

KINGSTONE COMPANIES, INC.
Form 10-Q
August 15, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended June 30, 2011

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)

1154 Broadway
Hewlett, NY 11557
(Address of principal executive offices)

(516) 374-7600
(Registrant's telephone number, including area code)

(Former Name, if Changed Since Last Report)

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 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 definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>	Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
				(Do not check if a smaller reporting company)			

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

As of August 15, 2011, there were 3,838,386 shares of the registrant’s common stock outstanding.

KINGSTONE COMPANIES, INC.

INDEX

	PAGE
PART I — FINANCIAL INFORMATION	2
Item 1 — Financial Statements	2
Condensed Consolidated Balance Sheets at June 30, 2011 (Unaudited) and December 31, 2010	2
Condensed Consolidated Statements of Operations and Comprehensive Income for the three months and six months ended June 30, 2011 (Unaudited) and 2010 (Unaudited)	3
Condensed Consolidated Statement of Stockholders' Equity for the six months ended June 30, 2011 (Unaudited)	4
Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2011 (Unaudited) and 2010 (Unaudited)	5
Notes to Condensed Consolidated Financial Statements (Unaudited)	6
Item 2 — Management's Discussion and Analysis of Financial Condition and Results of Operations	24
Item 3 — Quantitative and Qualitative Disclosures About Market Risk	40
Item 4 — Controls and Procedures	40
PART II — OTHER INFORMATION	41
Item 1 — Legal Proceedings	41
Item 1A — Risk Factors	41
Item 2 — Unregistered Sales of Equity Securities and Use of Proceeds	41
Item 3 — Defaults Upon Senior Securities	41
Item 4 — Reserved	41
Item 5 — Other Information	41
Item 6 — Exhibits	41
Signatures	
EXHIBIT 31(a)	
EXHIBIT 31(b)	
EXHIBIT 32	
EXHIBIT 101.INS XBRL Instance Document	
EXHIBIT 101.SCH XBRL Taxonomy Extension Schema	
EXHIBIT 101.CAL XBRL Taxonomy Extension Calculation Linkbase	
EXHIBIT 101.DEF XBRL Taxonomy Extension Definition Linkbase	
EXHIBIT 101.LAB XBRL Taxonomy Extension Label Linkbase	
EXHIBIT 101.PRE XBRL Taxonomy Extension Presentation Linkbase	

Forward-Looking Statements

This Quarterly Report 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, 2010 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

	June 30, 2011 (unaudited)	December 31, 2010*
Assets		
Fixed-maturity securities, held to maturity, at amortized cost (fair value of \$596,683 at June 30, 2011 and \$606,398 at December 31, 2010)	\$606,234	\$605,424
Fixed-maturity securities, available for sale, at fair value (amortized cost of \$18,226,972 at June 30, 2011 and \$16,277,052 at December 31, 2010)	18,570,793	16,339,101
Equity securities, available-for-sale, at fair value (cost of \$2,741,606 at June 30, 2011 and \$2,825,015 at December 31, 2010)	2,951,160	2,983,035
Total investments	22,128,187	19,927,560
Cash and cash equivalents	87,184	326,620
Premiums receivable, net of provision for uncollectible amounts	6,239,129	5,001,886
Receivables - reinsurance contracts	2,902,903	1,174,729
Reinsurance receivables, net of provision for uncollectible amounts	23,043,406	20,720,194
Notes receivable-sale of business	407,341	705,019
Deferred acquisition costs	4,205,661	3,619,001
Intangible assets, net	3,898,529	4,136,386
Property and equipment, net of accumulated depreciation	1,532,742	1,585,029
Other assets	624,886	1,486,249
Total assets	\$65,069,968	\$58,682,673
Liabilities		
Loss and loss adjustment expenses	\$18,505,367	\$17,711,907
Unearned premiums	20,190,149	17,277,332
Advance premiums	605,578	410,574
Reinsurance balances payable	3,004,668	1,106,897
Deferred ceding commission revenue	3,672,391	3,219,513
Notes payable and capital lease obligations (includes payable to related parties of \$378,000 at June 30, 2011 and \$785,000 at December 31, 2010)	747,000	1,460,997
Accounts payable, accrued expenses and other liabilities	2,115,744	2,553,031
Income taxes payable	164,876	-
Deferred income taxes	1,935,645	1,998,557
Total liabilities	50,941,418	45,738,808
Commitments and Contingencies		
Stockholders' Equity		
Common stock, \$.01 par value; authorized 10,000,000 shares; issued 4,643,122 shares;		

