</b>				
Written premiums	\$ 56,729,057	\$ 39,263	\$ (24,013,732)	\$ 32,754,588
Change in unearned premiums	(7,311,116)	(6,082)	(3,186,706)	(10,503,904)
Earned premiums	<u>\$ 49,417,941</u>	<u>\$ 33,181</u>	<u>\$ (27,200,438)</u>	<u>\$ 22,250,684</u>
Loss and loss adjustment expenses excluding the effect of catastrophes				
Catastrophe loss	\$ 19,939,544	\$ 48,774	\$ (9,058,285)	\$ 10,930,033
Loss and loss adjustment expenses	3,764,108	-	(2,823,081)	941,027
	<u>\$ 23,703,652</u>	<u>\$ 48,774</u>	<u>\$ (11,881,366)</u>	<u>\$ 11,871,060</u>
Loss ratio excluding the effect of catastrophes	40.3%	147.0%	33.3%	49.1%
Catastrophe loss	7.7%	0.0%	10.4%	4.3%
Loss ratio	<u>48.0%</u>	<u>147.0%</u>	<u>43.7%</u>	<u>53.4%</u>
<b>Three months ended September 30, 2015</b>				
Written premiums	\$ 24,570,496	\$ 12,945	\$ (3,245,871)	\$ 21,337,570
Change in unearned premiums	(3,330,333)	(1,015)	(4,876,618)	(8,207,966)
Earned premiums	<u>\$ 21,240,163</u>	<u>\$ 11,930</u>	<u>\$ (8,122,489)</u>	<u>\$ 13,129,604</u>
Loss and loss adjustment expenses excluding the effect of catastrophes				
Catastrophe loss	\$ 6,756,876	\$ 31,056	\$ (1,815,970)	\$ 4,971,962
Loss and loss adjustment expenses	173,849	-	(95,617)	78,232
	<u>\$ 6,930,725</u>	<u>\$ 31,056</u>	<u>\$ (1,911,587)</u>	<u>\$ 5,050,194</u>
Loss ratio excluding the effect of catastrophes	31.8%	260.3%	22.4%	37.9%
Catastrophe loss	0.8%	0.0%	1.2%	0.6%
Loss ratio	<u>32.6%</u>	<u>260.3%</u>	<u>23.5%</u>	<u>38.5%</u>
<b>Three months ended September 30, 2014</b>				
Written premiums	\$ 20,131,112	\$ 22,961	\$ (2,485,929)	\$ 17,668,144
Change in unearned premiums	(2,438,306)	(12,433)	(5,322,405)	(7,773,144)
Earned premiums	<u>\$ 17,692,806</u>	<u>\$ 10,528</u>	<u>\$ (7,808,334)</u>	<u>\$ 9,895,000</u>
Loss and loss adjustment expenses excluding the effect of catastrophes				
Catastrophe loss	\$ 4,749,296	\$ 15,958	\$ (227,087)	\$ 4,538,167
Loss and loss adjustment expenses	-	-	-	-
	<u>\$ 4,749,296</u>	<u>\$ 15,958</u>	<u>\$ (227,087)</u>	<u>\$ 4,538,167</u>
Loss ratio excluding the effect of catastrophes	26.8%	151.6%	2.9%	45.9%
Catastrophe loss	0.0%	0.0%	0.0%	0.0%
Loss ratio	<u>26.8%</u>	<u>151.6%</u>	<u>2.9%</u>	<u>45.9%</u>

