

KINGSTONE COMPANIES, INC.
Form 10-Q
May 19, 2010

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 March 31, 2010

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 ☐

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting
company ☒

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(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 May 13, 2010, there were 3,042,543 shares of the registrant's common stock outstanding.

KINGSTONE COMPANIES, INC.
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Forward-Looking Statements

This Quarterly Report contains forward-looking statements 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, 2009 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

	March 31, 2010 (unaudited)	December 31, 2009
Assets		
Short term investments	\$385,392	\$225,336
Fixed-maturity securities, available for sale, at fair value (amortized cost of \$12,926,257 at March 31, 2010 and \$12,676,867 at December 31, 2009)	13,071,634	12,791,080
Equity securities, available-for-sale, at fair value (cost of \$1,831,168 at March 31, 2010 and \$1,973,738 at December 31, 2009)	2,053,071	2,186,926
Total investments	15,510,097	15,203,342
Cash and cash equivalents	760,599	625,320
Investment income receivable	173,374	135,251
Premiums receivable, net of provision for uncollectible amounts	4,840,077	4,479,363
Receivables - reinsurance contracts	962,376	564,408
Reinsurance receivables, net of provision for uncollectible amounts	20,245,656	20,849,621
Notes receivable-sale of business	1,051,596	1,119,365
Deferred acquisition costs	3,119,493	2,917,984
Intangible assets, net	4,493,171	4,612,100
Property and equipment, net of accumulated depreciation	1,622,735	1,659,015
Equities in pools and associations	220,708	220,708
Other assets	320,134	257,276
Total assets	\$53,320,016	\$52,643,753
Liabilities		
Loss and loss adjustment expenses	\$16,536,820	\$16,513,318
Unearned premiums	14,976,136	14,088,187
Advance premiums	428,429	411,676
Reinsurance balances payable	1,897,031	1,918,169
Deferred ceding commission revenue	2,841,284	3,298,245
Notes payable (payable to related parties of \$785,000 at March 31, 2010 and \$585,000 at December 31, 2009)	1,479,685	1,085,637
Accounts payable, accrued liabilities and other liabilities	1,838,296	2,446,558
Deferred income taxes	1,173,779	1,173,256
Mandatorily redeemable preferred stock	1,299,231	1,299,231
Liabilities of discontinued operations	6,500	26,000
Total liabilities	42,477,191	42,260,277
Commitments		
Stockholders' Equity:		
Common stock, \$.01 par value; authorized 10,000,000 shares; issued 3,854,536 shares at March 31, 2010 and 3,804,536 shares at December 31, 2009; outstanding 3,038,511 shares at March 31, 2010 and 2,988,511 shares at December 31, 2009	38,546	38,046

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Preferred stock, \$.01 par value; authorized 1,000,000 shares; 0 shares issued and outstanding	-	-
Capital in excess of par	12,251,468	12,051,332
Accumulated other comprehensive income	242,405	216,086
Accumulated deficit	(469,212)	(701,606)
	12,063,207	11,603,858
Treasury stock, at cost, 816,025 shares	(1,220,382)	(1,220,382)
Total stockholders' equity	10,842,825	10,383,476
Total liabilities and stockholders' equity	\$53,320,016	\$52,643,753

See notes to condensed consolidated financial statements.

KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations and Comprehensive Income (Unaudited)

Three Months Ended March 31,	2010	2009
Revenues		
Net premiums earned	\$2,217,947	\$-
Ceding commission revenue	1,809,593	-
Net investment income	132,280	-
Net realized gains on investments	34,660	-
Other income	221,104	112,037
Total revenues	4,415,584	112,037
Expenses		
Loss and loss adjustment expenses	1,434,618	-
Commission expense	1,136,619	-
Other underwriting expenses	702,376	-
Other operating expenses	539,619	281,913
Depreciation and amortization	156,687	4,436
Interest expense	45,202	80,267
Interest expense - mandatorily redeemable preferred stock	37,353	19,500
Total expenses	4,052,474	386,116
Income (loss) from operations	363,110	(274,079)
Interest income-CMIC note receivable	-	30,469
Income (loss) from continuing operations before taxes	363,110	(243,610)
Income tax expense (benefit)	144,564	(87,775)
Income (loss) from continuing operations	218,546	(155,835)
Income (loss) from discontinued operations, net of taxes	13,848	(15,679)
Net income (loss)	232,394	(171,514)
Gross unrealized investment holding gains		
arising during period	39,879	-
Income tax expense related to items of other comprehensive income	(13,559)	-
Comprehensive income (loss)	\$258,714	\$(171,514)
Basic and diluted earnings (loss) per common share:		
Income (loss) from continuing operations	\$0.07	\$(0.05)
Loss from discontinued operations	\$0.01	\$(0.01)
Income (loss) per common share	\$0.08	\$(0.06)
Number of weighted average common shares used in computation of basic and diluted earnings (loss) per share		
	2,992,400	2,972,746

See notes to condensed consolidated financial statements.

KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

Consolidated Statement of Stockholders'
Equity (Unaudited)
Year ended Decemeber 31, 2009 and Three Months
Ended March 31, 2010

	Common Shares	Stock Amount	Preferred Shares	Stock Amount	Capital in Excess of Par	Accumulated Other Comprehensive Income	Accumulated (Deficit)	Treasury Shares	Stock Amount	Total
Balance, December 31, 2008	3,788,771	\$37,888	-	\$-	\$11,962,512	\$-	\$(5,522,448)	816,025	\$(1,220,382)	\$5,257,570
Stock-based payments	15,765	158	-	-	88,820	-	-	-	-	88,978
Net income	-	-	-	-	-	-	4,820,842	-	-	4,820,842
Net unrealized gains on securities available for sale, net of income tax	-	-	-	-	-	216,086	-	-	-	216,086
Balance, December 31, 2009	3,804,536	38,046	-	-	12,051,332	216,086	(701,606)	816,025	(1,220,382)	10,383,476
Stock-based payments	50,000	500	-	-	200,136	-	-	-	-	200,636
Net income	-	-	-	-	-	-	232,394	-	-	232,394
Net unrealized gains on securities available for sale, net of income tax	-	-	-	-	-	26,319	-	-	-	26,319
Balance, March 31, 2010	3,854,536	\$38,546	-	\$-	\$12,251,468	\$242,405	\$(469,212)	816,025	\$(1,220,382)	\$10,842,825

See notes to condensed consolidated financial statements.

KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited)

Three Months Ended March 31,

2010

2009

Cash flows provided by (used in) operating activities:		
Net income (loss)	\$232,394	\$(171,514)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operations:		
Gain on sale of investments	(34,660)	-
Depreciation and amortization	156,687	4,436
Stock-based payments	200,636	6,792
Deferred income taxes	(13,036)	(94,000)
(Increase) decrease in assets:		
Short term investments	(160,056)	-
Premiums receivable, net	(360,714)	-
Receivables - reinsurance contracts	(397,968)	-
Reinsurance receivables, net	603,965	-
Deferred acquisition costs	(201,509)	-
Other assets	(100,784)	(11,361)
Increase (decrease) in liabilities:		
Loss and loss adjustment expenses	23,502	-
Unearned premiums	887,949	-
Advance premiums	16,753	-
Reinsurance balances payable	(21,138)	-
Deferred ceding commission revenue	(456,961)	-
Accounts payable, accrued liabilities and other liabilities	(608,262)	76,742
Net cash used in operating activities of continuing operations	(233,202)	(188,905)
Operating activities of discontinued operations	(19,500)	249,849
Net cash flows (used in) provided by operations	(252,702)	60,944
Cash flows used in investing activities:		
Purchase - fixed-maturity securities	(249,390)	-
Purchase - equity securities	(233,135)	-
Sale - equity securities	410,167	-
Increase in accrued interest - Commercial Mutual Insurance Company	-	(30,468)
Collections of notes receivable and accrued interest - Sale of businesses	67,769	-
Other investing activities	(1,478)	-
Net cash used in investing activities of continuing operations	(6,067)	(30,468)
Investing activities of discontinued operations	-	(745)
Net cash flows used in investing activities	(6,067)	(31,213)
Cash flows provided by (used in) financing activities:		
Proceeds from long term debt (includes \$200,000 from related parties)		