

SECURITIES & EXCHANGE COMMISSION EDGAR FILING

KINGSTONE COMPANIES, INC.

Form: 8-K

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report: August 8, 2019
(Date of earliest event reported)

KINGSTONE COMPANIES, INC.
(Exact Name of Registrant as Specified in Charter)

<u>Delaware</u> (State or Other Jurisdiction of Incorporation)	<u>0-1665</u> (Commission File No.)	<u>36-2476480</u> (IRS Employer Identification Number)
<u>15 Joys Lane, Kingston, NY</u> (Address of Principal Executive Offices)		<u>12401</u> (Zip Code)

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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

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

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

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

Item 2.02 Results of Operations and Financial Condition.

On August 8, 2019, Kingstone Companies, Inc. (the "Company") issued a press release (the "Press Release") announcing its financial results for the fiscal period ended June 30, 2019. The Press Release also announced that the Company's Board of Directors has declared a \$0.0625 per share quarterly dividend payable on September 13, 2019 to stockholders of record at the close of business on August 30, 2019. A copy of the Press Release is furnished as Exhibit 99.1 hereto.

The information furnished with this Item 2.02, including Exhibit 99.1, shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to liabilities of that section, nor shall it be deemed incorporated by reference into any other filing under the Securities Act of 1933, as amended (the "Securities Act"), or the Exchange Act, except as expressly set forth by specific reference in such filing.

Item 7.01 Regulation FD Disclosure.

Attached as Exhibit 99.2 is additional financial information about the Company (the "Additional Financial Information").

The information furnished with this Item 7.01, including Exhibit 99.2, shall not be deemed as "filed" for purposes of Section 18 of the Exchange Act or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference into any other filing under the Securities Act, or the Exchange Act, except as expressly set forth by specific reference in such filing.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits:

[99.1](#) Press release, dated August 8, 2019, issued by Kingstone Companies, Inc.

[99.2](#) Additional Financial Information for Q2 2019.

SIGNATURES

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

KINGSTONE COMPANIES, INC.

Dated: August 8, 2019

By: /s/

Barry B. Goldstein
President & CEO



FOR IMMEDIATE RELEASE

Kingstone Announces 2019 Second Quarter Financial Results
Book Value Per Share Increases to \$8.14

Company to Host Conference Call on August 9, 2019 at 8:30 a.m. ET

Kingston, NY — August 8, 2019 – Kingstone Companies, Inc. (Nasdaq: KINS) (the “Company” or “Kingstone”), a Northeast regional property and casualty insurance holding company, today announced its financial results for the quarter ended June 30, 2019.

Financial and Operational Highlights

2019 Second Quarter

(All results are compared to prior year period unless otherwise noted)

- Direct written premiums¹ increased 21.6%; personal lines grew by 28.3%
- Net premiums earned increased 29.4% to \$31.2 million
- Net investment income increased 10.4% to \$1.7 million
- Second quarter 2019 net catastrophe losses, including associated loss adjustment expenses, are \$1.4 million compared to \$0.2 million
- Net loss ratio – all lines of 56.6% compared to 46.4%
- Net loss ratio excluding Commercial Lines¹ of 50.5% compared to 50.2%
- Net combined ratio of 94.1% compared to 84.2%. Net combined ratio excluding effect of catastrophe losses¹ of 89.5% compared to 82.9%
- Net income of \$1.6 million or \$0.15 per diluted share including an unrealized gain in value of equity securities and other investments of \$0.63 million or \$0.05 per diluted share, net of tax
- Net operating income¹ decreased to \$1.1 million or \$0.10 per diluted share
- Return on average common equity (annualized) of 7.6%
- Operating return on average common equity¹ (annualized) of 5.1% down from 12.9%

¹ These measures are not based on accounting principles generally accepted in the United States (“GAAP”) and are defined and reconciled to the most directly comparable GAAP measures in Form 8-K Exhibit 99.2 “Additional Financial Information for Q2 2019” (also available at www.kingstonecompanies.com).

Quarterly Dividend of \$0.0625 per share

The Company announced that its Board of Directors declared a quarterly dividend of \$0.0625 per share payable on September 13, 2019 to stockholders of record at the close of business on August 30, 2019.

Management Commentary

Barry Goldstein, Kingstone’s Chief Executive Officer, commented, “Following the departure of our former CEO and at the request of the Board, I returned on July 19th to the position I’d held beginning in 2001.”

My overall comments fall into two categories. Those are growth and profitability. Personal lines growth is being driven through our two prong diversification efforts. Geographic expansion, allowing us to rely less heavily on New York State, is meant to build Kingstone into a regional carrier in the Northeast. It was a strategy adopted and commenced in early 2017. Starting from scratch, we built a new product, which is deployed on new systems and through a lot of hand shaking and chicken dinners, we built an exceptional agent force, first in New Jersey, and then more recently in Rhode Island, Massachusetts and Connecticut. We await the approval of our homeowners filing from Maine, to allow us to write business in the Pine Tree State, hopefully before year end. The geographic buildout, while less than three years old, accounted for 36.7% of our Q2 new business for Personal Lines Direct Written Premium.

Second, following the April 2017 upgrade to "A- Excellent" by A.M. Best, we began to explore the various opportunities available to us, having reached this elevated status. Although it represented a change from our traditional independent agent distribution, we opened our Cosi Agency, Inc. ("Cosi") to act as a General Agent for KICO and build non-traditional relationships. For us, this is a second distribution channel. These agency relationships include partnerships with three of the nation's largest carriers, along with nationwide digital and call center agencies. While still in its infancy, Cosi accounted for 8.3% of our Personal Lines Direct Written Premium in Q2. At this point almost all of the Cosi business is in New York, but with the encouragement of our carrier partners I believe we will enter two additional states before year end.

The second point I'd like to discuss is profitability. Over the past several quarters we have observed declining commercial liability lines profitability that has weighed heavily on our recent results. In May we ceased writing new business and immediately upon my return to the CEO role, I announced that we would be exiting these lines. This was a difficult yet necessary decision that is meant to turn Kingstone into a virtually pure play regional homeowners company. While these policies accounted for about 12% of our total written premium as of the end of Q1, we are non-renewing all Artisans, Businessowners policies, Special Multi-Peril, and Commercial Umbrella policies, a process that should be completed before Q4 2020. We are now, with the assistance of our long term intermediary Aon, exploring the alternatives available through various reinsurance products that would allow us more certainty over the outstanding reserve obligations. We plan to make a decision as to which option is most appropriate for us and to have a path chosen by the end of the third quarter. I hope that by the fourth quarter of 2020, the negative influence of the commercial liability line will be totally gone, and the premiums we gave up from those lines will be replaced by growth in our personal lines.

The last point I'd like to make is that after many years of priding ourselves on fair and consistent pricing, we are now on a path to higher rates. Earlier this year we received approval to raise some of our homeowner rates for parts of New York City. We will soon be filing for increases in New Jersey and elsewhere in New York State."

(\$ in thousands except per share data)	Three Months Ended			Six Months Ended		
	2019	2018	% Change	2019	2018	% Change
Direct written premiums ¹	\$ 44,821	\$ 36,864	21.6%	\$ 82,310	\$ 68,390	20.4%
Net written premiums ¹	\$ 36,621	\$ 27,965	31.0%	\$ 66,982	\$ 51,665	29.6%
Net premiums earned	\$ 31,201	\$ 24,105	29.4%	\$ 60,797	\$ 46,942	29.5%
Total ceding commission revenue	\$ 676	\$ 1,691	-60.0%	\$ 1,953	\$ 3,386	-42.3%
Net investment income	\$ 1,720	\$ 1,557	10.4%	\$ 3,343	\$ 2,941	13.7%
U.S. GAAP Net income (loss)	\$ 1,639	\$ 2,757	-40.6%	\$ (5,696)	\$ 39	-14705.1%
U.S. GAAP Diluted earnings (loss) per share	\$ 0.15	\$ 0.25	-40.0%	\$ (0.53)	\$ -	na
Comprehensive income (loss)	\$ 4,556	\$ 1,651	176.0%	\$ 548	\$ (3,144)	-117.4%
Net operating income (loss) ¹	\$ 1,103	\$ 2,842	-61.2%	\$ (7,840)	\$ 537	-1560.0%
Net operating income (loss) diluted earnings (loss) ¹ per share	\$ 0.10	\$ 0.26	-61.5%	\$ (0.73)	\$ 0.05	-1560.0%
Return on average equity (annualized)	7.6%	12.5%	-4.9 pts	-12.9%	0.1%	-13 pts
Net loss ratio	56.6%	46.4%	10.2 pts	77.0%	60.6%	16.4 pts
Net underwriting expense ratio	37.5%	37.8%	-0.3 pts	38.0%	38.2%	-0.2 pts
Net combined ratio	94.1%	84.2%	9.9 pts	115.0%	98.8%	16.2 pts
Effect of catastrophes on net combined ratio	4.6 pts	1.3 pts	3.3 pts	10.7 pts	13 pts	-2.3 pts
Net combined ratio excluding the effect of catastrophes ¹	89.5%	82.9%	6.6 pts	104.3%	85.8%	18.5 pts

¹ These measures are not based on GAAP and are defined and reconciled to the most directly comparable GAAP measures in Form 8-K Exhibit 99.2 "Additional Financial Information for Q2 2019" (also available at www.kingstonecompanies.com).

2019 Second Quarter Financial Review

Net Income:

There was net income of \$1.64 million during the three-month period ended June 30, 2019, compared to a net income of \$2.76 million in the prior year period. The decrease in net income can be attributed primarily to a 10.2 point increase in net loss ratio driven by adverse prior year development, an increased impact from catastrophe losses, and higher loss ratios for Commercial Lines business as described in the Net Loss Ratio section below.

Earnings per share ("EPS"):

Kingstone reported EPS of \$0.15 per diluted share for the three months ended June 30, 2019, compared to \$0.25 per diluted share for the three months ended June 30, 2018. EPS for the three-month periods ended June 30, 2019 and 2018 was based on 10.79 million and 10.82 million weighted average diluted shares outstanding, respectively.

Direct Written Premiums, Net Written Premiums and Net Premiums Earned (See Definitions and Non-GAAP Measures below):

Direct written premiums for the second quarter of 2019 were \$44.8 million, an increase of 21.6% from \$36.9 million in the prior year period. The increase is primarily attributable to a 18.8% increase in the total number of policies in-force as of June 30, 2019 as compared to June 30, 2018.

We refer to our New York business as “Core”¹ and the business in newly licensed states as “Expansion”¹. “Expansion Direct Written Premiums”¹ for the second quarter of 2019 were \$6.3 million, an increase of \$4.1 million from the \$2.2 million written in the prior year period.

Net written premiums increased 31.0% to \$36.6 million during the three-month period ended June 30, 2019 from \$28.0 million in the prior year period. The increase was due to growth and the reduction of our personal lines quota share reinsurance rate to 10% on July 1, 2018, from the prior rate of 20%.

Net premiums earned for the quarter ended June 30, 2019 increased 29.4% to \$31.2 million, compared to \$24.1 million in the quarter ended June 30, 2018. The increase was also attributable to growth and the reduction of our personal lines quota share reinsurance rate to 10% on July 1, 2018, from the prior rate of 20%.

Net Loss Ratio:

For the quarter ended June 30, 2019, the Company’s net loss ratio was 56.6%, compared to 46.4% in the prior period. During the second quarter of 2019 the net loss ratio increased by 10.2% when compared to 2018 for several reasons. First, a continued evaluation of our reserve levels resulted in an additional \$1.6 million of prior year development in the quarter, impacting our net loss ratio by 5.0 points compared to 1.4 points in the second quarter of 2018. Prior year loss development for the quarter was primarily related to additional case reserve strengthening on older commercial lines liability claims, impacting our assessment of ultimate loss ratios for that line of business. In addition to the impact from prior year development, there was a 4.6 point impact from catastrophes recorded during the second quarter of 2019 compared to a 0.8 point impact from the second quarter of 2018. The catastrophe impact for the second quarter 2019 was unusually high for a second quarter, and was mostly driven by a strong wind event on the last day of June. Finally, the underlying loss ratio excluding the impact of catastrophes and prior year development was 47.1% in the second quarter of 2019, compared to 44.2% in the second quarter of 2018, an increase of 2.9 points. The underlying loss ratio increased primarily due to the significantly higher commercial lines loss ratio expectation for the current accident year, resulting from prior year reserve strengthening as noted above.

Net Other Underwriting Expense Ratio:

For the quarter ended June 30, 2019, the net underwriting expense ratio was 37.5% as compared to 37.8% in the prior year period, a decrease of 0.3 percentage points.

Net Combined Ratio:

Kingstone’s net combined ratio was 94.1% for the three-month period ended June 30, 2019, compared to 84.2% for the prior year period. The increase was driven by the increase in loss ratio as outlined above.

Balance Sheet / Investment Portfolio

Kingstone’s cash and investment holdings were \$212.1 million at June 30, 2019 compared to \$186.3 million at June 30, 2018. The Company’s investment holdings are comprised primarily of investment grade corporate, mortgage-backed and municipal securities, with fixed income investments representing approximately 87.0% of total investments at June 30, 2019 and 89.5% at June 30, 2018. The Company’s effective duration on its fixed-income portfolio is 4.2 years.

Net investment income increased 10.4% to \$1.72 million for the second quarter of 2019 from \$1.56 million in the prior year period. The increase was largely due to an increase in invested assets.

Accumulated Other Comprehensive Income/Loss (AOCI), net of tax

As of June 30, 2019, AOCI was \$3.40 million compared to \$(2.50) million at June 30, 2018.

Book Value

The Company's book value per share at June 30, 2019 was \$8.14, a decrease of 2.2% compared to \$8.32 at June 30, 2018.

¹ These measures are not based on GAAP and are defined and reconciled to the most directly comparable GAAP measures in Form 8-K Exhibit 99.2 "Additional Financial Information for Q2 2019" (also available at www.kingstonecompanies.com).

FOR ADDITIONAL INFORMATION PLEASE VISIT OUR WEBSITE AT WWW.KINGSTONECOMPANIES.COM.

Conference Call Details

Management will discuss the Company's operations and financial results in a conference call on Friday, August 9, 2019, at 8:30 a.m. ET.

The dial-in numbers are:

(877) 407-3105 (U.S.)

(201) 493-6794 (International)

Accompanying Webcast

The call will be simultaneously webcast over the Internet via the Kingstone website or by clicking on the conference call link:

[Kingstone Companies Q2 2019 Earnings Call Webcast](#)

The webcast will be archived and accessible for approximately 30 days.

Definitions and Non-GAAP Measures

Direct written premiums represent the total premiums charged on policies issued by the Company during the respective fiscal period. **Net premiums written** are direct written premiums less premiums ceded to reinsurers. Net premiums earned are net premiums written that are pro-rata earned during the fiscal period presented. All of the Company's policies are written for a twelve-month period. Management uses direct written premiums and net written premiums, along with other measures, to gauge the Company's performance and evaluate results.

Expansion direct written premiums - represents the total premiums charged on policies issued by the Company during the respective fiscal period from its business located in newly licensed states (i.e., outside New York).

Net operating income - is net income (loss) exclusive of realized investment gains, net of tax. Net income (loss) is the GAAP measure most closely comparable to net operating income.

Operating return on average common equity - is net operating income divided by average common equity. Return on average common equity is the GAAP measure most closely comparable to operating return on average common equity.

Management uses net operating income and operating return on average common equity, along with other measures, to gauge the Company's performance and evaluate results, which can be skewed when including realized investment gains, which may vary significantly between periods. Net operating income and operating return on average common equity are provided as supplemental information, are not a substitute for net income or return on average common equity and do not reflect the Company's overall profitability or return on average common equity.

Net loss ratio excluding Commercial Lines - is a non-GAAP ratio, which is computed as the difference between GAAP net loss ratio and commercial lines net loss ratio.

Net loss ratio excluding the effect of catastrophes - is a non-GAAP ratio, which is computed as the difference between GAAP net loss ratio and the effect of catastrophes on the net loss ratio. **Net combined ratio excluding the effect of catastrophes** - is a non-GAAP ratio, which is computed as the difference between GAAP net combined ratio and the effect of catastrophes on the net combined ratio.

We believe that these ratios are useful to investors and they are used by management to reveal the trends in our business that may be obscured by catastrophe losses. Catastrophe losses cause our loss trends to vary significantly between periods as a result of their incidence of occurrence and magnitude, and can have a significant impact on the net loss ratio and net combined ratio. We believe these measures are useful for investors to evaluate these components separately and in the aggregate when reviewing our underwriting performance. We also provide them to facilitate a comparison to our outlook on the net combined ratio excluding the effect of catastrophes. The most directly comparable GAAP measures are the net loss ratio and net combined ratio. The net loss ratio excluding the effect of catastrophes and net combined ratio excluding the effect of catastrophes should not be considered a substitute for the net loss ratio and net combined ratio and do not reflect the Company's net loss ratio and net combined ratio.

About Kingstone Companies, Inc.

Kingstone is a northeast regional property and casualty insurance holding company whose principal operating subsidiary is Kingstone Insurance Company ("KICO"). KICO is a multi-line carrier writing business through retail and wholesale agents and brokers. KICO offers primarily personal lines insurance products to individuals as well as various small business coverages. Actively writing in New York, New Jersey, Rhode Island, Massachusetts, Connecticut and Pennsylvania, Kingstone is also licensed (but not yet active) in New Hampshire and Maine.

Forward-Looking Statement

Statements in this press release may contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, may be forward-looking statements. These statements are based on management's current expectations and are subject to uncertainty and changes in circumstances. These statements involve risks and uncertainties that could cause actual results to differ materially from those included in forward-looking statements due to a variety of factors. For more details on factors that could affect expectations, see Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2018 under "Factors That May Affect Future Results and Financial Condition." Kingstone undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

CONTACT:

Kingstone Companies, Inc.

Amanda M. Goldstein
Investor Relations Director
(516) 960-1319



Additional Financial Information for Q2 2019

Definitions and Non-GAAP Measures

Direct written premiums represents the total premiums charged on policies issued by the Company during the respective fiscal period. **Net premiums written** are direct written premiums less premiums ceded to reinsurers. Net premiums earned are net premiums written that are pro-rata earned during the fiscal period presented. All of the Company's policies are written for a twelve month period. Management uses direct written premiums and net written premiums, along with other measures, to gauge the Company's performance and evaluate results.

Expansion direct written premiums - represents the total premiums charged on policies issued by the Company during the respective fiscal period from its business located in newly licensed states (i.e., outside New York).

Net operating income - is net income exclusive of realized investment gains, net of tax. Net income is the GAAP measure most closely comparable to net operating income.

Operating return on average common equity - is net operating income divided by average common equity. Return on average common equity is the GAAP measure most closely comparable to operating return on average common equity.

Management uses net operating income and operating return on average common equity, along with other measures, to gauge the Company's performance and evaluate results, which can be skewed when including realized investment gains, which may vary significantly between periods. Net operating income and operating return on average common equity are provided as supplemental information, are not a substitute for net income or return on average common equity and do not reflect the Company's overall profitability or return on average common equity.

Net loss ratio excluding Commercial Lines - is a non-GAAP ratio, which is computed as the difference between GAAP net loss ratio and commercial lines net loss ratio.

Net loss ratio excluding the effect of catastrophes - is a non-GAAP ratio, which is computed as the difference between GAAP net loss ratio and the effect of catastrophes on the net loss ratio. **Net combined ratio excluding the effect of catastrophes** - is a non-GAAP ratio, which is computed as the difference between GAAP net combined ratio and the effect of catastrophes on the net combined ratio.

We believe that these ratios are useful to investors and they are used by management to reveal the trends in our business that may be obscured by catastrophe losses. Catastrophe losses cause our loss trends to vary significantly between periods as a result of their incidence of occurrence and magnitude, and can have a significant impact on the net loss ratio and net combined ratio. We believe these measures are useful for investors to evaluate these components separately and in the aggregate when reviewing our underwriting performance. We also provide them to facilitate a comparison to our outlook on the net combined ratio excluding the effect of catastrophes. The most directly comparable GAAP measure are the net loss ratio and net combined ratio. The net loss ratio excluding the effect of catastrophes and net combined ratio excluding the effect of catastrophes should not be considered a substitute for the net loss ratio and the net combined ratio and do not reflect the Company's net loss ratio and net combined ratio.

Book Value Per Share

The Company's book value per share at June 30, 2019 was \$8.14, a decrease of 2.2% compared to \$8.32 at June 30, 2018.

	30-Jun-19	31-Mar-19	31-Dec-18	30-Sep-18	30-Jun-18
Book Value Per Share	\$ 8.14	\$ 7.78	\$ 8.25	\$ 8.54	\$ 8.32
<i>% Increase from specified period to 6/30/19</i>		4.6%	-1.4%	-4.7%	-2.2%

The table below details the direct written premiums, net written premiums, and net premiums earned for the periods indicated:

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2019	2018	\$ Change	% Change	2019	2018	\$ Change	% Change
(000's except percentages)								
Direct and Net Written Premiums Reconciliation:								
Direct written premiums	\$ 44,821	\$ 36,864	\$ 7,957	21.6%	\$ 82,310	\$ 68,390	\$ 13,920	20.4%
Assumed written premiums	-	-	-	na%	-	1	(1)	(100.0%)
Ceded written premiums	(8,200)	(8,899)	699	(7.9)%	(15,328)	(16,726)	1,398	(8.4)%
Net written premiums	36,621	27,965	8,656	31.0%	66,982	51,665	15,317	29.6%
Change in unearned premiums	(5,420)	(3,860)	(1,560)	40.4%	(6,185)	(4,723)	(1,462)	31.0%
Net premiums earned	<u>\$ 31,201</u>	<u>\$ 24,105</u>	<u>\$ 7,096</u>	<u>29.4%</u>	<u>\$ 60,797</u>	<u>\$ 46,942</u>	<u>\$ 13,855</u>	<u>29.5%</u>

The table below details the Core direct written premiums, Expansion direct written premiums, and direct written premiums for the periods indicated:

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2019	2018	\$ Change	% Change	2019	2018	\$ Change	% Change
(000's except percentages)								
Core and Expansion Direct Written Premiums Reconciliation:								
Core direct written premiums	\$ 38,524	\$ 34,697	\$ 3,827	11.0%	\$ 72,781	\$ 65,326	\$ 7,455	11.4%
Expansion direct written premiums	6,297	2,167	4,130	190.6%	9,529	3,064	6,465	211.0%
Direct written premiums	<u>\$ 44,821</u>	<u>\$ 36,864</u>	<u>\$ 7,957</u>	<u>21.6%</u>	<u>\$ 82,310</u>	<u>\$ 68,390</u>	<u>\$ 13,920</u>	<u>20.4%</u>

The following table reconciles net operating income (loss) to net income (loss) and operating return on average common equity to return on average common equity for the periods indicated:

	Three Months Ended June 30, 2019		Three Months Ended June 30, 2018		Six Months Ended June 30, 2019		Six Months Ended June 30, 2018	
	Amount	Diluted earnings per common share	Amount	Diluted earnings per common share	Amount	Diluted earnings per common share	Amount	Diluted earnings per common share
(000's except per common share amounts and percentages)								
Net Operating Income and Diluted Earnings per Common Share Reconciliation:								
Net income (loss)	\$ 1,639	\$ 0.15	\$ 2,757	\$ 0.25	\$ (5,696)	\$ (0.53)	\$ 39	\$ 0.00
Net realized (gain) loss on investments	(679)		107		(2,714)		630	
Less tax (expense) benefit on net realized (gain) loss	(143)		22		(570)		132	
Net realized (gain) loss on investments, net of taxes	(536)	\$ (0.05)	85	\$ 0.01	(2,144)	\$ (0.20)	498	\$ 0.05
Net operating income (loss)	\$ 1,103	\$ 0.10	\$ 2,842	\$ 0.26	\$ (7,840)	\$ (0.73)	\$ 537	\$ 0.05
Weighted average diluted shares outstanding	10,785,064		10,820,322		10,764,824		10,828,020	
Operating Return on Average Common Equity (Annualized for Quarterly Periods) Reconciliation:								
Net income (loss)	\$ 1,639		\$ 2,757		\$ (5,696)		\$ 39	
Average common equity	\$ 85,722		\$ 88,444		\$ 88,168		\$ 91,652	
Return on average common equity (annualized for quarterly periods)	7.6%		12.5%		-12.9%		0.1%	
Net realized (gain) loss on investments, net of taxes	\$ (536)		\$ 85		\$ (2,144)		\$ 498	
Average common equity	\$ 85,722		\$ 88,444		\$ 88,168		\$ 91,652	
Effect of net realized loss on investments, net of taxes, on return on average common equity (annualized for quarterly periods)	-2.5%		0.4%		-4.9%		1.1%	
Net operating income (loss)	\$ 1,103		\$ 2,842		\$ (7,840)		\$ 537	
Average common equity	\$ 85,722		\$ 88,444		\$ 88,168		\$ 91,652	
Operating return on average common equity (annualized for quarterly periods)	5.1%		12.9%		-17.8%		1.2%	

The following table reconciles the net loss ratio excluding commercial lines to the net loss ratio for the periods indicated:

	For the Three Months Ended June 30,			For the Six Months Ended June 30,				
	2019	2018	Change	2019	2018	Change		
Net Loss Ratio Excluding Commercial lines Reconciliation:								
Net loss and loss adjustment expenses ("Net loss")								
Net loss excluding commercial lines	\$ 13,905	\$ 10,375	\$ 3,530	34.0%	\$ 36,370	\$ 25,192	\$ 11,178	44.4%
Commercial lines net loss	3,767	801	2,966	370.3%	10,436	3,250	7,186	221.1%
Net loss	17,672	11,176	6,496	58.1%	46,806	28,442	18,364	64.6%
Net premiums earned								
Net premiums earned excluding commercial lines	27,509	20,681	6,828	33.0%	53,506	40,288	13,218	32.8%
Commercial lines net premiums earned	3,692	3,424	268	7.8%	7,291	6,654	637	9.6%
Net premiums earned	31,201	24,105	7,096	29.4%	60,797	46,942	13,855	29.5%
Net loss ratio excluding commercial lines	50.5%	50.2%	0.3	pts	68.0%	62.5%	5.5	pts
Net loss ratio	56.6%	46.4%	10.2	pts	77.0%	60.6%	16.4	pts

The following table reconciles the net loss ratio excluding the effects of catastrophes to the net loss ratio for the periods indicated:

	For the Three Months Ended June 30,			For the Six Months Ended June 30,				
	2019	2018	Percentage Point Change	2019	2018	Percentage Point Change		
Net Loss Ratio Excluding the Effect of Catastrophes Reconciliation:								
Net loss ratio excluding the effect of catastrophes	52.0%	45.6%	6.4	pts	66.3%	48.4%	17.9	pts
Effect of catastrophe losses	4.6%	0.8%	3.8	pts	10.7%	12.2%	(1.5)	pts
Net loss ratio	56.6%	46.4%	10.2	pts	77.0%	60.6%	16.4	pts

The following table reconciles the net combined ratio excluding the effects of catastrophes to the net combined ratio for the periods indicated:

	For the Three Months Ended			For the Six Months Ended				
	June 30,			June 30,				
	2019	2018	Percentage Point Change	2019	2018	Percentage Point Change		
Net Combined Ratio Excluding the Effect of Catastrophes Reconciliation:								
Net combined ratio excluding the effect of catastrophes	89.5%	82.9%	6.6	pts	104.3%	85.8%	18.5	pts
Effect of catastrophe losses								
Net loss and loss adjustment expenses	4.6%	0.8%	3.8	pts	10.7%	12.2%	(1.5)	pts
Net underwriting expense ratio	0.0%	0.5%	(0.5)	pts	0.0%	0.8%	(0.8)	pts
Total effect of catastrophe losses	4.6%	1.3%	3.3	pts	10.7%	13.0%	(2.3)	pts
Net combined ratio	94.1%	84.2%	9.9	pts	115.0%	98.8%	16.2	pts

The following table reconciles net operating income (loss) and diluted operating earnings (loss) per share exclusive of catastrophe financial impact to net operating income (loss) and diluted operating earnings (loss) per share for the periods indicated:

	For the Three Months Ended				For the Six Months Ended			
	June 30,				June 30,			
	2019		2018		2019		2018	
	Amount	Diluted earnings per common share	Amount	Diluted earnings per common share	Amount	Diluted earnings per common share	Amount	Diluted earnings per common share
<i>(000's except per common share amounts)</i>								
Net Operating Income and Diluted Operating Earnings per Share Exclusive of Catastrophe Financial Impact:								
Net operating income (loss)	\$ 1,103	\$ 0.10	\$ 2,842	\$ 0.26	\$ (7,840)	\$ (0.73)	\$ 537	\$ 0.05
Catastrophe financial impact								
Ceding commission revenue	-		125		-		459	
Total expenses	1,437		160		6,501		4,868	
Income from operations before taxes	1,437		285		6,501		5,327	
Income tax expense	302		25		1,365		1,119	
Total catastrophe financial impact	1,135	\$ 0.11	260	\$ 0.02	5,136	\$ 0.48	4,208	\$ 0.39
Net operating income (loss) exclusive of catastrophe financial impact	\$ 2,238	\$ 0.21	\$ 3,102	\$ 0.28	\$ (2,704)	\$ (0.25)	\$ 4,745	\$ 0.44
Weighted average diluted shares outstanding	10,785,064		10,820,322		10,764,824		10,828,020	

The following table summarizes gross and net written premiums, 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		For the Six Months Ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Gross premiums written:				
Personal lines	\$ 38,047,987	\$ 29,652,128	\$ 68,146,956	\$ 54,477,580
Livery physical damage	2,878,749	2,424,499	5,608,835	4,778,569
Other(1)	61,806	56,093	134,877	116,799
Total without commercial lines	40,988,542	32,132,720	73,890,668	59,372,948
Commercial lines (in run-off effective July 2019)(2)	3,832,848	4,731,445	8,419,236	9,017,836
Total gross premiums written	\$ 44,821,390	\$ 36,864,165	\$ 82,309,904	\$ 68,390,784
Net premiums written:				
Personal lines(3)	\$ 30,340,230	\$ 21,219,892	\$ 53,844,093	\$ 38,663,803
Livery physical damage	2,878,749	2,422,499	5,608,835	4,778,569
Other(1)	55,984	48,228	122,280	96,260
Total without commercial lines	33,274,963	23,690,619	59,575,208	43,538,632
Commercial lines (in run-off effective July 2019)(2)	3,346,540	4,274,058	7,406,901	8,126,429
Total net premiums written	\$ 36,621,503	\$ 27,964,676	\$ 66,982,109	\$ 51,665,060
Net premiums earned:				
Personal lines(3)	\$ 24,828,974	\$ 18,231,382	\$ 48,249,848	\$ 35,271,638
Livery physical damage	2,620,857	2,401,376	5,138,539	4,922,060
Other(1)	59,404	48,144	117,421	94,851
Total without commercial lines	27,509,235	20,680,902	53,505,808	40,288,549
Commercial lines (in run-off effective July 2019)(2)	3,692,044	3,423,712	7,291,360	6,653,682
Total net premiums earned	\$ 31,201,279	\$ 24,104,614	\$ 60,797,168	\$ 46,942,231
Net loss and loss adjustment expenses(4):				
Personal lines	\$ 11,874,563	\$ 8,482,526	\$ 32,277,107	\$ 21,443,732
Livery physical damage	1,203,457	1,101,715	2,420,760	2,265,796
Other(1)	176,061	318,304	326,565	376,978
Unallocated loss adjustment expenses	651,142	472,876	1,345,792	1,105,647
Total without commercial lines	13,905,223	10,375,421	36,370,224	25,192,153
Commercial lines (in run-off effective July 2019)(2)	3,767,085	800,664	10,436,308	3,250,262
Total net loss and loss adjustment expenses	\$ 17,672,308	\$ 11,176,085	\$ 46,806,532	\$ 28,442,415
Net loss ratio(4):				
Personal lines	47.8%	46.5%	66.9%	60.8%
Livery physical damage	45.9%	45.9%	47.1%	46.0%
Other(1)	296.4%	661.2%	278.1%	397.4%
Total without commercial lines	50.5%	50.2%	68.0%	62.5%
Commercial lines (in run-off effective July 2019)(2)	102.0%	23.4%	143.1%	48.8%
Total	56.6%	46.4%	77.0%	60.6%

1. "Other" includes, among other things, premiums and loss and loss adjustment expenses from our participation in a mandatory state joint underwriting association and loss and loss adjustment expenses from commercial auto.
2. In July 2019, the Company decided that it will no longer underwrite Commercial Liability risks. See discussions above regarding the discontinuation of this line of business.
3. See discussions above with regard to "Net Written Premiums and Net Premiums Earned", as to changes in quota share ceding rates, effective July 1, 2018 and 2017.
4. See discussions above with regard to "Net Loss and LAE", as to catastrophe losses in 2019 and 2018.

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

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Revenues				
Net premiums earned	\$ 31,201,279	\$ 24,104,614	\$ 60,797,168	\$ 46,942,231
Ceding commission revenue	675,695	1,691,168	1,953,378	3,386,326
Net investment income	1,719,769	1,556,866	3,343,481	2,940,855
Net gains (losses) on investments	678,655	(106,733)	2,714,018	(629,860)
Other income	329,972	300,271	695,873	608,504
Total revenues	<u>34,605,370</u>	<u>27,546,186</u>	<u>69,503,918</u>	<u>53,248,056</u>
Expenses				
Loss and loss adjustment expenses	17,672,308	11,176,085	46,806,532	28,442,415
Commission expense	7,299,173	6,017,189	14,152,589	11,817,137
Other underwriting expenses	5,416,449	5,075,986	11,552,440	10,107,489
Other operating expenses	1,097,468	843,816	2,068,640	1,090,674
Depreciation and amortization	627,669	424,161	1,230,001	833,592
Interest expense	456,545	451,962	913,090	908,507
Total expenses	<u>32,569,612</u>	<u>23,989,199</u>	<u>76,723,292</u>	<u>53,199,814</u>
Income (loss) before taxes	2,035,758	3,556,987	(7,219,374)	48,242
Income tax expense (benefit)	396,378	799,690	(1,523,564)	8,879
Net income (loss)	<u>1,639,380</u>	<u>2,757,297</u>	<u>(5,695,810)</u>	<u>39,363</u>
Other comprehensive income (loss), net of tax				
Gross change in unrealized gains (losses) on available-for-sale-securities	3,679,475	(1,475,767)	7,868,191	(4,349,246)
Reclassification adjustment for losses included in net income	12,364	76,126	34,795	319,899
Net change in unrealized gains (losses)	3,691,839	(1,399,641)	7,902,986	(4,029,347)
Income tax benefit (expense) related to items of other comprehensive income (loss)	(775,285)	293,723	(1,659,626)	845,961
Other comprehensive income (loss), net of tax	<u>2,916,554</u>	<u>(1,105,918)</u>	<u>6,243,360</u>	<u>(3,183,386)</u>
Comprehensive income (loss)	<u>\$ 4,555,934</u>	<u>\$ 1,651,379</u>	<u>\$ 547,550</u>	<u>\$ (3,144,023)</u>
Earnings (loss) per common share:				
Basic	\$ 0.15	\$ 0.26	\$ (0.53)	\$ 0.00
Diluted	\$ 0.15	\$ 0.25	\$ (0.53)	\$ 0.00
Weighted average common shares outstanding				
Basic	10,771,717	10,664,806	10,764,824	10,667,385
Diluted	10,785,064	10,820,322	10,764,824	10,828,020
Dividends declared and paid per common share	<u>\$ 0.1000</u>	<u>\$ 0.1000</u>	<u>\$ 0.2000</u>	<u>\$ 0.2000</u>

Condensed Consolidated Balance Sheets

	June 30, 2019 (unaudited)	December 31, 2018
Assets		
Fixed-maturity securities, held-to-maturity, at amortized cost (fair value of \$4,114,072 at June 30, 2019 and \$4,426,416 at December 31, 2018)	\$ 3,824,620	\$ 4,222,855
Fixed-maturity securities, available-for-sale, at fair value (amortized cost of \$160,085,628 at June 30, 2019 and \$155,431,261 at December 31, 2018)	164,334,869	151,777,516
Equity securities, at fair value (cost of \$22,254,788 at June 30, 2019 and \$18,305,986 at December 31, 2018)	22,738,950	16,572,616
Other investments	2,335,874	1,855,225
Total investments	193,234,313	174,428,212
Cash and cash equivalents	18,895,805	21,138,403
Premiums receivable, net	14,958,200	13,961,599
Reinsurance receivables, net	28,643,360	26,367,115
Deferred policy acquisition costs	19,413,809	17,907,737
Intangible assets, net	500,000	670,000
Property and equipment, net	7,350,068	6,056,929
Deferred income taxes, net	216,474	354,233
Other assets	6,256,815	5,867,850
Total assets	\$ 289,468,844	\$ 266,752,078
Liabilities		
Loss and loss adjustment expense reserves	\$ 69,675,120	\$ 56,197,106
Unearned premiums	85,488,146	79,032,131
Advance premiums	3,468,225	2,107,629
Reinsurance balances payable	2,806,903	1,933,376
Deferred ceding commission revenue	3,100,156	2,686,677
Accounts payable, accrued expenses and other liabilities	7,877,191	6,819,231
Income taxes payable	-	15,035
Long-term debt, net	29,383,341	29,295,251
Total liabilities	201,799,082	178,086,436
Commitments and Contingencies		
Stockholders' Equity		
Preferred stock, \$.01 par value; authorized 2,500,000 shares	-	-
Common stock, \$.01 par value; authorized 20,000,000 shares; issued 11,802,087 shares at June 30, 2019 and 11,775,148 shares at December 31, 2018; outstanding 10,774,648 shares at June 30, 2019 and 10,747,709 shares at December 31, 2018	118,020	117,751
Capital in excess of par	68,373,590	67,763,940
Accumulated other comprehensive income (loss)	3,359,047	(2,884,313)
Retained earnings	18,531,657	26,380,816
	90,382,314	91,378,194
Treasury stock, at cost, 1,027,439 shares at June 30, 2019 and at December 31, 2018	(2,712,552)	(2,712,552)
Total stockholders' equity	87,669,762	88,665,642
Total liabilities and stockholders' equity	\$ 289,468,844	\$ 266,752,078