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Net premiums earned	\$ 13,129,604	\$ 9,895,000	\$ 34,381,118	\$ 22,250,684
Ceding commission revenue (1)	2,643,531	3,278,319	9,388,457	10,365,651
Other income	268,698	204,494	721,087	535,847
Loss and loss adjustment expenses (2)	5,050,194	4,538,167	16,884,224	11,871,060
Acquisition costs and other underwriting expenses:				
Commission expense	4,021,383	3,106,064	11,033,874	8,592,364
Other underwriting expenses	3,389,024	2,845,708	9,349,842	7,656,532
Total acquisition costs and other underwriting expenses	7,410,407	5,951,772	20,383,716	16,248,896
Underwriting income	\$ 3,581,232	\$ 2,887,874	\$ 7,222,722	\$ 5,032,226
Key Measures:				
Net loss ratio excluding the effect of catastrophes	37.9%	45.9%	43.0%	49.1%
Effect of catastrophe loss on net loss ratio (2) (3)	0.6%	0.0%	6.1%	4.3%
Net loss ratio	38.5%	45.9%	49.1%	53.4%
Net underwriting expense ratio excluding the effect of catastrophes	34.3%	25.0%	26.2%	21.7%
Effect of catastrophe loss on net underwriting expense ratio (1) (2) (3)	0.0%	0.0%	3.7%	2.3%
Net underwriting expense ratio	34.3%	25.0%	29.9%	24.0%
Net combined ratio excluding the effect of catastrophes	72.2%	70.9%	69.2%	70.8%
Effect of catastrophe loss on net combined ratio (1) (2) (3)	0.6%	0.0%	9.8%	6.6%
Net combined ratio	72.8%	70.9%	79.0%	77.4%
Reconciliation of net underwriting expense ratio:				
Acquisition costs and other underwriting expenses	\$ 7,410,407	\$ 5,951,772	\$ 20,383,716	\$ 16,248,896
Less: Ceding commission revenue (1)	(2,643,531)	(3,278,319)	(9,388,457)	(10,365,651)
Less: Other income	(268,698)	(204,494)	(721,087)	(535,847)
	\$ 4,498,178	\$ 2,468,959	\$ 10,274,172	\$ 5,347,398

(1) For the nine months ended September 30, 2015 and 2014, the effect of severe winter weather, defined as a catastrophe, reduced contingent ceding commission revenue by \$1,280,521 and \$517,269, respectively. For the three months ended September 30, 2015 and 2014, there was no effect from severe winter weather, defined as a catastrophe, on contingent ceding commission.

(2) For the nine months ended September 30, 2015 and 2014, includes the sum of net catastrophe losses and loss adjustment expenses of \$2,090,593 and \$941,027, respectively, resulting from severe winter weather. For the three months ended September 30, 2015 and 2014, includes the sum of net catastrophe losses and loss adjustment expenses of \$78,232 and \$-0-, respectively, resulting from severe winter weather.

(3) For the nine months ended September 30, 2015 and 2014, the effect of catastrophe loss from severe winter weather on our net combined ratio only includes the direct effects of loss and loss adjustment expenses and ceding commission revenue and does not include the indirect effects of a \$324,906 and \$163,673, respectively, decrease in other underwriting expenses. For the three months ended September 30, 2015 and 2014, the effect of catastrophe loss from severe winter weather on our net combined ratio only includes the direct effects of loss and loss adjustment expenses and ceding commission revenue. There was no material indirect effect to other underwriting expenses.

## Investments

### Portfolio Summary

The following table presents a breakdown of the amortized cost, aggregate fair value and unrealized gains and losses by investment type as of September 30, 2015 and December 31, 2014:

#### Available-for-Sale Securities

Category	September 30, 2015					
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Aggregate Fair Value	% of Fair Value
			Less than 12 Months	More than 12 Months		
Political subdivisions of States, Territories and Possessions	\$ 13,682,943.00	\$ 478,684	\$ (37,619)	\$ -	\$ 14,124,008.00	19.7%
Corporate and other bonds						
Industrial and miscellaneous	43,005,459	791,305	(333,737)	(40,438)	43,422,589	60.6%
Residential mortgage backed securities	4,523,275	49,488	(24,051)	-	4,548,712	6.4%
Total fixed-maturity securities	61,211,677	1,319,477	(395,407)	(40,438)	62,095,309	86.7%
Equity Securities	9,536,987	320,708	(349,805)	(14,598)	9,493,292	13.3%
Total	\$ 70,748,664	\$ 1,640,185	\$ (745,212)	\$ (55,036)	\$ 71,588,601	100.00%
Category	December 31, 2014					
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Aggregate Fair Value	% of Fair Value
			Less than 12 Months	More than 12 Months		
Political subdivisions of States, Territories and Possessions	\$ 13,862,141	\$ 412,490	\$ (23,813)	\$ (6,379)	\$ 14,244,439	24.1%
Corporate and other bonds						
Industrial and miscellaneous	36,221,300	803,440	(118,092)	(30,228)	36,876,420	62.4%
Total fixed-maturity securities	50,083,441	1,215,930	(141,905)	(36,607)	51,120,859	86.5%
Equity Securities	7,621,309	464,130	(2,647)	(65,063)	8,017,729	13.5%
Total	\$ 57,704,750	\$ 1,680,060	\$ (144,552)	\$ (101,670)	\$ 59,138,588	100.0%

Held-to-Maturity Securities

Category	September 30, 2015					
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Fair Value	% of Fair Value
			Less than 12 Months	More than 12 Months		
U.S. Treasury securities	\$ 606,380	\$ 163,096	\$ -	\$ -	\$ 769,476	14.6%
Political subdivisions of States, Territories and Possessions	1,416,537	58,142	-	(46,621)	1,428,058	27.1%
Corporate and other bonds						
Industrial and miscellaneous	3,114,281	91,875	(2,577)	(127,694)	3,075,885	58.3%
<b>Total</b>	<b>\$ 5,137,198</b>	<b>\$ 313,113</b>	<b>\$ (2,577)</b>	<b>\$ (174,315)</b>	<b>\$ 5,273,419</b>	<b>100.0%</b>

Category	December 31, 2014					
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Fair Value	% of Fair Value
			Less than 12 Months	More than 12 Months		
U.S. Treasury securities	\$ 606,353	\$ 183,200	\$ -	\$ -	\$ 789,553	14.6%
Political subdivisions of States, Territories and Possessions	1,413,303	49,981	-	(12,247)	1,451,037	26.9%
Corporate and other bonds						
Industrial and miscellaneous	3,109,079	98,306	(52,921)	-	3,154,464	58.5%
<b>Total</b>	<b>\$ 5,128,735</b>	<b>\$ 331,487</b>	<b>\$ (52,921)</b>	<b>\$ (12,247)</b>	<b>\$ 5,395,054.00</b>	<b>100.00%</b>

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

A summary of the amortized cost and fair value of the Company's investments in held-to-maturity securities by contractual maturity as of September 30, 2015 and December 31, 2014 is shown below:

Remaining Time to Maturity	September 30, 2015		December 31, 2014	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Less than one year	\$ -	\$ -	\$ -	\$ -
One to five years	500,000	505,150	-	-
Five to ten years	4,030,818	3,998,793	3,522,927	3,563,401
More than 10 years	606,380	769,476	1,605,808	1,831,653
<b>Total</b>	<b>\$ 5,137,198</b>	<b>\$ 5,273,419</b>	<b>\$ 5,128,735</b>	<b>\$ 5,395,054</b>

### Credit Rating of Fixed-Maturity Securities

The table below summarizes the credit quality of our available-for-sale fixed-maturity securities as of September 30, 2015 and December 31, 2014 as rated by Standard & Poor's (or, if unavailable from Standard & Poor's, then Moody's or Fitch):

Rating	September 30, 2015		December 31, 2014	
	Fair Market Value	Percentage of Fair Market Value	Fair Market Value	Percentage of Fair Market Value
U.S. Treasury securities	\$ -	0.0%	\$ -	0.0%
<b>Corporate and municipal bonds</b>				
AAA	2,512,479	4.0%	2,779,539	5.5%
AA	9,975,808	16.1%	9,826,545	19.2%
A	14,081,390	22.7%	13,954,036	27.3%
BBB	30,976,920	49.8%	24,560,739	48.0%
Total corporate and municipal bonds	57,546,597	92.6%	51,120,859	100.0%
<b>Residential mortgage backed securities</b>				
CCC	437,661	0.7%	-	0.0%
CC	342,148	0.6%	-	0.0%
C	3,768,903	6.1%	-	0.0%
Total residential mortgage backed securities	4,548,712	7.4%	-	0.0%
<b>Total</b>	<b>\$ 62,095,309</b>	<b>100.0%</b>	<b>\$ 51,120,859</b>	<b>100.0%</b>

The table below summarizes the average yield by type of fixed-maturity security as of September 30, 2015 and December 31, 2014:

Category	September 30, 2015	December 31, 2014
U.S. Treasury securities and obligations of U.S. government corporations and agencies	3.38%	3.29%
Political subdivisions of States, Territories and Possessions	3.72%	3.77%
Corporate and other bonds		
Industrial and miscellaneous	4.21%	4.20%
Residential mortgage backed securities	6.36%	n/a
<b>Total</b>	<b>4.23%</b>	<b>4.06%</b>



The table below lists the weighted average maturity and effective duration in years on our fixed-maturity securities as of September 30, 2015 and December 31, 2014:

	September 30, 2015	December 31, 2014
Weighted average effective maturity	5.9	6.5
Weighted average final maturity	7.7	7.3
Effective duration	5.2	5.7

#### **Fair Value Consideration**

As disclosed in Note 4 to the Condensed Consolidated Financial Statements, with respect to "Fair Value Measurements," we define fair value under GAAP guidance as 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"). This GAAP guidance establishes a fair value hierarchy that 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 in GAAP prioritizes fair value measurements into three levels based on the nature of the inputs. Quoted prices in active markets for identical assets have the highest priority ("Level 1"), followed by observable inputs other than quoted prices including prices for similar but not identical assets or liabilities ("Level 2"), and unobservable inputs, including the reporting entity's estimates of the assumption that market participants would use, having the lowest priority ("Level 3"). As of September 30, 2015 and December 31, 2014, 63% and 63%, respectively, of the investment portfolio recorded at fair value was priced based upon quoted market prices.

As more fully described in Note 3 to our Condensed Consolidated Financial Statements, "Investments—Impairment Review," we completed a detailed review of all our securities in a continuous loss position as of September 30, 2015 and December 31, 2014, and concluded that the unrealized losses in these asset classes are temporary in nature and the result of a decrease in value due to technical spread widening and broader market sentiment, rather than fundamental collateral deterioration.

The table below summarizes the gross unrealized losses of our fixed-maturity securities available-for-sale and equity securities by length of time the security has continuously been in an unrealized loss position as of September 30, 2015 and December 31, 2014:

Category	September 30, 2015							
	Less than 12 months			12 months or more			Total	
	Fair Value	Unrealized Losses	No. of Positions Held	Fair Value	Unrealized Losses	No. of Positions Held	Aggregate Fair Value	Unrealized Losses
<b>Fixed-Maturity Securities:</b>								
Political subdivisions of States, Territories and Possessions	\$ 852,736	\$ (37,619)	3	\$ -	\$ -	-	\$ 852,736	\$ (37,619)
Corporate and other bonds industrial and miscellaneous	8,963,637	(333,737)	17	450,035	(40,438)	1	9,413,672	(374,175)
Residential mortgage backed securities	1,132,899	(24,051)	5	-	-	-	1,132,899	(24,051)
Total fixed-maturity securities	<u>\$ 10,949,272.00</u>	<u>\$ (395,407)</u>	<u>25</u>	<u>\$ 450,035</u>	<u>\$ (40,438)</u>	<u>1</u>	<u>\$ 11,399,307</u>	<u>\$ (435,845)</u>
<b>Equity Securities:</b>								
Preferred stocks	\$ 727,065	\$ (43,971)	2	\$ 697,517	\$ (14,598)	3	\$ 1,424,582	\$ (58,569)
Common stocks	3,553,900	(305,834)	16	-	-	-	3,553,900	(305,834)
Total equity securities	<u>\$ 4,280,965</u>	<u>\$ (349,805)</u>	<u>18</u>	<u>\$ 697,517</u>	<u>\$ (14,598)</u>	<u>3</u>	<u>\$ 4,978,482</u>	<u>\$ (364,403)</u>
<b>Total</b>	<u>\$ 15,230,237</u>	<u>\$ (745,212)</u>	<u>43</u>	<u>\$ 1,147,552.00</u>	<u>\$ (55,036)</u>	<u>4</u>	<u>\$ 16,377,789</u>	<u>\$ (800,248)</u>

December 31, 2014

Category	Less than 12 months			12 months or more			Total	
	Fair Value	Unrealized Losses	No. of Positions Held	Fair Value	Unrealized Losses	No. of Positions Held	Aggregate Fair Value	Unrealized Losses
<b>Fixed-Maturity Securities:</b>								
Political subdivisions of States, Territories and Possessions	\$ 3,013,648	\$ (23,813)	9	\$ 126,658	\$ (6,379)	1	\$ 3,140,306	\$ (30,192)
Corporate and other bonds industrial and miscellaneous	6,325,579	(118,092)	15	714,640	(30,228)	2	7,040,219	(148,320)
Total fixed-maturity securities	\$ 9,339,227.00	\$ (141,905)	24	\$ 841,298	\$ (36,607)	3	\$ 10,180,525	\$ (178,512)
<b>Equity Securities:</b>								
Preferred stocks	\$ 656,325	\$ (2,647)	1	\$ 1,448,376.00	\$ (62,886)	6	\$ 2,104,701	\$ (65,533)
Common stocks	-	-	-	267,000	(2,177)	1	267,000	(2,177)
Total equity securities	\$ 656,325	\$ (2,647)	1	\$ 1,715,376	\$ (65,063)	7	\$ 2,371,701	\$ (67,710)
Total	\$ 9,995,552	\$ (144,552)	25	\$ 2,556,674	\$ (101,670)	10	\$ 12,552,226	\$ (246,222)

There were 47 securities at September 30, 2015 that accounted for the gross unrealized loss, none of which were deemed by us to be other than temporarily impaired. There were 35 securities at December 31, 2014 that accounted for the gross unrealized loss, none of which were deemed by us to be other than temporarily impaired. Significant factors influencing our determination that unrealized losses were temporary included the magnitude of the unrealized losses in relation to each security's cost, the nature of the investment and management's intent not to sell these securities and it being not more likely than not that we will be required to sell these investments before anticipated recovery of fair value to our cost basis.

## Liquidity and Capital Resources

### Cash Flows

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

Through the quarter ended March 31, 2015, the primary sources of cash flow for our holding company operations were in connection with the fee income we received from premium finance. On March 27, 2015, we received \$350,000 in connection with the early termination of the agreement that generated placement fees in our premium finance business (see Note 12 to the Condensed Consolidated Financial Statements). We also receive cash dividends from KICO, subject to statutory restrictions. For the nine months ended September 30, 2015, KICO paid dividends of \$1,200,000 to us.

We have an agreement with a bank for a \$600,000 line of credit to be used for general corporate needs. The principal balance is payable on demand, and must be reduced to zero for a minimum of 30 consecutive days during each year of the term of the credit line. There were no borrowings on the credit line during the nine months ended September 30, 2015, and the outstanding principal balance was \$-0- as of September 30, 2015.

If the aforementioned is insufficient to cover our holding company cash requirements, we will seek to obtain additional financing.

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

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

<i>Nine Months Ended September 30,</i>	<u>2015</u>	<u>2014</u>
Cash flows provided by (used in):		
Operating activities	\$ 12,724,166	\$ 10,313,334
Investing activities	(14,576,723)	(24,228,173)
Financing activities	(1,322,692)	(979,662)
<b>Net decrease in cash and cash equivalents</b>	<b>(3,175,249)</b>	<b>(14,894,501)</b>
Cash and cash equivalents, beginning of period	9,906,878	19,922,506
<b>Cash and cash equivalents, end of period</b>	<b><u>\$ 6,731,629</u></b>	<b><u>\$ 5,028,005</u></b>

Net cash provided by operating activities was \$12,724,000 in 2015 as compared to \$10,313,000 provided in 2014. The \$2,411,000 increase in cash flows provided by operating activities in 2015 was primarily a result of an increase cash arising from net fluctuations in assets and liabilities relating to operating activities of KICO as affected by the growth in its operations which are described above, and an increase in net income (adjusted for non-cash items) of \$1,870,000.

Net cash used in investing activities was \$14,577,000 in 2015 compared to \$24,228,000 used in 2014. The \$9,651,000 decrease in cash used in investing activities is the result of a \$17,470,000 decrease in acquisitions of invested assets, offset by a \$7,306,000 increase in sales of invested assets.

Net cash used in financing activities was \$1,323,000 in 2015 compared to \$980,000 used in 2014. The \$343,000 increase in cash used in financing activities is the result of the \$204,000 purchase of treasury stock in 2015, compared to \$47,000 purchased in 2014, a \$152,000 increase in dividends paid due to additional shares outstanding in 2015 and an increase in the dividend rate.

### Reinsurance

Our quota share reinsurance treaties are on a July 1 through June 30 calendar year basis; therefore, for year to date fiscal periods after June 30, two separate treaties will be included in such periods.

Our quota share reinsurance treaty in effect for the nine months ended September 30, 2015 for our personal lines business, which primarily consists of homeowners' policies, was covered under the July 1, 2014/June 30, 2015 and July 1, 2015/June 30, 2016 treaty years. Our quota share reinsurance treaties in effect for the nine months ended September 30, 2014 for our personal lines business, which primarily consists of homeowners' policies, was covered under the July 1, 2013/June 30, 2014 and July 1, 2014/June 30, 2015 treaty years. Our quota share reinsurance treaty in effect for the nine months ended September 30, 2014 for our commercial lines business was covered under the July 1, 2013/June 30, 2014 treaty year. We did not renew our expiring commercial lines quota share reinsurance treaty on July 1, 2014.

Our personal lines quota share treaty that covered the July 1, 2013/June 30, 2014 treaty year was a two year treaty that expired on June 30, 2015. Effective July 1, 2014, we had the option to increase the quota share percentage from 75% to a maximum of 85% or decrease the quota share percentage from 75% to a minimum of 55% by giving no less than 30 days advance notice. On May 12, 2014, we notified the personal lines reinsurers of our election to reduce the ceding percentage in the personal lines quota share treaty from 75% to 55% effective July 1, 2014. We entered into new annual treaties with different terms effective July 1, 2015. Our treaties for the July 1, 2013/ June 30, 2014, July 1, 2014/June 30, 2015 and July 1, 2015/June 30, 2016 treaty years provide for the following material terms:

Line of Business	Treaty Year		
	July 1, 2015 to June 30, 2016	July 1, 2014 to June 30, 2015	July 1, 2013 to June 30, 2014
<b>Personal Lines:</b>			
Homeowners, dwelling fire and canine legal liability			
Quota share treaty:			
Percent ceded	40%	55%	75%
Risk retained	\$ 450,000	\$ 360,000	\$ 300,000
Losses per occurrence subject to quota share reinsurance coverage	\$ 750,000	\$ 800,000	\$ 1,200,000
Excess of loss coverage above quota share coverage	\$ 3,750,000	\$ 3,200,000	\$ 1,700,000
	in excess of	in excess of	in excess of
	\$ 750,000	\$ 800,000	\$ 1,200,000
Total reinsurance coverage per occurrence	\$ 4,050,000	\$ 3,640,000	\$ 2,600,000
Losses per occurrence subject to reinsurance coverage	\$ 4,500,000	\$ 4,000,000	\$ 2,900,000
Expiration date	June 30, 2016	June 30, 2015	June 30, 2015
<b>Personal Umbrella</b>			
Quota share treaty:			
Percent ceded - first million dollars of coverage	90%	90%	90%
Percent ceded - excess of one million dollars of coverage	100%	100%	100%
Risk retained	\$ 100,000	\$ 100,000	\$ 100,000
Total reinsurance coverage per occurrence	\$ 2,900,000	\$ 2,900,000	\$ 1,900,000
Losses per occurrence subject to quota share reinsurance coverage	\$ 3,000,000	\$ 3,000,000	\$ 2,000,000
Expiration date	June 30, 2016	June 30, 2015	June 30, 2014
<b>Commercial Lines:</b>			
General liability commercial policies, except for commercial auto			
Quota share treaty:			
Percent ceded (terminated effective July 1, 2014)	None	None	25%
Risk retained	\$ 425,000	\$ 400,000	\$ 300,000
Losses per occurrence subject to quota share reinsurance coverage	None	None	\$ 400,000
Excess of loss coverage above quota share coverage	\$ 4,075,000	\$ 3,600,000	\$ 2,500,000
	in excess of	in excess of	in excess of
	\$ 425,000	\$ 400,000	\$ 400,000
Total reinsurance coverage per occurrence	\$ 4,075,000	\$ 3,600,000	\$ 2,600,000
Losses per occurrence subject to reinsurance coverage	\$ 4,500,000	\$ 4,000,000	\$ 2,900,000
<b>Commercial Auto:</b>			
Risk retained	\$ 300,000	\$ 300,000	\$ 300,000
Excess of loss coverage in excess of risk retained	\$ 1,700,000	\$ 1,700,000	\$ 1,700,000
	in excess of	in excess of	in excess of
	\$ 300,000	\$ 300,000	\$ 300,000
<b>Catastrophe Reinsurance:</b>			
Initial loss subject to personal lines quota share treaty	\$ 4,000,000	\$ 4,000,000	\$ 4,000,000
Risk retained per catastrophe occurrence (1)	\$ 2,400,000	\$ 1,800,000	\$ 1,000,000
Catastrophe loss coverage in excess of quota share coverage (2) (3)	\$ 176,000,000.00	\$ 137,000,000.00	\$ 86,000,000
Severe winter weather aggregate (3)	Yes	Yes	No
Reinstatement premium protection (4)	Yes	No	No

1. Plus losses in excess of catastrophe coverage.
2. Catastrophe coverage is limited on an annual basis to two times the per occurrence amounts. Effective July 1, 2015, the duration of a catastrophe occurrence from windstorm, hail, tornado, hurricane and cyclone was extended to 120 consecutive hours from 96 consecutive hours.
3. Effective July 1, 2014, our catastrophe treaty also covers losses caused by severe winter weather during any consecutive 28 day period.
4. Effective July 1, 2015, reinstatement premium protection for \$16,000,000 of catastrophe coverage in excess of \$4,000,000.

The single maximum risks per occurrence to which we are subject under the new treaties effective July 1, 2015 are as follows:

Treaty	July 1, 2015 - June 30, 2016	
	Extent of Loss	Risk Retained
Personal Lines	Initial \$750,000	\$450,000
	\$750,000 - \$4,500,000	None(1)
	Over \$4,500,000	100%
Personal Umbrella	Initial \$1,000,000	\$100,000
	\$1,000,000 - \$3,000,000	None(1)
	Over \$3,000,000	100%
Commercial Lines	Initial \$425,000	\$425,000
	\$425,000 - \$4,500,000	None(1)
	Over \$4,500,000	100%
Commercial Auto	Initial \$300,000	\$300,000
	\$300,000 - \$2,000,000	None(1)
	Over \$2,000,000	100%
Catastrophe (2)	Initial \$4,000,000	\$2,400,000
	\$4,000,000 - \$180,000,000	None
	Over \$180,000,000	100%

The single maximum risks per occurrence to which we are subject under the treaties that expired on June 30, 2015 and 2014 are as follows:

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

(1) Covered by excess of loss treaties.

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

## **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.

## **Factors That May Affect Future Results and Financial Condition**

Based upon the factors set forth under "Factors That May Affect Future Results and Financial Condition" in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2014, as well as other factors affecting our operating results and financial condition, past financial performance should not be considered to be a reliable indicator of future performance, and investors should not use historical trends to anticipate results or trends in future periods. In addition, such factors, among others, may affect the accuracy of certain forward-looking statements contained in our periodic reports, including this Quarterly Report.

## **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

Not applicable

## **Item 4. Controls and Procedures.**

### ***Evaluation of Disclosure Controls and Procedures***

We maintain disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) that are designed to assure that information required to be disclosed in our Exchange Act reports 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 Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

As required by Exchange Act Rule 13a-15(b), as of the end of the period covered by this Annual Report, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2015.

### ***Changes in Internal Control over Financial Reporting***

There was no change in our internal control over financial reporting during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings.**

None

**Item 1A. Risk Factors.**

Not applicable

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

(a) None

(b) Not applicable

(c) The following table sets forth certain information with respect to purchases of common stock made by us or any "affiliated purchaser" during the quarter ended September 30, 2015:

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number of Shares that May Be Purchased Under the Plans or Programs</u>
7/1/15 – 7/31/15	-	-	-	-
8/1/15 – 8/31/15	1,000 <sup>(1)</sup>	\$ 8.09	-	-
9/1/15 – 9/30/15	-	-	-	-
Total	<u>1,000</u>	<u>\$ 8.09</u>	<u>-</u>	<u>-</u>

(1) Shares purchased by "affiliated purchaser".

**Item 3. Defaults Upon Senior Securities.**

None

**Item 4. Mine Safety Disclosures.**

Not applicable

**Item 5. Other Information.**

None

**Item 6. Exhibits.**

<u>Exhibit No.</u>	<u>Description</u>
3(a)	Restated Certificate of Incorporation, as amended <sup>1</sup>
3(b)	By-laws, as amended <sup>2</sup>
<a href="#">31(a)</a>	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
<a href="#">31(b)</a>	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
<a href="#">32</a>	Certification of Chief Executive Officer and Chief 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.

1 Denotes document filed as an exhibit to our Quarterly Report on Form 10-Q for the period ended March 31, 2014 and incorporated herein by reference.

2 Denotes document filed as an exhibit to our Current Report on Form 8-K for an event dated November 5, 2009 and incorporated herein by reference.



**SIGNATURES**

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

**KINGSTONE COMPANIES, INC.**

Dated: November 11, 2015

By: /s/ Barry B. Goldstein  
Barry B. Goldstein  
President

Dated: November 11, 2015

By: /s/ Victor Brodsky  
Victor Brodsky  
Chief Financial Officer

CERTIFICATION

I, Barry Goldstein, certify that:

1. I have reviewed this 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 small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officers 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 small business issuer 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 small business issuer, 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 small business issuer'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 small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer'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 small business issuer'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 small business issuer's internal control over financial reporting.

Date: November 11, 2015

/s/ Barry B. Goldstein

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Barry B. Goldstein  
Principal Executive Officer

CERTIFICATION

I, Victor Brodsky, certify that:

1. I have reviewed this 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 small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officers 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 small business issuer 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 small business issuer, 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 small business issuer'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 small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer'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 small business issuer'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 small business issuer's internal control over financial reporting.

Date: November 11, 2015

/s/ Victor Brodsky  
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Victor Brodsky  
Principal Financial Officer

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

The undersigned hereby certify, pursuant to, and as required by, 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Kingstone Companies, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2015 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.

Date: November 11, 2015

/s/ Barry B. Goldstein

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Barry B. Goldstein  
Principal Executive Officer

Date: November 11, 2015

/s/ Victor Brodsky

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Victor Brodsky  
Principal Financial Officer