Edgar Filing: KINGSTONE COMPANIES, INC. - Form 10-Q

outstanding 3,838,386 shares	46,432	46,432
Preferred stock, \$.01 par value; authorized 1,000,000 shares; -0- shares issued and outstanding	-	-
Capital in excess of par	13,698,061	13,633,913
Accumulated other comprehensive income	365,229	145,247
Retained earnings	1,182,086	281,531
	15,291,808	14,107,123
Treasury stock, at cost, 804,736 shares	(1,163,258)	(1,163,258)
Total stockholders' equity	14,128,550	12,943,865
Total liabilities and stockholders' equity	\$65,069,968	\$58,682,673

* derived from audited financial information

See accompanying notes to condensed consolidated financial statements.

KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations and Comprehensive Income (Unaudited)

	For the Three Months		For the Six Months Ended	
	Ended June 30, 2011	2010	June 30, 2011	2010
Revenues				
Net premiums earned	\$ 3,517,249	\$ 2,622,114	\$ 6,884,948	\$ 4,840,061
Ceding commission revenue	2,727,867	1,971,144	5,040,442	4,182,281
Net investment income	160,464	148,923	338,134	281,203
Net realized gain on investments	89,961	110,089	160,432	144,749
Other income	217,101	228,381	464,573	449,485
Total revenues	6,712,642	5,080,651	12,888,529	9,897,779
Expenses				
Loss and loss adjustment expenses	1,823,630	1,175,718	4,374,394	2,610,336
Commission expense	1,504,894	1,223,484	2,876,643	2,360,103
Other underwriting expenses	1,734,095	1,428,142	3,310,914	2,532,062
Other operating expenses	299,002	377,188	602,965	916,807
Depreciation and amortization	154,682	151,801	313,142	308,488
Interest expense	38,907	47,100	84,672	92,302
Interest expense - mandatorily redeemable preferred stock	-	37,353	-	74,706
Total expenses	5,555,210	4,440,786	11,562,730	8,894,804
Income from continuing operations before taxes	1,157,432	639,865	1,325,799	1,002,975
Income tax expense	383,501	291,546	425,244	436,110
Income from continuing operations	773,931	348,319	900,555	566,865
Income from discontinued operations, net of taxes	-	10,000	-	23,848
Net income	773,931	358,319	900,555	590,713
Gross unrealized investment holding gains (losses) arising during period	301,456	(3,232)	333,306	36,647
Income tax (expense) benefit related to items of other comprehensive income (loss)	(102,495)	1,099	(113,324)	(12,460)
Comprehensive income	\$ 972,892	\$ 356,186	\$ 1,120,537	\$ 614,900
Basic and diluted earnings per common share:				
Income from continuing operations	\$ 0.20	\$ 0.11	\$ 0.23	\$ 0.19
Income from discontinued operations	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.01
Income per common share	\$ 0.20	\$ 0.11	\$ 0.23	\$ 0.20
Weighted average common shares outstanding				
Basic	3,838,386	3,079,451	3,838,386	3,016,830
Diluted	3,918,763	3,079,451	3,921,289	3,016,830

See accompanying notes to condensed consolidated financial statements.

3

KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

Condensed Consolidated Statement of Stockholders' Equity

Six months ended June 30, 2011 (unaudited)

	Common Stock		Preferred Stock		Capital in Excess of Par	Accumulated Other Comprehensive Income	Retained Earnings	Treasury Stock		Total
	Shares	Amount	Shares	Amount				Shares	Amount	
Balance, December 31, 2010	4,643,122	\$46,432	-	\$-	\$13,633,913	\$145,247	\$281,531	804,736	\$(1,163,258)	\$12,943,865
Stock-based payments	-	-	-	-	64,148	-	-	-	-	64,148
Net income	-	-	-	-	-	-	900,555	-	-	900,555
Net unrealized gains on securities available for sale, net of income tax	-	-	-	-	-	219,982	-	-	-	219,982
Balance, June 30, 2011	4,643,122	\$46,432	-	\$-	\$13,698,061	\$365,229	\$1,182,086	804,736	\$(1,163,258)	\$14,128,550

See accompanying notes to condensed consolidated financial statements.

KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)

Six months ended June 30,

	2011	2010
Cash flows provided by operating activities:		
Net income	\$900,555	\$590,713
Adjustments to reconcile net income to net cash provided by operations:		
Gain on sale of investments	(160,432)	(144,749)
Depreciation and amortization	313,142	308,488
Amortization of bond premium, net	123,001	34,605
Stock-based payments	64,148	271,208
Deferred income taxes	(176,236)	(73,382)
(Increase) decrease in assets:		
Short term investments	-	225,336
Premiums receivable, net	(1,237,243)	(1,111,551)
Receivables - reinsurance contracts	(1,728,174)	(331,874)
Reinsurance receivables, net	(2,323,212)	281,415
Deferred acquisition costs	(586,660)	(527,636)
Other assets	858,805	(27,068)
Increase (decrease) in liabilities:		
Loss and loss adjustment expenses	793,460	(190,042)
Unearned premiums	2,912,817	2,528,165
Advance premiums	195,004	38,083
Reinsurance balances payable	1,897,771	514,199
Deferred ceding commission revenue	452,878	(214,816)
Income taxes payable	164,876	-
Accounts payable, accrued expenses and other liabilities	(437,287)	(522,278)
Net cash provided by operating activities of continuing operations	2,027,213	1,648,816
Operating activities of discontinued operations	-	(26,000)
Net cash flows provided by operating activities	2,027,213	1,622,816
Cash flows used in investing activities:		
Purchase - fixed-maturity securities held to maturity	-	(106,205)
Purchase - fixed-maturity securities available for sale	(4,065,722)	(3,116,725)
Purchase - equity securities	(1,056,775)	(877,639)
Sale or maturity - fixed-maturity securities available for sale	2,079,869	1,566,632
Sale - equity securities	1,215,296	604,217
Collections of notes receivable and accrued interest - Sale of businesses	297,678	213,665
Other investing activities	(22,998)	(4,922)
Net cash flows used in investing activities	(1,552,652)	(1,720,977)
Cash flows (used in) provided by financing activities:		
Proceeds from long term debt (includes \$200,000 from related parties in 2010)	-	400,000
Principal payments on long-term debt (includes \$407,000 to related parties in 2011)	(713,997)	(12,040)
Net cash flows (used in) provided by financing activities	(713,997)	387,960

(Decrease) increase in cash and cash equivalents	(239,436)	289,799
Cash and cash equivalents, beginning of period	326,620	625,320
Cash and cash equivalents, end of period	\$87,184	\$915,119
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	\$329,762	\$486,525
Cash paid for interest	\$125,994	\$170,018
Supplemental Schedule of Non-Cash Investing and Financing Activities:		
Mandatorily redeemable preferred stock exchanged for common stock	-	\$1,299,231

See accompanying notes to condensed consolidated financial statements.

KINGSTONE COMPANIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 - Basis of Presentation and Nature of Business

Kingstone Companies, Inc. (referred to herein as "Kingstone" or the "Company"), through its subsidiary Kingstone Insurance Company ("KICO"), offers property and casualty insurance products to small businesses and individuals in New York State.

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, 2010 and notes thereto included in the Company's Annual Report on Form 10-K filed on March 31, 2011. 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 six months ended June 30, 2011 may not be indicative of the results that may be expected for the year ending December 31, 2011.

Note 2 – Accounting Policies and Basis of Presentation

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassification