

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, 2023

OR

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

For the transition period from _____ to _____

Commission File Number 0-1665

KINGSTONE COMPANIES, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

36-2476480

(I.R.S. Employer
Identification Number)

15 Joys Lane
Kingston, NY 12401

(Address of principal executive offices)

(845) 802-7900

(Registrant's telephone number, including area code)

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer
Non-accelerated filer

☐
☒

Accelerated filer
Smaller reporting company
Emerging growth company

☐
☒
☐

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

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

As of November 20, 2023, there were 10,759,330 shares of the registrant's common stock outstanding.

KINGSTONE COMPANIES, INC.
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Forward-Looking Statements

This Quarterly Report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The events described in forward-looking statements contained in this Quarterly Report may not occur. Generally, these statements relate to business plans or strategies, projected or anticipated results or other consequences of our plans or strategies, projected or anticipated results from acquisitions to be made by us, or projections involving anticipated revenues, earnings, costs or other aspects of our operating results. The words “may,” “will,” “expect,” “believe,” “anticipate,” “project,” “plan,” “intend,” “estimate,” and “continue,” and their opposites and similar expressions are intended to identify forward-looking statements. We caution you that these statements are not guarantees of future performance or events and are subject to a number of uncertainties, risks and other influences, many of which are beyond our control, which may influence the accuracy of the statements and the projections upon which the statements are based. Factors which may cause actual results and outcomes to differ materially from those contained in the forward-looking statements include, but are not limited to the risks and uncertainties discussed in Part I, Item 1A (“Risk Factors”) of our Annual Report on Form 10-K for the year ended December 31, 2022, Part I, Item 2 of this Quarterly Report and Part II, Item 1A of this Quarterly Report.

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

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

	September 30, 2023 (unaudited)	December 31, 2022
Assets		
Fixed-maturity securities, held-to-maturity, at amortized cost (fair value of \$5,699,498 at September 30, 2023 and \$6,600,388 at December 31, 2022)	\$ 7,053,825	\$ 7,766,140
Fixed-maturity securities, available-for-sale, at fair value (amortized cost of \$154,459,849 at September 30, 2023 and \$174,918,427 at December 31, 2022)	132,786,899	154,715,163
Equity securities, at fair value (cost of \$17,986,783 at September 30, 2023 and \$18,086,700 at December 31, 2022)	13,907,651	13,834,390
Other investments	3,213,318	2,771,652
Total investments	156,961,693	179,087,345
Cash and cash equivalents	15,132,969	11,958,228
Premiums receivable, net	13,326,369	13,880,504
Reinsurance receivables, net	84,257,926	66,465,061
Deferred policy acquisition costs	20,532,322	23,819,453
Intangible assets	500,000	500,000
Property and equipment, net	9,594,500	10,541,935
Deferred income taxes, net	12,789,160	10,331,158
Other assets	3,893,322	3,748,847
Total assets	\$ 316,988,261	\$ 320,332,531
Liabilities		
Loss and loss adjustment expense reserves	\$ 121,674,947	\$ 118,339,513
Unearned premiums	103,161,550	107,492,777
Advance premiums	6,288,223	2,839,028
Reinsurance balances payable	20,263,484	13,061,966
Deferred ceding commission revenue	9,393,051	10,619,569
Accounts payable, accrued expenses and other liabilities	4,453,452	6,651,723
Debt, net	25,224,693	25,158,523
Total liabilities	290,459,400	284,163,099
Commitments and Contingencies (Note 11)		
Stockholders' Equity		
Preferred stock, \$.01 par value; authorized 2,500,000 shares	-	-
Common stock, \$.01 par value; authorized 20,000,000 shares; issued 12,227,562 shares at September 30, 2023 and 12,171,512 shares at December 31, 2022; outstanding 10,756,156 shares at September 30, 2023 and 10,700,106 shares at December 31, 2022	122,275	121,715
Capital in excess of par	75,153,808	74,519,590
Accumulated other comprehensive loss	(17,119,479)	(15,958,428)
Accumulated deficit	(26,060,262)	(16,945,964)
	32,096,342	41,736,913
Treasury stock, at cost, 1,471,406 shares at September 30, 2023 and December 31, 2022	(5,567,481)	(5,567,481)
Total stockholders' equity	26,528,861	36,169,432
Total liabilities and stockholders' equity	\$ 316,988,261	\$ 320,332,531

See accompanying notes to condensed consolidated financial statements.

KINGSTONE COMPANIES, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations and Comprehensive Loss (Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenues				
Net premiums earned	\$ 27,938,318	\$ 29,360,976	\$ 85,701,467	\$ 83,936,424
Ceding commission revenue	5,536,327	4,886,094	16,393,944	14,283,077
Net investment income	1,444,360	1,418,521	4,437,208	3,411,946
Net (losses) gains on investments	(824,370)	(397,658)	597,643	(9,313,436)
Other income	142,036	269,702	454,160	750,169
Total revenues	<u>34,236,671</u>	<u>35,537,635</u>	<u>107,584,422</u>	<u>93,068,180</u>
Expenses				
Loss and loss adjustment expenses	21,932,453	22,027,516	66,552,565	63,624,755
Commission expense	8,210,430	8,702,190	25,221,374	25,534,307
Other underwriting expenses	6,318,625	7,276,101	19,873,882	20,717,047
Other operating expenses	441,963	809,597	1,868,011	2,357,367
Depreciation and amortization	741,059	824,975	2,327,691	2,472,348
Interest expense	988,699	456,545	3,004,564	1,369,635
Total expenses	<u>38,633,229</u>	<u>40,096,924</u>	<u>118,848,087</u>	<u>116,075,459</u>
Loss from operations before taxes	(4,396,558)	(4,559,289)	(11,263,665)	(23,007,279)
Income tax benefit	(858,987)	(561,668)	(2,149,367)	(4,432,507)
Net loss	<u>(3,537,571)</u>	<u>(3,997,621)</u>	<u>(9,114,298)</u>	<u>(18,574,772)</u>
Other comprehensive loss, net of tax				
Gross change in unrealized losses on available-for-sale-securities	(2,821,785)	(5,047,679)	(1,486,887)	(22,556,319)
Reclassification adjustment for losses included in net loss	4,181	4,247	17,201	55,927
Net change in unrealized losses, on available-for-sale-securities	(2,817,604)	(5,043,432)	(1,469,686)	(22,500,392)
Income tax benefit related to items of other comprehensive loss	591,697	1,059,120	308,635	4,725,083
Other comprehensive loss, net of tax	<u>(2,225,907)</u>	<u>(3,984,312)</u>	<u>(1,161,051)</u>	<u>(17,775,309)</u>
Comprehensive loss	<u>\$ (5,763,478)</u>	<u>\$ (7,981,933)</u>	<u>\$ (10,275,349)</u>	<u>\$ (36,350,081)</u>
Loss per common share:				
Basic	<u>\$ (0.33)</u>	<u>\$ (0.38)</u>	<u>\$ (0.85)</u>	<u>\$ (1.75)</u>
Diluted	<u>\$ (0.33)</u>	<u>\$ (0.38)</u>	<u>\$ (0.85)</u>	<u>\$ (1.75)</u>
Weighted average common shares outstanding				
Basic	<u>10,756,156</u>	<u>10,645,675</u>	<u>10,754,709</u>	<u>10,640,290</u>
Diluted	<u>10,756,156</u>	<u>10,645,675</u>	<u>10,754,709</u>	<u>10,640,290</u>
Dividends declared and paid per common share	<u>\$ -</u>	<u>\$ 0.04</u>	<u>\$ -</u>	<u>\$ 0.12</u>

See accompanying notes to condensed consolidated financial statements.

KINGSTONE COMPANIES, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Stockholders' Equity (Unaudited)
Three months ended September 30, 2023 and 2022

	Preferred Stock		Common Stock		Capital in Excess of Par	Accumulated Other Comprehensive Loss	Accumulated Deficit	Treasury Stock		Total
	Shares	Amount	Shares	Amount				Shares	Amount	
Balance, July 1, 2022	-	\$ -	12,117,081	\$ 121,171	\$ 73,102,513	\$ (11,994,258)	\$ (8,572,521)	1,471,406	\$ (5,567,481)	\$ 47,089,424
Stock-based compensation	-	-	-	-	188,422	-	-	-	-	188,422
Dividends	-	-	-	-	-	-	(425,800)	-	-	(425,800)
Net loss	-	-	-	-	-	-	(3,997,621)	-	-	(3,997,621)
Change in unrealized losses on available-for-sale securities, net of tax	-	-	-	-	-	(3,984,312)	-	-	-	(3,984,312)
Balance, September 30, 2022	-	\$ -	12,117,081	\$ 121,171	\$ 73,290,935	\$ (15,978,570)	\$ (12,995,942)	1,471,406	\$ (5,567,481)	\$ 38,870,113
	Preferred Stock		Common Stock		Capital in Excess of Par	Accumulated Other Comprehensive Loss	Accumulated Deficit	Treasury Stock		Total
	Shares	Amount	Shares	Amount				Shares	Amount	
Balance, July 1, 2023	-	\$ -	12,227,562	\$ 122,275	\$ 74,946,685	\$ (14,893,572)	\$ (22,522,691)	1,471,406	\$ (5,567,481)	\$ 32,085,216
Stock-based compensation	-	-	-	-	207,123	-	-	-	-	207,123
Net loss	-	-	-	-	-	-	(3,537,571)	-	-	(3,537,571)
Change in unrealized losses on available-for-sale securities, net of tax	-	-	-	-	-	(2,225,907)	-	-	-	(2,225,907)
Balance, September 30, 2023	-	\$ -	12,227,562	\$ 122,275	\$ 75,153,808	\$ (17,119,479)	\$ (26,060,262)	1,471,406	\$ (5,567,481)	\$ 26,528,861

See accompanying notes to condensed consolidated financial statements.

Nine months ended September 30, 2023 and 2022

[illegible]

available- for-sale securities, net of tax	-	-	-	-	-	(1,161,051)	-	-	-	(1,161,051)
Balance, September 30, 2023	-	\$ -	<u>12,227,562</u>	<u>\$122,275</u>	<u>\$75,153,808</u>	<u>\$ (17,119,479)</u>	<u>\$ (26,060,262)</u>	<u>1,471,406</u>	<u>\$(5,567,481)</u>	<u>\$26,528,861</u>

See accompanying notes to condensed consolidated financial statements.

Condensed Consolidated Statements of Cash Flows (Unaudited)
Nine Months ended September 30,

	2023	2022
Cash flows from operating activities:		
Net loss	\$ (9,114,298)	\$ (18,574,772)
Adjustments to reconcile net loss to net cash flows used in operating activities:		
Net losses (gains) on investments	17,201	(599,773)
Net unrealized (gains) losses on equity investments	(173,178)	7,549,640
Net unrealized (gains) losses on other investments	(441,666)	2,363,568
Depreciation and amortization	2,327,691	2,472,348
Bad debt expense	59,099	43,365
Amortization of bond premium, net	118,280	922,257
Amortization of discount and issuance costs on debt	890,758	132,135
Stock-based compensation	636,178	1,204,865
Deferred income tax benefit	(2,149,367)	(3,939,612)
Decrease (increase) in operating assets:		
Premiums receivable, net	495,036	(616,493)
Reinsurance receivables, net	(17,792,865)	(19,073,499)
Deferred policy acquisition costs	3,287,131	(966,697)
Other assets	(144,475)	95,613
Increase (decrease) in operating liabilities:		
Loss and loss adjustment expense reserves	3,335,434	11,980,153
Unearned premiums	(4,331,227)	6,029,773
Advance premiums	3,449,195	3,933,809
Reinsurance balances payable	7,201,518	(1,486,321)
Deferred ceding commission revenue	(1,226,518)	571,862
Accounts payable, accrued expenses and other liabilities	(2,198,271)	36,341
Net cash flows used in operating activities	(15,754,344)	(7,921,438)
Cash flows from investing activities:		
Purchase - fixed-maturity securities held-to-maturity	-	(498,711)
Purchase - fixed-maturity securities available-for-sale	(13,167,937)	(24,874,443)
Purchase - equity securities	-	(637,897)
Redemption - fixed-maturity securities held-to-maturity	750,000	1,000,000
Sale and maturity - fixed-maturity securities available-for-sale	33,453,349	14,213,435
Sale - equity securities	99,917	11,962,513
Redemption - other investments	-	2,576,272
Acquisition of property and equipment	(1,380,256)	(3,342,258)
Net cash flows provided by investing activities	19,755,073	398,911
Cash flows from financing activities:		
Principal payments on equipment financing	(810,289)	-
Issue costs on 2022 Notes	(14,299)	-
Withholding taxes paid on vested restricted stock awards	(1,400)	(379,799)
Dividends paid	-	(1,277,066)
Net cash flows used in financing activities	(825,988)	(1,656,865)

See accompanying notes to condensed consolidated financial statements.

Condensed Consolidated Statements of Cash Flows (Unaudited) (Continued)*Nine Months ended September 30,*

	2023	2022
Increase (decrease) in cash and cash equivalents	\$ 3,174,741	\$ (9,179,392)
Cash and cash equivalents, beginning of period	11,958,228	24,290,598
Cash and cash equivalents, end of period	\$ 15,132,969	\$ 15,111,206

Supplemental disclosures of cash flow information:

Cash paid for income taxes	\$ -	\$ -
Cash paid for interest	\$ 1,628,357	\$ 825,000

Supplemental schedule of non-cash investing and financing activities:

Other comprehensive loss, net of tax	\$ (1,161,051)	\$ (17,775,309)
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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" or, on a standalone basis for the parent company only, the "Holding Company"), through its wholly-owned subsidiary, Kingstone Insurance Company ("KICO"), underwrites property and casualty insurance exclusively through retail and wholesale agents and brokers. KICO is a licensed insurance company in the States of New York, New Jersey, Rhode Island, Massachusetts, Pennsylvania, Connecticut, Maine and New Hampshire. KICO is actively writing its property and casualty insurance products in New York. For the three months ended September 30, 2023 and 2022, 88.5% and 80.5%, respectively, of KICO's direct written premiums came from the New York policies. For the nine months ended September 30, 2023 and 2022, 88.1% and 80.3%, respectively, of KICO's direct written premiums came from the New York policies. Kingstone, through its wholly owned subsidiary, Cosi Agency, Inc. ("Cosi"), a multi-state licensed general agency, receives commission revenue from KICO for the policies it places with others and pays commissions to these agencies.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). The principles for condensed interim financial information do not require the inclusion of all the information and footnotes required by GAAP for complete financial statements. Therefore, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements as of and for the year ended December 31, 2022 and notes thereto included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on March 31, 2023. The accompanying condensed consolidated financial statements have not been audited by an independent registered public accounting firm in accordance with standards of the Public Company Accounting Oversight Board (United States) but, in the opinion of management, such financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the Company's financial position and results of operations. The results of operations for the nine months ended September 30, 2023 may not be indicative of the results that may be expected for the year ending December 31, 2023.

Components of ceded premiums within prior year net earned premiums in Note 6 were reclassified to conform with an elected change in the current year presentation by recording ceded written premiums for the 12 months of the contract term at inception, rather than monthly over the contract term, providing a full disclosure of the premium ceded. The reclassification had no effect on the Company's previously reported financial condition, results of operations or cash flows.

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. Actual results could differ from these estimates and assumptions, which include the reserves for losses and loss adjustment expenses "(LAE)", which are subject to estimation errors due to the inherent uncertainty in projecting ultimate claim amounts that will be reported and settled over a period of many years. In addition, estimates and assumptions associated with receivables under reinsurance contracts related to contingent ceding commission revenue require judgments by management. On an ongoing basis, management reevaluates its assumptions and the methods for calculating these estimates. Actual results may differ significantly from the estimates used in preparing the condensed consolidated financial statements.

Principles of Consolidation

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

Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-13 - Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”). This new guidance applies to reinsurance and insurance receivables and other financing receivables. For available-for-sale fixed maturity securities carried at fair value, estimated credit losses will continue to be measured at the present value of expected cash flows; however, the other than temporary impairment (“OTTI”) concept has been eliminated. Under the previous guidance, estimated credit impairments resulted in a write-down of amortized cost. Under the new guidance, estimated credit losses are recognized through an allowance and reversals of the allowance are permitted if the estimate of credit losses declines. For available-for-sale fixed maturity securities where the Company has an intent to sell, impairment will continue to result in a write-down of amortized cost. ASU 2016-13 was effective for the Company on January 1, 2023. The Company determined as of the date of adoption that the updated guidance did not have an impact on its consolidated financial statements. Below is a summary of the significant accounting policies impacted by the adoption of ASU 2016-13.

The allowance for credit losses is a valuation account that is reported as a reduction of a financial asset’s cost basis and is measured on a pool basis when similar risk characteristics exist. Management estimates the allowance using relevant available information from both internal and external sources. Historical credit loss experience provides the basis for the estimation of expected credit losses and adjustments may be made to reflect current conditions and reasonable and supportable forecasts. Adjustments to historical loss information are made for any additional factors that come to the Company’s attention. This could include significant shifts in counterparty financial strength ratings, aging of past due receivables, amounts sent to collection agencies, or other underlying portfolio changes. Amounts are considered past due when payments have not been received according to contractual terms. The Company also considers current and forecasted economic conditions, using a variety of economic metrics and forecast indices. The sensitivity of expected credit losses relative to changes to these forecasted economic conditions can vary by financial asset class. The Company considers a reasonable and supportable forecast period to be up to 24 months from the balance sheet date. After the forecast period, the Company reverts to historical credit experience. The Company uses collateral arrangements such as letters of credit and amounts held in beneficiary trusts to mitigate credit risk, which are considered in the estimate of net amount expected to be collected.

The Company has made a policy election to present accrued interest balances separately from the amortized cost basis of assets and has elected the practical expedient to exclude the accrued interest from the tabular disclosures for available-for-sale and held-to-maturity securities. The Company has elected not to estimate an allowance for credit losses on accrued interest receivable. The accrual of interest income is discontinued and the asset is placed on nonaccrual status in the quarter that payment becomes delinquent. Interest accrued but not received for assets on nonaccrual status is reversed through investment income. Interest received for assets that are on nonaccrual status is recognized as payment is received. The asset is returned to accrual status when the principal and interest amounts contractually due are brought current and future payments are expected. Interest receivable is presented as a component of other assets on the condensed consolidated balance sheet.

See Note 3 and Note 6 to the condensed consolidated financial statements for additional information regarding credit losses.

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

Note 3 - Investments

Fixed-Maturity Securities

The amortized cost, estimated fair value, and gross unrealized gains and losses on investments in fixed-maturity securities classified as available-for-sale for which an allowance for credit loss has not been recorded, as of September 30, 2023 and December 31, 2022 are summarized as follows:

	September 30, 2023					
	Cost or	Gross	Gross Unrealized Losses		Estimated	Net
	Amortized	Unrealized	Less than 12	More than 12	Fair	Unrealized
Category	Cost	Gains	Months	Months	Value	Losses
Fixed-Maturity Securities:						
U.S. Treasury securities and obligations of U.S. government corporations and agencies (1)	\$ 8,224,680	\$ -	\$ (56,835)	\$ -	\$ 8,167,845	\$ (56,835)
Political subdivisions of States, Territories and Possessions	16,615,369	-	-	(4,201,015)	12,414,354	(4,201,015)
Corporate and other bonds						
Industrial and miscellaneous	78,116,754	-	-	(8,651,516)	69,465,238	(8,651,516)
Residential mortgage and other asset backed securities (2)	51,503,046	63,626	(5,987)	(8,821,223)	42,739,462	(8,763,584)
Total fixed-maturity securities	\$ 154,459,849	\$ 63,626	\$ (62,822)	\$ (21,673,754)	\$ 132,786,899	\$ (21,672,950)

	December 31, 2022					
Category	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Estimated Fair Value	Net Unrealized Losses
			Less than 12 Months	More than 12 Months		
Fixed-Maturity Securities:						
U.S. Treasury securities and obligations of U.S. government corporations and agencies (1)	\$ 23,874,545	\$ 1,479	\$ (6,928)	\$ -	\$ 23,869,096	\$ (5,449)
Political subdivisions of States, Territories and Possessions	17,108,154	-	(2,195,273)	(1,771,494)	13,141,387	(3,966,767)
Corporate and other bonds						
Industrial and miscellaneous	80,338,464	-	(5,796,994)	(2,458,985)	72,082,485	(8,255,979)
Residential mortgage and other asset backed securities (2)	53,597,264	58,398	(882,664)	(7,150,803)	45,622,195	(7,975,069)
Total fixed-maturity securities	\$ 174,918,427	\$ 59,877	\$ (8,881,859)	\$ (11,381,282)	\$ 154,715,163	\$ (20,203,264)

- (1) In October 2022, KICO placed certain U.S. Treasury securities to fulfill the required collateral for a sale leaseback transaction in a designated custodian account (see Note 7 – Debt - “Equipment Financing”). As of September 30, 2023 and December 31, 2022, the amount of required collateral was approximately \$7,422,000 and \$8,691,000, respectively. As of September 30, 2023 and December 31, 2022, the estimated fair value of the eligible collateral was approximately \$8,168,000 and \$8,691,000, respectively.
- (2) KICO has placed certain residential mortgage backed securities as eligible collateral in a designated custodian account related to its membership in the Federal Home Loan Bank of New York (“FHLBNY”) (see Note 7 – Debt – “Federal Home Loan Bank”). The eligible collateral would be pledged to FHLBNY if KICO draws an advance from the FHLBNY credit line. As of September 30, 2023 and December 31, 2022, the estimated fair value of the eligible investments was approximately \$10,911,000 and \$12,228,000, respectively. KICO will retain all rights regarding all securities if pledged as collateral. As of September 30, 2023 and December 31, 2022 there was no outstanding balance on the FHLBNY credit line.

A summary of the amortized cost and estimated fair value of the Company’s investments in available-for-sale fixed-maturity securities by contractual maturity as of September 30, 2023 and December 31, 2022 is shown below:

Remaining Time to Maturity	September 30, 2023		December 31, 2022	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Less than one year	\$ 11,053,509	\$ 10,894,062	\$ 16,359,100	\$ 16,307,991
One to five years	44,834,816	42,323,786	18,605,987	14,085,113
Five to ten years	30,124,267	24,401,458	54,559,158	52,230,283
More than 10 years	16,944,211	12,428,131	31,796,918	26,469,581
Residential mortgage and other asset backed securities	51,503,046	42,739,462	53,597,264	45,622,195
Total	<u>\$ 154,459,849</u>	<u>\$ 132,786,899</u>	<u>\$ 174,918,427</u>	<u>\$ 154,715,163</u>

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

Equity Securities

The cost and estimated fair value of, and gross unrealized gains and losses on, investments in equity securities as of September 30, 2023 and December 31, 2022 are as follows:

Category	September 30, 2023			
	Cost	Gross Gains	Gross Losses	Estimated Fair Value
Equity Securities:				
Preferred stocks	\$ 13,583,942	\$ -	\$ (3,384,701)	\$ 10,199,241
Common stocks, mutual funds, and exchange traded funds	4,402,841	225,001	(919,432)	3,708,410
Total	\$ 17,986,783	\$ 225,001	\$ (4,304,133)	\$ 13,907,651

Category	December 31, 2022			
	Cost	Gross Gains	Gross Losses	Estimated Fair Value
Equity Securities:				
Preferred stocks	\$ 13,583,942	\$ -	\$ (3,589,313)	\$ 9,994,629
Common stocks, mutual funds, and exchange traded funds	4,502,758	158,635	(821,632)	3,839,761
Total	\$ 18,086,700	\$ 158,635	\$ (4,410,945)	\$ 13,834,390

Other Investments

The cost and estimated fair value of, and gross gains on, the Company's other investments as of September 30, 2023 and December 31, 2022 are as follows:

Category	September 30, 2023			December 31, 2022		
	Cost	Gross Gains	Estimated Fair Value	Cost	Gross Gains	Estimated Fair Value
Other Investments:						
Hedge fund	\$ 1,987,040	\$ 1,226,278	\$ 3,213,318	\$ 1,987,040	\$ 784,612	\$ 2,771,652

Held-to-Maturity Securities

The cost or amortized cost and estimated fair value of, and unrealized gross gains and losses on, investments in held-to-maturity fixed-maturity securities as of September 30, 2023 and December 31, 2022 are summarized as follows:

Category	September 30, 2023					
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses Less than 12 Months	Gross Unrealized Losses More than 12 Months	Estimated Fair Value	Net Unrealized Losses
Held-to-Maturity Securities:						
U.S. Treasury securities	\$ 1,228,783	\$ -	\$ (49,795)	\$ (31,495)	\$ 1,147,493	\$ (81,290)
Political subdivisions of States, Territories and Possessions	499,036	-	(9,046)	-	489,990	(9,046)
Exchange traded debt	304,111	-	(51,611)	-	252,500	(51,611)
Corporate and other bonds						
Industrial and miscellaneous	5,021,895	-	-	(1,212,380)	3,809,515	(1,212,380)
Total	<u>\$ 7,053,825</u>	<u>\$ -</u>	<u>\$ (110,452)</u>	<u>\$ (1,243,875)</u>	<u>\$ 5,699,498</u>	<u>\$ (1,354,327)</u>

Category	December 31, 2022					
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses Less than 12 Months	Gross Unrealized Losses More than 12 Months	Estimated Fair Value	Net Unrealized Gains/ (Losses)
Held-to-Maturity Securities:						
U.S. Treasury securities	\$ 1,228,560	\$ 28,400	\$ (34,077)	\$ -	\$ 1,222,883	\$ (5,677)
Political subdivisions of States, Territories and Possessions	498,638	2,092	-	-	500,730	2,092
Exchange traded debt	304,111	-	(29,111)	-	275,000	(29,111)
Corporate and other bonds						
Industrial and miscellaneous	5,734,831	36,968	(809,746)	(360,278)	4,601,775	(1,133,056)
Total	<u>\$ 7,766,140</u>	<u>\$ 67,460</u>	<u>\$ (872,934)</u>	<u>\$ (360,278)</u>	<u>\$ 6,600,388</u>	<u>\$ (1,165,752)</u>

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

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A summary of the amortized cost and estimated fair value of the Company's investments in held-to-maturity securities by contractual maturity as of September 30, 2023 and December 31, 2022 is shown below:

Remaining Time to Maturity	September 30, 2023		December 31, 2022	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Less than one year	\$ -	\$ -	\$ 708,535	\$ 743,575
One to five years	1,121,091	1,069,974	1,120,507	1,088,522
Five to ten years	1,411,819	1,166,505	1,402,704	1,200,720
More than 10 years	4,520,915	3,463,019	4,534,394	3,567,571
Total	<u>\$ 7,053,825</u>	<u>\$ 5,699,498</u>	<u>\$ 7,766,140</u>	<u>\$ 6,600,388</u>

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

Investment Income

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

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Income:				
Fixed-maturity securities	\$ 1,245,353	\$ 1,234,427	\$ 3,982,573	\$ 2,832,557
Equity securities	187,018	247,275	540,788	872,005
Cash and cash equivalents	98,763	26,630	171,015	29,796
Total	1,531,134	1,508,332	4,694,376	3,734,358
Expenses:				
Investment expenses	86,774	89,811	257,168	322,412
Net investment income	<u>\$ 1,444,360</u>	<u>\$ 1,418,521</u>	<u>\$ 4,437,208</u>	<u>\$ 3,411,946</u>

Proceeds from the redemption of fixed-maturity securities held-to-maturity were \$750,000 and \$1,000,000 for the nine months ended September 30, 2023 and 2022, respectively.

Proceeds from the sale or maturity of fixed-maturity securities available-for-sale were \$33,453,349 and \$14,213,435 for the nine months ended September 30, 2023 and 2022, respectively.

Proceeds from the sale of equity securities were \$99,917 and \$11,962,513 for the nine months ended September 30, 2023 and 2022, respectively.

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

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Realized (Losses) Gains				
Fixed-maturity securities:				
Gross realized gains	\$ 263	\$ 363	\$ 1,207	\$ 102,774
Gross realized losses	(4,444)	(4,610)	(18,408)	(158,701)
	(4,181)	(4,247)	(17,201)	(55,927)
Equity securities:				
Gross realized gains	-	907,079	-	1,384,432
Gross realized losses	-	(92,159)	-	(728,732)
	-	814,920	-	655,700
Other Investments:				
Gross realized gains	-	589,233	-	589,233
Gross realized losses	-	-	-	-
	-	589,233	-	589,233
Net realized (losses) gains	(4,181)	1,399,906	(17,201)	1,189,006
Unrealized (Losses) Gains				
Equity Securities:				
Gross gains	-	-	173,178	-
Gross losses	(483,967)	(1,132,595)	-	(7,549,640)
	(483,967)	(1,132,595)	173,178	(7,549,640)
Other Investments:				
Gross gains	-	-	441,666	-
Gross losses	(336,222)	(664,969)	-	(2,952,802)
	(336,222)	(664,969)	441,666	(2,952,802)
Net unrealized (losses) gains	(820,189)	(1,797,564)	614,844	(10,502,442)
Net (losses) gains on investments	<u>\$ (824,370)</u>	<u>\$ (397,658)</u>	<u>\$ 597,643</u>	<u>\$ (9,313,436)</u>

Allowance for Credit Loss

For available-for-sale fixed maturity securities, a credit loss exists if the present value of cash flows expected to be collected is less than the amortized cost basis. The allowance for credit loss related to available-for-sale fixed maturity securities is the difference between present value of cash flows expected to be collected and the amortized cost basis, limited by the amount that the fair value is less than the amortized cost basis. The Company considers all available evidence when determining whether an investment requires a credit loss write-down or allowance to be recorded. Changes in the allowance are presented as a component of net (losses) gains on investments on the accompanying condensed consolidated statements of operations and comprehensive loss.

At September 30, 2023 and December 31, 2022, there were 150 and 155 fixed-maturity securities, respectively, that accounted for the gross unrealized losses. The Company determined that none of the unrealized losses were deemed to be credit losses for its portfolio of investments for the nine months ended September 30, 2023 and 2022. Significant factors influencing the Company's determination that unrealized losses were temporary included credit quality considerations, the magnitude of the unrealized losses in relation to each security's cost, the nature of the investment and interest rate environment factors, and management's intent and ability to hold the investment for a period of time sufficient to allow for an anticipated recovery of estimated fair value to the Company's cost basis.

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The Company held available-for-sale securities with unrealized losses representing declines that were considered temporary at September 30, 2023 as follows:

Category	September 30, 2023							
	Less than 12 months			12 months or more			Total	
	Estimated Fair Value	Unrealized Losses	No. of Positions Held	Estimated Fair Value	Unrealized Losses	No. of Positions Held	Estimated Fair Value	Unrealized Losses
Fixed-Maturity Securities:								
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 8,167,845	\$ (56,835)	2	\$ -	-	-	\$ 8,167,845	\$ (56,835)
Political subdivisions of States, Territories and Possessions	-	-	-	12,414,354	(4,201,015)	13	12,414,354	(4,201,015)
Corporate and other bonds industrial and miscellaneous	-	-	-	69,465,238	(8,651,516)	88	69,465,238	(8,651,516)
Residential mortgage and other asset backed securities	204,418	(5,987)	9	38,962,381	(8,821,223)	38	39,166,799	(8,827,210)
Total fixed-maturity securities	<u>\$ 8,372,263</u>	<u>\$ (62,822)</u>	<u>11</u>	<u>\$ 120,841,973</u>	<u>\$ (21,673,754)</u>	<u>139</u>	<u>\$ 129,214,236</u>	<u>\$ (21,736,576)</u>

The Company held available-for-sale securities with unrealized losses representing declines that were considered temporary at December 31, 2022 as follows:

Category	December 31, 2022							
	Less than 12 months			12 months or more			Total	
	Estimated Fair Value	Unrealized Losses	No. of Positions Held	Estimated Fair Value	Unrealized Losses	No. of Positions Held	Estimated Fair Value	Unrealized Losses
Fixed-Maturity Securities:								
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 18,918,196	\$ (6,928)	3	\$ -	-	-	\$ 18,918,196	\$ (6,928)
Political subdivisions of States, Territories and Possessions	7,970,633	(2,195,273)	9	5,170,753	(1,771,494)	5	13,141,386	(3,966,767)
Corporate and other bonds industrial and miscellaneous	56,910,104	(5,796,994)	75	15,172,381	(2,458,985)	15	72,082,485	(8,255,979)
Residential mortgage and other asset backed securities	10,145,880	(882,664)	22	34,753,178	(7,150,803)	26	44,899,058	(8,033,467)
Total fixed-maturity securities	<u>\$ 93,944,813</u>	<u>\$ (8,881,859)</u>	<u>109</u>	<u>\$ 55,096,312</u>	<u>\$ (11,381,282)</u>	<u>46</u>	<u>\$ 149,041,125</u>	<u>\$ (20,263,141)</u>

Note 4 - Fair Value Measurements

The following table presents information about the Company's investments that are measured at fair value on a recurring basis at September 30, 2023 and December 31, 2022 indicating the fair value hierarchy of the valuation inputs the Company utilized to determine such fair value:

	September 30, 2023			
	Level 1	Level 2	Level 3	Total
Fixed-maturity securities available-for-sale				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 8,167,845	\$ -	\$ -	\$ 8,167,845
Political subdivisions of States, Territories and Possessions	-	12,414,354	-	12,414,354
Corporate and other bonds industrial and miscellaneous	69,465,238	-	-	69,465,238
Residential mortgage and other asset backed securities	-	42,739,462	-	42,739,462
Total fixed maturities	77,633,083	55,153,816	-	132,786,899
Equity securities	13,907,651	-	-	13,907,651
Total investments	\$ 91,540,734	\$ 55,153,816	\$ -	\$ 146,694,550
	December 31, 2022			
	Level 1	Level 2	Level 3	Total
Fixed-maturity securities available-for-sale				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 23,869,096	\$ -	\$ -	\$ 23,869,096
Political subdivisions of States, Territories and Possessions	-	13,141,387	-	13,141,387
Corporate and other bonds industrial and miscellaneous	71,585,115	497,370	-	72,082,485
Residential mortgage and other asset backed securities	-	45,622,195	-	45,622,195
Total fixed maturities	95,454,211	59,260,952	-	154,715,163
Equity securities	13,834,390	-	-	13,834,390
Total investments	\$ 109,288,601	\$ 59,260,952	\$ -	\$ 168,549,553

The following table sets forth the Company's investment in a hedge fund measured at Net Asset Value ("NAV") per share as of September 30, 2023 and December 31, 2022. The Company measures this investment at fair value on a recurring basis. Fair value using NAV per share is as follows as of the dates indicated:

Category	September 30, 2023	December 31, 2022
Other Investments		
Hedge fund	\$ 3,213,318	\$ 2,771,652

The hedge fund investment is generally redeemable with at least 45 days prior written notice. The hedge fund investment is accounted for as a limited partnership by the Company. Income is earned based upon the Company's allocated share of the partnership's changes in unrealized gains and losses to its partners. Such amounts have been recorded in the condensed consolidated statements of operations and comprehensive loss within net (losses) gains on investments.

The estimated fair value and the level of the fair value hierarchy of the Company's long-term debt as of September 30, 2023 and December 31, 2022 not measured at fair value is as follows:

	September 30, 2023			
	Level 1	Level 2	Level 3	Total
Debt				
Senior Notes due 2024	\$ -	\$ 17,314,915	\$ -	\$ 17,314,915

	December 31, 2022			
	Level 1	Level 2	Level 3	Total
Debt				
Senior Notes due 2024	\$ -	\$ 15,829,096	\$ -	\$ 15,829,096

Note 5 - Fair Value of Financial Instruments and Real Estate

The estimated fair values of the Company's financial instruments and real estate, including their fair value level as of September 30, 2023 and December 31, 2022 are as follows:

	September 30, 2023		December 31, 2022	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Fixed-maturity securities-held-to maturity, Level 1	\$ 7,053,825	\$ 5,699,498	\$ 7,766,140	\$ 6,600,388
Cash and cash equivalents, Level 1	\$ 15,132,969	\$ 15,132,969	\$ 11,958,228	\$ 11,958,228
Premiums receivable, net, Level 1	\$ 13,326,369	\$ 13,326,369	\$ 13,880,504	\$ 13,880,504
Reinsurance receivables, net, Level 3	\$ 84,257,926	\$ 84,257,926	\$ 66,465,061	\$ 66,465,061
Real estate, net of accumulated depreciation, Level 3	\$ 2,015,414	\$ 2,800,000	\$ 2,050,644	\$ 2,800,000
Reinsurance balances payable, Level 3	\$ 20,263,484	\$ 20,263,484	\$ 13,061,966	\$ 13,061,966

Note 6 – Property and Casualty Insurance Activity**Premiums Earned**

Premiums written, ceded and earned are as follows:

	<u>Direct</u>	<u>Assumed</u>	<u>Ceded</u>	<u>Net</u>
Nine months ended September 30, 2023				
Premiums written	\$ 147,236,636	\$ -	\$ (91,009,861)	\$ 56,226,775
Change in unearned premiums	4,331,226	-	25,143,466	29,474,692
Premiums earned	<u>\$ 151,567,862</u>	<u>\$ -</u>	<u>\$ (65,866,395)</u>	<u>\$ 85,701,467</u>
Nine months ended September 30, 2022				
Premiums written	\$ 147,353,911	\$ -	\$ (81,313,211)	\$ 66,040,700
Change in unearned premiums	(6,029,774)	-	23,925,498	17,895,724
Premiums earned	<u>\$ 141,324,137</u>	<u>\$ -</u>	<u>\$ (57,387,713)</u>	<u>\$ 83,936,424</u>
Three months ended September 30, 2023				
Premiums written	\$ 51,992,246	\$ -	\$ (48,316,946)	\$ 3,675,300
Change in unearned premiums	(1,246,657)	-	25,509,675	24,263,018
Premiums earned	<u>\$ 50,745,589</u>	<u>\$ -</u>	<u>\$ (22,807,271)</u>	<u>\$ 27,938,318</u>
Three months ended September 30, 2022				
Premiums written	\$ 54,591,551	\$ -	\$ (43,494,819)	\$ 11,096,732
Change in unearned premiums	(5,636,421)	-	23,900,665	18,264,244
Premiums earned	<u>\$ 48,955,130</u>	<u>\$ -</u>	<u>\$ (19,594,154)</u>	<u>\$ 29,360,976</u>

Premium receipts in advance of the policy effective date are recorded as advance premiums. The balance of advance premiums as of September 30, 2023 and December 31, 2022 was \$6,288,223 and \$2,839,028, respectively.

Loss and Loss Adjustment Expense Reserves

The following table provides a reconciliation of the beginning and ending balances for unpaid loss and LAE reserves:

	Nine months ended September 30,	
	2023	2022
Balance at beginning of period	\$ 118,339,513	\$ 94,948,745
Less reinsurance recoverables	(27,659,500)	(10,637,679)
Net balance, beginning of period	90,680,013	84,311,066
Incurred related to:		
Current year	66,568,985	62,910,967
Prior years	(16,420)	713,788
Total incurred	66,552,565	63,624,755
Paid related to:		
Current year	37,932,760	35,774,958
Prior years	29,928,162	26,938,462
Total paid	67,860,922	62,713,420
Net balance at end of period	89,371,656	85,222,401
Add reinsurance recoverables	32,303,291	21,706,497
Balance at end of period	\$ 121,674,947	\$ 106,928,898

Incurred losses and LAE are net of reinsurance recoveries under reinsurance contracts of \$34,019,370 and \$27,230,814 for the nine months ended September 30, 2023 and 2022, 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, 2023 and 2022 was \$16,420 favorable and \$713,788 unfavorable, respectively. Management, on a quarterly basis, performs a review of open liability claims to assess carried case and incurred but not reported (“IBNR”) reserve levels, giving consideration to both Company and industry trends.

Loss and LAE Reserves

The reserving process for loss and LAE reserves provides for the Company’s best estimate at a particular point in time of the ultimate unpaid cost of all losses and LAE incurred, including settlement and administration of losses, and is based on facts and circumstances then known including losses that have occurred but that have not yet been reported. The process relies on standard actuarial reserving methodologies, judgments relative to estimates of ultimate claim severity and frequency, the length of time before losses will develop to their ultimate level (‘tail’ factors), and the likelihood of changes in the law or other external factors that are beyond the Company’s control. Several actuarial reserving methodologies are used to estimate required loss reserves. The process produces carried reserves set by management based upon the actuaries’ best estimate and is the cumulative combination of the best estimates made by line of business, accident year, and loss and LAE. The amount of loss and LAE reserves for individual reported claims (the “case reserve”) is determined by the claims department and changes over time as new information is gathered. Such information is critical to the review of appropriate IBNR reserves and includes a review of coverage applicability, comparative liability on the part of the insured, injury severity, property damage, replacement cost estimates, and any other information considered pertinent to estimating the exposure presented by the claim. The amounts of loss and LAE reserves for unreported claims and development on known claims (IBNR reserves) are determined using historical information aggregated by line of insurance as adjusted to current conditions. Since this process produces loss reserves set by management based upon the actuaries’ best estimate, there is no explicit or implicit provision for uncertainty in the carried loss reserves.

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

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

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

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

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

Incremental Claim-Based Methods – historical patterns of incremental incurred losses and paid LAE during various stages of development are reviewed and assumptions are made regarding average loss and LAE development applied to remaining claims inventory. Such methods more properly reflect changes in the speed of claims closure and the relative adequacy of case reserve levels at various stages of development. These methods may provide a more accurate estimate of IBNR for lines of business with relatively few remaining open claims but for which significant recent settlement activity has occurred.

Frequency / Severity Based Methods – historical measurements of claim frequency and average paid claim size (severity) are reviewed for more mature accident years where a majority of claims have been reported and/or closed. These historical averages are trended forward to more recent periods in order to estimate ultimate losses for newer accident years that are not yet fully developed. These methods are useful for lines of business with slow and/or volatile loss development patterns, such as liability lines where information pertaining to individual cases may not be completely known for many years. The claim frequency and severity information for older periods can then be used as reasonable measures for developing a range of estimates for more recent immature periods.

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

Three key assumptions that materially affect the estimate of loss reserves are the loss ratio estimate for the current accident year used in the BF methods, the loss development factor selections used in the loss development methods, and the loss severity assumptions used in the frequency / severity method described above. The loss ratio estimates used in the BF methods are selected after reviewing historical accident year loss ratios adjusted for rate changes, trend, and mix of business. The severity assumptions used in the frequency / severity method are determined by reviewing historical average claim severity for older more mature accident periods, trended forward to less mature accident periods.

The Company reviews the carried reserves levels on a regular basis as additional information becomes available and makes adjustments in the periods in which such adjustments are determined to be necessary. The Company is not aware of any claim trends that have emerged or that would cause future adverse development that have not already been contemplated in setting current carried reserves levels.

In New York State, lawsuits for negligence are subject to certain limitations and must be commenced within three years from the date of the accident or are otherwise barred. Accordingly, the Company's exposure to unreported claims ("pure" IBNR) for accident dates of September 30, 2020 and prior is limited, although there remains the possibility of adverse development on reported claims ("case development" IBNR). In certain rare circumstances states have retroactively revised a statute of limitations. The Company is not aware of any such effort that would have a material impact on the Company's results.

The following is information about incurred and paid claims development as of September 30, 2023, net of reinsurance, as well as the cumulative reported claims by accident year and total IBNR reserves as of September 30, 2023 included in the net incurred loss and allocated expense amounts. The historical information regarding incurred and paid claims development for the years ended December 31, 2014 to December 31, 2022 is presented as supplementary unaudited information.

All Lines of Business
(in thousands, except reported claims data)

Incurred Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance											As of September 30, 2023	
Accident Year	For the Years Ended December 31,										IBNR	Cumulative Number of Reported Claims by Accident Year
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023		
	(Unaudited 2014 - 2022)											
2014	\$ 14,193	\$ 14,260	\$ 14,218	\$ 14,564	\$ 15,023	\$ 16,381	\$ 16,428	\$ 16,434	\$ 16,486	\$ 16,486	\$ 17	2,138
2015		22,340	21,994	22,148	22,491	23,386	23,291	23,528	23,533	23,464	300	2,559
2016			26,062	24,941	24,789	27,887	27,966	27,417	27,352	27,300	125	2,881
2017				31,605	32,169	35,304	36,160	36,532	36,502	36,731	260	3,400
2018					54,455	56,351	58,441	59,404	61,237	61,024	909	4,233
2019						75,092	72,368	71,544	71,964	72,811	1,126	4,501
2020							63,083	62,833	63,217	63,255	2,431	5,883
2021								96,425	96,673	95,839	4,099	5,808
2022									79,835	79,978	8,691	4,674
2023										63,392	14,044	2,840
									Total	\$ 540,280		

All Lines of Business
(in thousands)

(in thousands)

Cumulative Paid Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance											
Accident Year	For the Years Ended December 31,										Nine Months Ended September 30,
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	
	(Unaudited 2014 - 2022)										(Unaudited)
2014	\$ 5,710	\$ 9,429	\$ 10,738	\$ 11,770	\$ 13,819	\$ 14,901	\$ 15,491	\$ 15,770	\$ 16,120	\$ 16,133	
2015		12,295	16,181	18,266	19,984	21,067	22,104	22,318	22,473	22,516	
2016			15,364	19,001	21,106	23,974	25,234	25,750	26,382	26,732	
2017				16,704	24,820	28,693	31,393	32,529	33,522	34,606	
2018					32,383	44,516	50,553	52,025	54,424	55,373	
2019						40,933	54,897	58,055	60,374	63,311	
2020							39,045	50,719	53,432	55,830	
2021								56,282	77,756	80,267	
2022									45,856	64,417	
2023										35,801	
									Total	\$ 454,987	
Net liability for unpaid loss and allocated loss adjustment expenses for the accident years presented										\$ 85,293	
All outstanding liabilities before 2014, net of reinsurance										172	
Liabilities for loss and allocated loss adjustment expenses, net of reinsurance										\$ 85,465	

(Components may not sum to totals due to rounding)

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

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

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

<i>(in thousands)</i>	As of September 30, 2023
Liabilities for allocated loss and loss adjustment expenses, net of reinsurance	\$ 85,465
Total reinsurance recoverable on unpaid losses	32,303
Unallocated loss adjustment expenses	3,907
Total gross liability for loss and LAE reserves	<u>\$ 121,675</u>

(Components may not sum to totals due to rounding)

Reinsurance

Effective December 31, 2021, the Company entered into a quota share reinsurance treaty for its personal lines business, which primarily consists of homeowners' and dwelling fire policies, covering the period from December 31, 2021 through January 1, 2023 ("2021/2023 Treaty"). Upon the expiration of the 2021/2023 Treaty on January 1, 2023, the Company entered into a new 30% quota share reinsurance treaty for its personal lines business, covering the period from January 1, 2023 through January 1, 2024 ("2023/2024 Treaty").

The Company's excess of loss and catastrophe reinsurance treaties expired on June 30, 2023 and the Company entered into new excess of loss and catastrophe reinsurance treaties effective July 1, 2023. Effective January 1, 2022, the Company entered into an underlying excess of loss reinsurance treaty ("Underlying XOL Treaty") covering the period from January 1, 2022 through January 1, 2023. The treaty provides 50% reinsurance coverage for losses of \$400,000 in excess of \$600,000. Losses from named storms are excluded from the treaty. Effective January 1, 2023, the Underlying XOL Treaty was renewed covering the period from January 1, 2023 through January 1, 2024. Material terms for reinsurance treaties in effect for the treaty years shown below are as follows:

Line of Business	Treaty Period				
	2023/2024 Treaty		2021/2023 Treaty		
	January 2, 2024 to June 30, 2024	July 1, 2023 to January 1, 2024	January 1, 2023 to June 30, 2023	July 1, 2022 to January 1, 2023	December 31, 2021 to June 30, 2022
Personal Lines:					
Homeowners, dwelling fire and canine legal liability					
Quota share treaty:					
Percent ceded (7)	(6)	30%	30%	30%	30%
Risk retained on initial \$1,000,000 of losses (5) (6) (7)	\$ 1,000,000	\$ 700,000	\$ 700,000	\$ 700,000	\$ 700,000
Losses per occurrence subject to quota share reinsurance coverage	(6)	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000
Expiration date	(6)	January 1, 2024	January 1, 2024	January 1, 2023	January 1, 2023
Excess of loss coverage and facultative facility coverage (1) (5) (6)	\$ 8,000,000	\$ 8,400,000	\$ 8,400,000	\$ 8,400,000	\$ 8,400,000
	in excess of	in excess of	in excess of	in excess of	in excess of
	\$ 1,000,000	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000
Total reinsurance coverage per occurrence (5) (6)	\$ 8,000,000	\$ 8,500,000	\$ 8,500,000	\$ 8,500,000	\$ 8,500,000
Losses per occurrence subject to reinsurance coverage	\$ 8,000,000	\$ 8,000,000	\$ 8,000,000	\$ 9,000,000	\$ 9,000,000
Expiration date (6)	June 30, 2024	June 30, 2024	June 30, 2023	June 30, 2023	June 30, 2022
Catastrophe Reinsurance:					
Initial loss subject to personal lines quota share treaty (6)	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000
Risk retained per catastrophe occurrence (6) (7) (8)	\$ 10,000,000	\$ 8,750,000	\$ 8,750,000	\$ 7,400,000	\$ 7,400,000
Catastrophe loss coverage in excess of quota share coverage (2) (6)	\$ 315,000,000	\$ 315,000,000	\$ 335,000,000	\$ 335,000,000	\$ 490,000,000
Reinstatement premium protection (3) (4)	Yes	Yes	Yes	Yes	Yes
(1) For personal lines, includes the addition of an automatic facultative facility allowing KICO to obtain homeowners single risk coverage up to \$9,000,000 in total insured value, which covers direct losses from \$3,500,000 to \$9,000,000 through June 30, 2024. (2) Catastrophe coverage is limited on an annual basis to two times the per occurrence amounts. Duration of 168 consecutive hours for a catastrophe occurrence from windstorm, hail, tornado, hurricane and cyclone. (3) For the period December 31, 2021 through June 30, 2022, reinstatement premium protection for \$70,000,000 of catastrophe coverage in excess of \$10,000,000. (4) For the period July 1, 2022 through June 30, 2023, reinstatement premium protection for \$9,800,000 of catastrophe coverage in excess of \$10,000,000. For the period July 1, 2023 through June 30, 2024, reinstatement premium protection for \$12,500,000 of catastrophe coverage in excess of \$10,000,000. (5) For the period January 1, 2022 through January 1, 2024, underlying excess of loss treaty provides 50% reinsurance coverage for losses of \$400,000 in excess of \$600,000. Reduces retention to \$500,000 from \$700,000 under the 2021/2023 Treaty and 2023/2024 Treaty. Excludes losses from named storms. (6) Personal lines quota share (homeowners, dwelling fire and canine liability) and underlying excess of loss reinsurance will expire on January 1, 2024; reinsurance coverage in effect from January 2, 2024 through June 30, 2024 is only for excess of loss and catastrophe reinsurance treaties. (7) For the 2021/2023 Treaty, 4% of the 30% total of losses ceded under this treaty are excluded from a named catastrophe event. For the 2023/2024 Treaty, 17.5% of the 30% total of losses ceded under this treaty are excluded from a named catastrophe event. (8) Plus losses in excess of catastrophe coverage					

Line of Business	Treaty Year		
	July 1, 2023 to June 30, 2024	July 1, 2022 to June 30, 2023	July 1, 2021 to June 30, 2022
Personal Lines:			
Personal Umbrella			
Quota share treaty:			
Percent ceded - first \$1,000,000 of coverage	90%	90%	90%
Percent ceded - excess of \$1,000,000 dollars of coverage	95%	95%	95%
Risk retained	\$ 300,000	\$ 300,000	\$ 300,000
Total reinsurance coverage per occurrence	\$ 4,700,000	\$ 4,700,000	\$ 4,700,000
Losses per occurrence subject to quota share reinsurance coverage	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000
Expiration date	June 30, 2024	June 30, 2023	June 30, 2022
Commercial Lines (1)			

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

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

Ceding Commission Revenue

The Company earned ceding commission revenue under the 2023/2024 Treaty for the three months and nine months ended September 30, 2023, and under the 2021/2023 Treaty for the three months and nine months ended September 30, 2022, based on a fixed provisional commission rate at which provisional ceding commissions are earned. The Company earned ceding commission revenue under its expired quota share reinsurance agreements based on: (i) a fixed provisional commission rate at which provisional ceding commissions were earned, and (ii) a continuing sliding scale of commission rates and ultimate treaty year loss ratios on the policies reinsured under each of these agreements based upon which contingent ceding commissions are earned. The sliding scale includes minimum and maximum commission rates in relation to specified ultimate loss ratios. The commission rate and contingent ceding commissions earned increase when the estimated ultimate loss ratio decreases and, conversely, the commission rate and contingent ceding commissions earned decrease when the estimated ultimate loss ratio increases.

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Ceding commission revenue consists of the following:

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Provisional ceding commissions earned	\$ 4,992,312	\$ 4,881,580	\$ 15,733,145	\$ 14,116,044
Contingent ceding commissions earned	544,015	4,514	660,799	167,033
	<u>\$ 5,536,327</u>	<u>\$ 4,886,094</u>	<u>\$ 16,393,944</u>	<u>\$ 14,283,077</u>

Provisional ceding commissions are settled monthly. Balances due from reinsurers for contingent ceding commissions on quota share treaties are settled periodically based on the Loss Ratio of each treaty year that ends on June 30, for the expired treaties that were subject to contingent commissions. As discussed above, the Loss Ratios from prior years' treaties are subject to change as incurred losses from those periods develop, resulting in an increase or decrease in the commission rate and contingent ceding commissions earned. As of September 30, 2023 and December 31, 2022, net contingent ceding commissions payable to reinsurers under all treaties was approximately \$2,007,000 and \$2,667,000, respectively, which is recorded in reinsurance balances payable on the accompanying condensed consolidated balance sheets.

Expected Credit Losses – Uncollectible Reinsurance

The Company reviews reinsurance receivables which relate to both amounts already billed on ceded paid losses as well as ceded reserves that will be billed when losses are paid in the future. The Company has not recorded an allowance for uncollectible reinsurance as there is no perceived credit risk. The principal credit quality indicator used in the valuation of the allowance on reinsurance receivables is the financial strength rating of the reinsurer sourced from major rating agencies. Changes in the allowance are presented as a component of other underwriting expenses on the condensed consolidated statements of operations and comprehensive loss.

Note 7 – Debt

Federal Home Loan Bank

In July 2017, KICO became a member of, and invested in, the FHLBNY. KICO is required to maintain an investment in capital stock of FHLBNY. Based on redemption provisions of FHLBNY, the stock has no quoted market value and is carried at cost. At its discretion, FHLBNY may declare dividends on the stock. Management reviews for impairment based on the ultimate recoverability of the cost basis in the stock. At September 30, 2023 and December 31, 2022, no impairment has been recognized. FHLBNY members have access to a variety of flexible, low cost funding through FHLBNY's credit products, enabling members to customize advances, which are to be fully collateralized. Eligible collateral to pledge to FHLBNY includes residential and commercial mortgage-backed securities, along with U.S. Treasury and agency securities. See Note 3 – Investments for eligible collateral held in a designated custodian account available for future advances. Advances are limited to 5% of KICO's net admitted assets as of the previous quarter and are due and payable within one year of borrowing. KICO is currently able to borrow on an overnight basis. If KICO has collateral, based on KICO's net admitted assets, the maximum allowable advance as of September 30, 2023 and December 31, 2022 was approximately \$12,668,000 and \$13,192,000, respectively. Available collateral as of September 30, 2023 and December 31, 2022 was approximately \$10,911,000 and \$12,228,000, respectively. Advances are limited to 85% of the amount of available collateral. There were no borrowings under this facility during the nine months ended September 30, 2023 and 2022.

Debt

Debt as of September 30, 2023 and December 31, 2022 consists of the following:

	September 30, 2023	December 31, 2022
2022 Notes, net	\$ 18,129,327	\$ 17,252,868
Equipment financing	7,095,366	7,905,655
Balance at end of period	<u>\$ 25,224,693</u>	<u>\$ 25,158,523</u>

Note and Warrant Exchange

On December 9, 2022, the Company entered into a Note and Warrant Exchange Agreement (the “Exchange Agreement”) with several holders (the “Exchanging Noteholders”) of the Company’s outstanding 5.50% Senior Notes due 2022 (the “2017 Notes”). On the date of the Exchange Agreement, the Exchanging Noteholders held 2017 Notes in the aggregate principal amount of \$21,545,000 of the \$30,000,000 aggregate principal amount of the 2017 Notes then outstanding. Pursuant to the Exchange Agreement, on December 15, 2022, the Exchanging Noteholders exchanged their respective 2017 Notes for the following: (i) new 12.0% Senior Notes due December 30, 2024 of the Company in the aggregate approximate principal amount of \$19,950,000 (the “2022 Notes”); (ii) cash in the aggregate approximate amount of \$1,595,000, together with accrued interest on the 2017 Notes; and (iii) three-year warrants for the purchase of an aggregate of 969,525 shares of Common Stock of the Company, exercisable at an exercise price of \$1.00 per share (the “Warrants”). The remaining \$8,455,000 principal amount of the 2017 Notes, together with accrued interest thereon, was paid on the maturity date of the 2017 Notes of December 30, 2022.

2022 Notes

On December 15, 2022, the Company issued \$19,950,000 of its 2022 Notes pursuant to the Exchange Agreement. Interest is payable semi-annually in arrears on June 30 and December 30 of each year, which commenced on June 30, 2023 at the rate of 12.0% per annum. Warrants were issued with a fair value of \$993,200 (see Note 8 – Stockholders’ Equity) and transaction costs were \$1,758,112, for an effective yield of 13.92% per annum. The balance of the 2022 Notes as of September 30, 2023 and December 31, 2022 is as follows:

	September 30, 2023	December 31, 2022
12.0% Senior Unsecured Notes	\$ 19,950,000	\$ 19,950,000
Warrants	(734,763)	(979,684)
Issuance costs	(1,085,910)	(1,717,448)
2022 Notes, net	<u>\$ 18,129,327</u>	<u>\$ 17,252,868</u>

The Company is required to make a mandatory redemption of the 2022 Notes on December 30, 2023, in an amount such that the aggregate principal amount of the 2022 Notes to be redeemed plus accrued and unpaid interest thereon shall be equal to the amount by which the maximum Ordinary Dividend Paying Capacity of KICO (as defined below) measured as of December 15, 2023 exceeds the Company's Holding Company Expenses (as defined below) for the calendar year ended December 31, 2023. "Ordinary Dividend Paying Capacity" means the sum, as measured on December 15, 2023, of (i) the maximum allowable amount of dividends that KICO is permitted to pay without seeking any regulatory approval in accordance with New York insurance regulations based on its statutory annual and quarterly financial statements filed with the National Association of Insurance Commissioners as of and for the thirty-six (36) month period ended September 30, 2023 plus (ii) any dividends paid by KICO to the Company during the period beginning January 1, 2023 and ending September 30, 2023. "Holding Company Expenses" means the sum of (i) cash interest expense paid or to be paid during the calendar year ended December 31, 2023 on the 2022 Notes, intercompany loans and any other indebtedness of the holding company on a stand-alone basis and (ii) other cash operating expenses, including taxes, paid or to be paid by the holding company during the calendar year ended December 31, 2023. The amount of other operating expenses paid in cash in the preceding clause (ii) shall not exceed \$2.5 million. Holding Company Expenses will be determined based on the actual Holding Company Expenses for the nine months ending September 30, 2023, and an estimate of Holding Company Expenses for the three months ending December 30, 2023.

The 2022 Notes are unsecured obligations of the Company and are not the obligations of or guaranteed by any of the Company's subsidiaries. The 2022 Notes rank senior in right of payment to any of the Company's existing and future indebtedness that is by its terms expressly subordinated or junior in right of payment to the 2022 Notes. The Notes rank equally in right of payment to all of the Company's existing and future senior indebtedness, but are effectively subordinated to any secured indebtedness to the extent of the value of the collateral securing such secured indebtedness. In addition, the 2022 Notes are structurally subordinated to the indebtedness and other obligations of the Company's subsidiaries.

The 2022 Notes are redeemable, at the Company's option, in whole or in part, at any time or in part from time to time, upon not less than fifteen (15) nor more than sixty (60) days' notice, at the following redemption prices (expressed as percentages of the principal amount thereof) if redeemed during the respective period set forth below, plus, in each case, accrued and unpaid interest, if any, to the date of redemption (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date):

Period:	Percentage
December 30, 2022 to December 29, 2023	102.00%
December 30, 2023 to September 29, 2024	101.00%
September 30, 2024 to December 29, 2024	100.00%

As of the end of each calendar quarter, commencing with the calendar quarter ending December 31, 2022, the Company is subject to a leverage maintenance test ("Leverage Maintenance Test"), which requires that the Total Consolidated Indebtedness (as defined below) of the Company not be greater than 30% of Total Consolidated Capitalization (as defined below). As of September 30, 2023 and December 31, 2022, the ratio as defined under the Leverage Maintenance Test was 31.4% and 26.7%, respectively. On November 7, 2023, a majority of the holders of the outstanding 2022 Notes (on behalf of all holders of the 2022 Notes) agreed to a waiver regarding the satisfaction of the Leverage Maintenance Test as of September 30, 2023. See Note 13 – Subsequent Events. "Total Consolidated Indebtedness" is the aggregate principal amount (or accreted value in the case of any Indebtedness issued with more than de minimis original issue discount) of all outstanding long-term of the Company except for the sale leaseback transaction described below under "Equipment Financing", any refinancing or any future sale leaseback transaction. "Total Consolidated Capitalization" is the amount equal to the sum of (x) Total Consolidated Indebtedness outstanding as of such date and (y) the total consolidated shareholders' equity of the Company, excluding accumulated other comprehensive (loss) income, as recorded on the Company's condensed consolidated balance sheet.

Equipment Financing

On October 27, 2022, KICO entered into a sale leaseback transaction, whereby KICO sold \$8,096,824 of fixed assets to a bank. Under GAAP, the sale leaseback transaction is recorded as equipment financing (“Financing”). The provisions of the Financing require KICO to pay a monthly payment of principal and interest at the rate of 5.86% per annum totaling \$126,877 for a term of 60 months, which commenced on October 27, 2022. The terms of the Financing provide buyout options to KICO at the end of the 60 month term, which are as follows:

- At the end of the lease, KICO may purchase the fixed assets for a purchase price of \$2,024,206, which is 25% of the original fixed asset cost of \$8,096,824; or
- KICO may renew the lease for 16 months at the same rental rate, which totals \$2,030,036.

A provision of the Financing requires KICO to pledge collateral for the lease obligation. As of September 30, 2023 and December 31, 2022, the amount of required collateral was approximately \$7,422,000 and \$8,691,000, respectively. As of September 30, 2023 and December 31, 2022, the fair value of KICO’s pledged collateral was approximately \$8,168,000 and \$8,691,000, respectively, in United States Treasury securities.

Future contractual payment obligations under the Financing as of September 30, 2023 are as follows:

	For the Year Ending December 31,	Total
Remainder of 2023		\$ 278,083
2024		1,153,862
2025		1,223,293
2026		1,296,901
2027		1,119,021
		5,071,160
2027 purchase price		2,024,206
Total		<u>\$ 7,095,366</u>

Note 8 – Stockholders’ EquityDividends Declared and Paid

Dividends declared and paid on Common Stock were \$-0- and \$1,277,066 for the nine months ended September 30, 2023 and 2022, respectively. On November 11, 2022, the Company’s Board of Directors determined to suspend regular quarterly dividends. Future dividend policy will be subject to the discretion of the Company’s Board of Directors.

2014 Equity Participation Plan

Effective August 12, 2014, the Company adopted the 2014 Equity Participation Plan (the “2014 Plan”) pursuant to which a maximum of 700,000 shares of Common Stock of the Company were initially authorized to be issued pursuant to the grant of incentive stock options, non-statutory stock options, stock appreciation rights, restricted stock and stock bonuses. Incentive stock options granted under the 2014 Plan expire no later than ten years from the date of grant (except no later than five years for a grant to a 10% stockholder). Non-statutory stock options granted under the 2014 Plan expire no later than ten years from the date of grant. The Board of Directors or the Compensation Committee determines the vesting provisions for stock awards granted under the 2014 Plan, subject to the provisions of the 2014 Plan. On August 5, 2020, the Company’s stockholders approved amendments to the 2014 Plan, including an increase in the maximum number of shares of Common Stock of the Company that are authorized to be issued pursuant to the 2014 Plan to 1,400,000. On August 9, 2023, the Company’s stockholders approved an amendment to the 2014 Plan to increase the maximum number of shares of Common Stock of the Company that are authorized to be issued pursuant to the 2014 Plan to 1,900,000.

Stock Options

The results of operations for the three months ended September 30, 2023 and 2022 include stock-based compensation expense for stock options totaling approximately \$0- and \$2,000, respectively. The results of operations for the nine months ended September 30, 2023 and 2022 include stock-based compensation expense for stock options totaling approximately \$0- and \$9,000, respectively. Stock-based compensation expense related to stock options for the nine months ended September 30, 2022 is net of estimated forfeitures of approximately 18%. Such amounts have been included in the condensed consolidated statements of operations and comprehensive loss within other operating expenses.

No options were granted during the nine months ended September 30, 2023 and 2022. The fair value of stock options at the grant date are estimated using the Black-Scholes option-pricing model. The Black-Scholes option - pricing model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

A summary of stock option activity under the Company's 2014 Plan for the nine months ended September 30, 2023 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, 2023	107,201	\$ 8.31	1.92	\$ -
Granted	-	\$ -	-	\$ -
Exercised	-	\$ -	-	\$ -
Expired/Forfeited	-	\$ -	-	\$ -
Outstanding at September 30, 2023	<u>107,201</u>	<u>\$ 8.31</u>	<u>1.18</u>	<u>\$ -</u>
Vested and Exercisable at September 30, 2023	<u>107,201</u>	<u>\$ 8.31</u>	<u>1.18</u>	<u>\$ -</u>

The aggregate intrinsic value of options outstanding and options exercisable at September 30, 2023 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 \$1.79 closing price of the Company's Common Stock on September 30, 2023. No options were exercised, forfeited or expired during the nine months ended September 30, 2023. The total intrinsic value of options when forfeited are determined as of the date of forfeiture. The total intrinsic value of options when expired are determined as of the date of expiration.

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Participants in the 2014 Plan may exercise their outstanding vested options, in whole or in part, by having the Company reduce the number of shares otherwise issuable by a number of shares having a fair market value equal to the exercise price of the option being exercised, or by exchanging a number of shares owned for a period of greater than one year having a fair market value equal to the exercise price of the option being exercised.

As of September 30, 2023, there were no unvested options.

As of September 30, 2023, there were 591,383 shares reserved for grants under the 2014 Plan.

Restricted Stock Awards

A summary of the restricted Common Stock activity under the 2014 Plan for nine months ended September 30, 2023 is as follows:

Restricted Stock Awards	Shares	Weighted Average Grant Date Fair Value per Share	Aggregate Fair Value
Balance at January 1, 2023	366,597	\$ 6.97	\$ 2,555,181
Granted	272,682	\$ 1.37	\$ 373,499
Vested	(56,977)	\$ 6.67	\$ (380,199)
Forfeited	(12,620)	\$ 4.11	\$ (51,926)
Balance at September 30, 2023	569,682	\$ 3.83	\$ 2,181,882

Fair value was calculated using the closing price of the Company's Common Stock on the grant date. For the three months ended September 30, 2023 and 2022, stock-based compensation for these grants was approximately \$207,000 and \$186,000, respectively, which is included in other operating expenses on the accompanying condensed consolidated statements of operations and comprehensive loss. For the nine months ended September 30, 2023 and 2022, stock-based compensation for these grants was approximately \$636,000 and \$1,180,000, respectively, which is included in other operating expenses on the accompanying condensed consolidated statements of operations and comprehensive loss. These amounts reflect the Company's accounting expense and do not correspond to the actual value that will be recognized by the directors, executives and employees.

Employee Stock Purchase Plan

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

The initial offering period under the ESPP was from November 1, 2021 through October 31, 2022 (“2021/2022 Offering”). There is currently no offering pursuant to the ESPP subsequent to October 31, 2022. For the three months and nine months ended September 30, 2022, stock-based compensation under the 2021/2022 Offering was approximately \$5,000 and \$16,000, respectively, which is included in other operating expenses on the accompanying condensed consolidated statements of operations and comprehensive loss.

At the end of the 2021/2022 Offering period, 33,222 shares of Common Stock were issued at \$1.82 per share to participating employees for a total purchase price of \$60,464.

Warrants

In connection with the Exchange Agreement (see Note 7 – Debt – “Note and Warrant Exchange”), as additional consideration, on December 15, 2022, the Company issued warrants to the Exchanging Noteholders to purchase 969,525 shares of Common Stock. The fair value of the warrants, using the Black-Scholes valuation formula, was \$993,200, which has been capitalized as a deferred financing cost of the 2022 Notes. The fair value of the warrants is being amortized over the life of the warrants, which is 36.5 months.

The warrants are exercisable through December 30, 2025 at an exercise price of \$1.00 per share. Holders of the warrants may exercise their outstanding warrants in cash, or, 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 warrants being exercised.

As of September 30, 2023, all warrants for the purchase of an aggregate of 969,525 shares of Common Stock were outstanding.

No warrants were granted during the nine months ended September 30, 2023 and 2022.

Note 9 – Income Taxes

The Company files a consolidated U.S. federal income tax return that includes all wholly-owned subsidiaries. State tax returns are filed on a consolidated or separate return basis depending on applicable laws. The Company records adjustments related to prior years’ taxes during the period when they are identified, generally when the tax returns are filed. The effect of these adjustments on the current and prior periods (during which the differences originated) is evaluated based upon quantitative and qualitative factors and are considered in relation to the consolidated financial statements taken as a whole for the respective periods.

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

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

	September 30, 2023	December 31, 2022
Deferred tax asset:		
Net operating loss carryovers (1)	\$ 6,411,993	\$ 3,828,947
Claims reserve discount	1,220,674	1,238,544
Unearned premium	2,395,542	3,574,840
Deferred ceding commission revenue	1,972,541	2,230,109
Net unrealized losses on securities	4,912,057	4,920,837
Other	1,193,445	503,692
Total deferred tax assets	<u>18,106,252</u>	<u>16,296,969</u>
Deferred tax liability:		
Investment in KICO (2)	759,543	759,543
Deferred acquisition costs	4,311,788	5,002,085
Intangibles	105,000	105,000
Depreciation and amortization	140,761	99,183
Total deferred tax liabilities	<u>5,317,092</u>	<u>5,965,811</u>
Net deferred income tax asset	<u>\$ 12,789,160</u>	<u>\$ 10,331,158</u>

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

Type of NOL	September 30, 2023	December 31, 2022	Expiration
Federal only, NOL from 2021 - 2023	\$ 6,411,993	\$ 3,828,947	None
State only (A)	2,555,609	2,276,595	December 2027 - December 2043
Valuation allowance	(2,555,609)	(2,276,595)	
State only, net of valuation allowance	<u>-</u>	<u>-</u>	
Total deferred tax asset from net operating loss carryovers	<u>\$ 6,411,993</u>	<u>\$ 3,828,947</u>	

(A) Kingstone generates operating losses for state purposes and has prior year NOLs available. The state NOL as of September 30, 2023 and December 31, 2022 was approximately \$39,317,000 and \$35,025,000, respectively. KICO, the Company's insurance underwriting subsidiary, is not subject to state income taxes. KICO's state tax obligations are paid through a gross premiums tax, which is included in the condensed consolidated statements of operations and comprehensive loss within other underwriting expenses. Kingstone has recorded a valuation allowance due to the uncertainty of generating enough state taxable income to utilize 100% of the available state NOLs over their remaining lives, which expire between 2027 and 2043.

(2) Deferred tax liability – Investment in KICO

On July 1, 2009, the Company completed the acquisition of 100% of the issued and outstanding common stock of KICO (formerly known as Commercial Mutual Insurance Company (“CMIC”)) pursuant to the conversion of CMIC from an advance premium cooperative to a stock property and casualty insurance company. Pursuant to the plan of conversion, the Company acquired a 100% equity interest in KICO, in consideration for the exchange of \$3,750,000 principal amount of surplus notes of CMIC. In addition, the Company forgave all accrued and unpaid interest on the surplus notes as of the date of conversion. As of the date of acquisition, unpaid accrued interest on the surplus notes along with the accretion of the discount on the original purchase of the surplus notes totaled \$2,921,319 (together “Untaxed Interest”). As of the date of acquisition, the deferred tax liability on the Untaxed Interest was \$1,169,000. A temporary difference with an indefinite life exists when the parent has a lower carrying value of its subsidiary for income tax purposes. The deferred tax liability was reduced to \$759,543 upon the reduction of federal income tax rates as of December 31, 2017. The Company is required to maintain its deferred tax liability of \$759,543 related to this temporary difference until the stock of KICO is sold, or the assets of KICO are sold or KICO and the parent are merged.

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

The Company had no material unrecognized tax benefit and no adjustments to liabilities or operations were required. There were no interest or penalties related to income taxes that have been accrued or recognized as of and for the nine months ended September 30, 2023 and 2022. If any had been recognized these would have been reported in income tax expense.

Generally, taxing authorities may examine the Company’s tax returns for the three years from the date of filing. The Company’s tax returns for the years ended December 31, 2019 through December 31, 2022 remain subject to examination.

Note 10 – Loss Per Common Share

Basic net loss per common share is computed by dividing net loss by the weighted-average number of shares of Common Stock outstanding. Diluted loss per common share reflects, in periods in which it has a dilutive effect, the impact of common shares issuable upon exercise of stock options and warrants as well as non-vested restricted stock awards. The computation of diluted loss per common share excludes those options and warrants with an exercise price in excess of the average market price of the Company’s Common Stock during the periods presented.

The computation of diluted loss per common share excludes outstanding options, warrants and non-vested restricted stock awards in periods where the exercise of such options and warrants or vesting of such restricted stock awards would be anti-dilutive. For the three months and nine months ended September 30, 2023 and 2022, no options, warrants or restricted stock awards were included in the computation of diluted loss per common share as they would have been anti-dilutive for the relevant periods and, as a result, the weighted average number of shares of Common Stock used in the calculation of diluted loss per common share has not been adjusted for the effect of such options, warrants and non-vested restricted stock awards.

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

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Weighted average number of shares outstanding	10,756,156	10,645,675	10,754,709	10,640,290
Effect of dilutive securities, common share equivalents:				
Stock options	-	-	-	-
Warrants	-	-	-	-
Restricted stock awards	-	-	-	-
Weighted average number of shares outstanding, used for computing diluted loss per share	<u>10,756,156</u>	<u>10,645,675</u>	<u>10,754,709</u>	<u>10,640,290</u>

Note 11 - Commitments and Contingencies

Litigation

From time to time, the Company is involved in various legal proceedings in the ordinary course of business. For example, to the extent a claim is asserted by a third party in a lawsuit against one of the Company's insureds covered by a particular policy, the Company may have a duty to defend the insured party against the claim. These claims may relate to bodily injury, property damage or other compensable injuries as set forth in the policy. Such proceedings are considered in estimating the liability for loss and LAE expenses.

Office Lease

The Company enters into lease agreements for real estate that is primarily used for office space in the ordinary course of business. These leases are accounted for as operating leases, whereby lease expense is recognized on a straight-line basis over the term of the lease.

The Company is a party to a non-cancellable operating lease, dated March 27, 2015, for its office facility for KICO located in Valley Stream, New York expiring March 31, 2024.

On July 8, 2019, the Company entered into a lease agreement for an additional office facility for Cosi located in Valley Stream, New York under a non-cancelable operating lease. The lease had a term of seven years and two months expiring December 31, 2026. During January 2022, pursuant to a mutual agreement with the landlord at a cost of \$40,000, the Cosi lease was terminated effective as of January 31, 2022.

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

- (1) KICO rent expense is included in the condensed consolidated statements of operations and comprehensive loss within other underwriting expenses.
- (2) Cusi rent expense is included in the condensed consolidated statements of operations and comprehensive loss within other operating expenses.

The following table presents the contractual maturities of the Company's lease liabilities as of September 30, 2023:

Lease cost	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Operating lease (1) (2)	\$ 41,342	\$ 41,342	\$ 124,026	\$ 131,152
Total lease cost (1) (2)	<u>\$ 41,342</u>	<u>\$ 41,342</u>	<u>\$ 124,026</u>	<u>\$ 131,152</u>

Other information on operating leases

Cash payments included in the measurement of lease

liability reported in operating cash flows	\$ 49,145	\$ 47,483	\$ 145,774	\$ 147,969
Discount rate	5.50%	5.50%	5.50%	5.50%
Remaining lease term in years	0.50	1.50	0.50	1.50

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

The following table presents the contractual maturities of the Company's lease liabilities as of September 30, 2023:

	For the Nine Months Ending September 30,	Total
Remainder of 2023		\$ 49,145
2024		49,145
Total undiscounted lease payments		98,290
Less: present value adjustment		8,993
Operating lease liability (1)		<u>\$ 89,297</u>

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

Rent expense for the three months ended September 30, 2023 and 2022 amounted to \$41,342 for both periods and is included in the accompanying condensed consolidated statements of operations and comprehensive loss within other underwriting expenses. Rent expense for the nine months ended September 30, 2023 and 2022 amounted to \$124,026 and \$131,152, respectively, and is included in the accompanying condensed consolidated statements of operations and comprehensive loss within other underwriting expenses.

Employment Agreements

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

Employment Agreement effective as of January 1, 2020

On October 14, 2019, the Company and Barry B. Goldstein, the Company's President, Chief Executive Officer and Executive Chairman of the Board, entered into a Second Amended and Restated Employment Agreement (the "Second Amended Goldstein Employment Agreement"). The Second Amended Goldstein Employment Agreement became effective as of January 1, 2020 and expired on December 31, 2022. The Second Amended Goldstein Employment Agreement extended the expiration date of the employment agreement in effect for Mr. Goldstein from December 31, 2021 to December 31, 2022.

Pursuant to the Second Amended Goldstein Employment Agreement, Mr. Goldstein was entitled to receive an annual base salary of \$500,000 and an annual bonus equal to 6% of the Company's consolidated income from operations before taxes, exclusive of the Company's consolidated net investment income (loss), net unrealized gains (losses) on equity securities and net realized gains (losses) on investments, up to a maximum of 2.5 times his base salary. In addition, pursuant to the Second Amended Goldstein Employment Agreement, Mr. Goldstein was entitled to receive a long-term compensation ("LTC") award of between \$945,000 and \$2,835,000 based on a specified minimum increase in the Company's adjusted book value per share (as defined in the Second Amended Goldstein Employment Agreement) as of December 31, 2022 as compared to December 31, 2019 (with the maximum LTC payment being due if the average per annum increase was at least 14%). Pursuant to the Third Amended Goldstein Employment Agreement (discussed below), Mr. Goldstein relinquished the right to receive the LTC. Pursuant to the Second Amended Goldstein Employment Agreement, in the event that Mr. Goldstein's employment was terminated by the Company without cause or he resigned for good reason (each as defined in the Second Amended Goldstein Employment Agreement), Mr. Goldstein would have been entitled to receive his base salary and the 6% bonus for the remainder of the term. In addition, in the event of Mr. Goldstein's death, his estate would have been entitled to receive his base salary and accrued bonus through the date of death. Further, in the event that Mr. Goldstein's employment was terminated by the Company without cause or he resigned for good reason, or, in the event of the termination of Mr. Goldstein's employment due to disability or death, Mr. Goldstein's granted but unvested restricted stock awards would have vested. Mr. Goldstein would have been entitled, under certain circumstances, to a payment equal to 3.82 times his then annual salary and his accrued 6% bonus in the event of the termination of his employment within eighteen months following a change of control of the Company.

Pursuant to the Second Amended Goldstein Employment Agreement, in January 2020, Mr. Goldstein received a grant of 157,431 shares of restricted stock under the terms of the Company's 2014 Plan determined by dividing \$1,250,000 by the fair market value of the Company's Common Stock on the date of grant. This 2020 grant vested with respect to one-third of the award on each of the first and second anniversaries of the grant date and was scheduled to vest with respect to one-sixth of the award on each of December 29, 2023 and December 30, 2024 based on the continued provision of services through such dates. On September 18, 2023, Mr. Goldstein and the Company agreed to extend the vesting date of the one-sixth of the award that was scheduled to vest on December 29, 2023 to December 30, 2024. Also pursuant to the Second Amended Goldstein Employment Agreement, Mr. Goldstein received a grant, under the terms of the 2014 Plan, during January 2021, of 230,769 shares of restricted stock determined by dividing \$1,500,000 by the fair market value of the Company's Common Stock on the date of grant. This 2021 grant vested with respect to one-half of the award on the first anniversary of the grant date and was scheduled to vest with respect to one-fourth of the award on each of December 29, 2023 and December 30, 2024 based on the continued provision of services through such dates. On September 18, 2023, Mr. Goldstein and the Company agreed to extend the vesting date of the one-fourth of the award that was scheduled to vest on December 29, 2023 to December 30, 2024. Further, pursuant to the Second Amended Goldstein Employment Agreement, Mr. Goldstein received in 2020, 2021, and 2022 a grant, under the terms of the 2014 Plan of a number of shares of restricted stock determined by dividing \$136,500 by the fair market value of the Company's Common Stock on the date of grant. In January 2020, Mr. Goldstein was granted 17,191 shares of restricted stock pursuant to this provision. This grant vested with respect to one-third of the award on each of the first and second anniversaries of the grant date and was scheduled to vest with respect to one-sixth of the award on each of December 29, 2023 and December 30, 2024 based on the continued provision of services through such dates. On September 18, 2023, Mr. Goldstein and the Company agreed to extend the vesting date for the one-sixth of the award that was scheduled to vest on December 29, 2023 to December 30, 2024. In January 2021, Mr. Goldstein was granted 21,000 shares of restricted stock pursuant to this provision. This grant vested with respect to one-half of the award on the first anniversary of the grant date and was scheduled to vest with respect to one-fourth of the award on each of December 29, 2023 and December 30, 2024 based on the continued provision of services through such dates. On September 18, 2023, Mr. Goldstein and the Company agreed to extend the vesting date for the one-fourth of the award that was scheduled to vest on December 29, 2023 to December 30, 2024. In January 2022, Mr. Goldstein was granted 27,300 shares of restricted stock pursuant to this provision. This grant was scheduled to vest with respect to one-half of the award on each of December 29, 2023 and December 30, 2024 based on the continued provision of services through such dates. On September 18, 2023, Mr. Goldstein and the Company agreed to extend the vesting date for the one-half of the award that was scheduled to vest on December 29, 2023 to December 30, 2024. Pursuant to the 2014 Plan, Mr. Goldstein's unvested restricted stock awards will vest in the event of a change in control of the Company. In addition, in the event of the termination of Mr. Goldstein's employment with the Company for any reason, his unvested restricted stock will vest.

Employment Agreement effective as of January 1, 2023

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

Pursuant to the Third Amended Goldstein Employment Agreement, Mr. Goldstein is entitled to receive an annual base salary of \$500,000 and an annual bonus equal to 3% of the Company's consolidated income from operations before taxes, exclusive of the Company's consolidated net investment income (loss), net unrealized gains (losses) on equity securities and net realized gains (losses) on investments, up to a maximum of 1.25 times his base salary. Pursuant to the Third Amended Goldstein Employment Agreement, Mr. Goldstein would be entitled to receive, under certain circumstances, a payment equal to 1.5 times his then annual base salary and his accrued bonus in the event of the termination of his employment within eighteen months following a change of control of the Company.

Employment Agreement effective as of October 1, 2023

On August 9, 2023, the Company and Mr. Goldstein entered into an amendment to the Third Amended Goldstein Employment Agreement which took effect as of October 1, 2023. Pursuant to the amendment, effective as of October 1, 2023, Mr. Goldstein is no longer serving as President and Chief Executive Officer of the Company, the expiration date of the Third Amended Goldstein Employment Agreement shall be the earlier of (a) December 31, 2024 or (b) in the event Mr. Goldstein is not re-elected as Chairman of the Board of the Company following its 2024 annual meeting of stockholders, then the date of such annual meeting, Mr. Goldstein's salary was reduced to \$300,000 per annum, and Mr. Goldstein is no longer entitled to receive a bonus based upon the Company's net income.

Meryl Golden, Chief Operating Officer (See Note 13 – Subsequent Events)

Employment Agreement effective as of January 1, 2021

On September 16, 2019, the Company and Meryl Golden entered into an employment agreement (the "Golden Employment Agreement") pursuant to which Ms. Golden serves as the Company's Chief Operating Officer. Ms. Golden also serves as KICO's President and Chief Operating Officer. The Golden Employment Agreement became effective as of September 25, 2019 (amended on December 24, 2020) and expired on December 31, 2022.

Pursuant to the Golden Employment Agreement, Ms. Golden was entitled to receive an annual salary of \$500,000. The Golden Employment Agreement also provided for the grant on the effective date of a five year option for the purchase of 50,000 shares of the Company's Common Stock pursuant to the 2014 Plan. The options granted vested in four equal installments, with the first installment vesting on the grant date, and the remaining installments vesting on the first, second, and third anniversaries of the grant date. Pursuant to the Golden Employment Agreement, as amended, in each of January 2021 and January 2022, Ms. Golden was granted 30,000 shares of restricted Common Stock pursuant to the 2014 Plan. Each such grant will vest in three equal installments on each of the first, second and third anniversaries of the grant date. Pursuant to the 2014 Plan, Ms. Golden's outstanding stock options and restricted stock awards will vest in the event of a change in control of the Company.

Employment Agreement effective as of January 1, 2023

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

Pursuant to the Second Amended Golden Employment Agreement, Ms. Golden is entitled to receive an annual base salary of \$500,000 and an annual bonus equal to 3% of the Company's consolidated income from operations before taxes, exclusive of the Company's consolidated net investment income (loss), net unrealized gains (losses) on equity securities and net realized gains (losses) on investments, up to a maximum of 1.25 times her base salary. In addition, pursuant to the Second Amended Golden Employment Agreement, Ms. Golden is entitled to receive a grant, under the terms of the 2014 Plan, during each of January 2023 and January 2024, under certain circumstances, of a number of shares of restricted stock determined by dividing \$136,500 by the fair market value of the Company's Common Stock on the date of grant. In January 2023, Ms. Golden was granted 101,111 shares of restricted stock pursuant to this provision. The 2023 grant will vest with respect to one-half of the award on the first anniversary of the grant date and one-half of the award on December 31, 2024, based on the continued provision of services through such dates. The 2024 grant will vest on December 31, 2024, based on the continued provision of services through such date. In the event that the Company is precluded from making a grant in 2024, then instead Ms. Golden shall be entitled to receive a cash bonus of \$136,500 for such year. Further, pursuant to the Second Amended Golden Employment Agreement, Ms. Golden would be entitled to receive, under certain circumstances, a payment equal to 1.5 times her then annual base salary and her accrued bonus in the event of the termination of her employment within eighteen months following a change of control of the Company.

Effective as of October 1, 2023, Ms. Golden was appointed to the position of President and Chief Executive Officer of the Company to succeed Mr. Goldstein.

Note 12 – Employee Benefit Plans

Employee Bonus Plan

For the nine months ended September 30, 2023 and 2022 the Company did not accrue for, or pay, bonuses related to an employee bonus plan.

401(k) Plan

The Company maintains a salary reduction plan under Section 401(k) of the Internal Revenue Code (the “401(k) Plan”) for its qualified employees. The Company matches 100% of each participant’s contribution up to 4% of the participant’s eligible contribution. The Company incurred approximately \$90,000 and \$71,000, respectively, of expense for the three months ended September 30, 2023 and 2022, related to the 401(k) Plan, which is recorded in other underwriting expenses on the accompanying condensed consolidated statements of operations and comprehensive loss. The Company incurred approximately \$249,000 and \$207,000, respectively, of expense for the nine months ended September 30, 2023 and 2022, related to the 401(k) Plan, which is recorded in other underwriting expenses on the accompanying condensed consolidated statements of operations and comprehensive loss.

Deferred Compensation Plan

On June 18, 2018, the Company adopted the Kingstone Companies, Inc. Deferred Compensation Plan (the “Deferred Compensation Plan”). Effective December 22, 2022, the Company terminated the Deferred Compensation Plan. The assets of the Deferred Compensation Plan will be liquidated by making payments to Participants in full satisfaction of their interest in the Deferred Compensation Plan (“Termination Payments”), which Termination Payments will be made no earlier than December 22, 2023 and will be completed no later than December 22, 2024.

The deferred compensation liability as of September 30, 2023 and December 31, 2022 amounted to \$873,768 and \$1,155,860, respectively, and is recorded in accounts payable, accrued expenses and other liabilities in the accompanying condensed consolidated balance sheets.

Note 13 – Subsequent Events

The Company has evaluated events that occurred subsequent to September 30, 2023 through the date these condensed consolidated financial statements were issued for matters that required disclosure or adjustment in these condensed consolidated financial statements.

Debt

On November 7, 2023, a majority of the holders of the outstanding 2022 Notes (on behalf of all holders of the 2022 Notes) agreed to a waiver regarding the satisfaction of the Leverage Maintenance Test as of September 30, 2023. See Note 7 – Debt.

Employment Agreements

Effective as of October 1, 2023, Ms. Golden was appointed to the position of President and Chief Executive Officer of the Company to succeed Mr. Goldstein. See Note 11 – Commitments and Contingencies.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

We offer property and casualty insurance products through our wholly owned subsidiary, Kingstone Insurance Company (“KICO”). KICO is actively writing personal lines and physical damage coverage for taxi and livery vehicles primarily in downstate New York, consisting of New York City, Long Island and Westchester County. KICO is also licensed in the States of New Jersey, Rhode Island, Connecticut, Massachusetts, Pennsylvania, Maine, and New Hampshire. For the three months and nine months ended September 30, 2023, respectively, 88.5% and 88.1% of KICO’s direct written premiums came from the New York policies. We refer to our New York business as our “Core” business and the business outside of New York as our “non-Core” business.

In addition, our subsidiary, Cosi Agency, Inc. (“Cosi”), a multi-state licensed general agency, receives commission revenue from KICO for the policies it places with others and pays commissions to these agencies. Cosi retains the profit between the commission revenue received and the commission expense paid (“Net Cosi Revenue”). Commission expense is reduced by Net Cosi Revenue. Cosi-related operating expenses are minimal and are included in other operating expenses. Cosi-related operating expenses are not included in our stand-alone insurance underwriting business and, accordingly, Cosi’s expenses are not included in the calculation of our combined ratio as described below.

We derive substantially all of our revenue from KICO, which includes revenues from earned premiums, ceding commissions from quota share reinsurance, net investment income generated from its portfolio, and net realized gains and losses on investment securities. All of KICO’s insurance policies are written for a one-year term. Earned premiums represent premiums received from insureds, which are recognized as revenue over the period of time that insurance coverage is provided (i.e., ratably over the one-year life of the policy). A significant period of time can elapse from the receipt of insurance premiums to the payment of insurance claims. During this time, KICO invests the premiums, earns investment income and generates net realized and unrealized investment gains and losses on investments. Our holding company earns investment income from its cash holdings.

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

Other operating expenses include our corporate expenses as a holding company. These corporate 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, cooperative/condominium, renters, and personal umbrella policies.

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

In May 2019, due to the poor performance of this line we placed a moratorium on new commercial lines and new commercial umbrella submissions while we further reviewed this business. In July 2019, due to the continuing poor performance of these lines, we made the decision to no longer underwrite commercial lines or commercial umbrella risks. In-force policies as of July 31, 2019 for these lines were non-renewed at the end of their annual terms. As of September 30, 2023 and December 31, 2022, there were no commercial liability policies in-force. As of September 30, 2023 and December 31, 2022, these expired policies represent approximately 15.5% and 17.9%, respectively, of loss and LAE reserves net of reinsurance recoverables. See discussion below under “Additional Financial Information”.

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

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

Key Measures

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

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

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

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

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

Critical Accounting Policies and Estimates

Our condensed consolidated financial statements include the accounts of Kingstone Companies, Inc. and all majority-owned and controlled subsidiaries. The preparation of financial statements in conformity with GAAP requires our management to make estimates and assumptions in certain circumstances that affect amounts reported in our condensed consolidated financial statements and related notes. In preparing these condensed consolidated financial statements, our management has utilized information including our past history, industry standards, and the current economic environment, and other factors, in forming its estimates and judgments of certain amounts included in the condensed consolidated financial statements, giving due consideration to materiality. It is possible that the ultimate outcome as anticipated by our management in formulating its estimates in these financial statements may not materialize. Application of the critical accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. In addition, other companies may utilize different estimates, which may impact comparability of our results of operations to those of similar companies. See the Critical Accounting Policies and Estimates section within Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Annual Report on Form 10-K for the year ended December 31, 2022 for further information.

We believe that the most critical accounting policies relate to the reporting of reserves for loss and LAE, including losses that have occurred but have not been reported prior to the reporting date, amounts recoverable from third party reinsurers, deferred income taxes, allowance for credit losses of investment securities, and the valuation of warrants. See Note 2 to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2022 and Note 2 of the condensed consolidated financial statements included in this Quarterly Report for accounting policies regarding the adoption of ASU 2016-13 effective January 1, 2023.

Kingstone 2.0 (completed) and Kingstone 3.0 (underway)

Beginning in the fourth quarter of 2019, a series of strategic initiatives, coined “Kingstone 2.0” were commenced to modernize our Company. The pillars of the new strategy were as follows:

1. Strengthen the management team by adding highly qualified professionals with deep domain experience and diverse backgrounds;
2. Reduce expenses and increase efficiency by embracing technology including converting to a new policy management system, retiring multiple legacy systems and starting up a new claims system, among other technology initiatives;
3. Develop and implement a new, more highly segmented product suite (Kingstone Select) which better matches rate to risk using advanced analytics and an abundance of data; and
4. Better manage the Company’s catastrophe exposure in order to reduce loss cost and the growth rate of our Probable Maximum Loss (“PML”) in order to mitigate the impact of the emerging “hard market” in catastrophe reinsurance.

We announced the substantive completion of Kingstone 2.0 in late 2022 and embarked on a new strategy to optimize our in-force business, which we coined as “Kingstone 3.0”. The four pillars of this new strategy entail:

1. Aggressively reducing the non-Core book of business, which has had a disproportionately negative impact on underwriting results, by slowing new business, re-underwriting the book, culling the agent base, reducing commissions, or other means, subject to regulatory constraints. We stopped writing all new non-Core business and have been aggressively reducing policy count this year. As of September 30, 2023, our non-Core policy count is down by 38.9% compared to September 30, 2022;
2. Adjusting pricing to stay ahead of loss trends, including inflation, by filing the maximum annual rate change that can be supported in each state and product and ensuring all policyholders are insured to value. Inflation has been a dominant headwind that is showing signs of stabilizing. We have been cognizant that inflation’s impact on loss costs places added pressure on premiums and, as such, we have been more frequent and aggressive with our rate change requests. Similarly, home replacement values reflect that same inflationary pressure. In September 2023, we completed our first cycle of valuation adjustments, making sure that all homes were insured to value. As a result, we have seen a rise in premiums attributable to the heightened replacement costs. Overall average written premium for our Legacy Core homeowners policies for the last 12 months, reflecting both rate and replacement cost changes, increased by 25.5%;
3. Tightly managing reinsurance requirements and costs, using risk selection and other underwriting capabilities to manage the growth rate of our PML. We needed to contain our exposure to spiking reinsurance pricing. We did so and were able to reduce the required limit to be purchased while maintaining our same risk tolerance. We used all the tools available to us to limit new business that was deemed to be too expensive and at the same time re-underwrote the book to cull those risks which presented the greatest risk. The combination of stricter new business underwriting and increased non-renewals gave rise to the 4.5% decline in policy count for our Core business. We have now reverted most of our new business underwriting standards back to what they were previously so Core new business growth should increase going forward; and
4. Continuing expense reduction focus with a goal of reducing the net expense ratio to 33% by year-end 2024. For the three months ended September 30, 2023, the net underwriting expense ratio was 31.7%, a reduction of 5.2 points in spite of the 4.8% decline in net premiums earned. For the nine months ended September 30, 2023, we achieved our 33% goal.

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See tables below comparing the quarterly trends and changes from our Core and non-Core business for policies in force and direct written premiums from September 30, 2022 through September 30, 2023. For the three months ended September 30, 2023, our Core direct written premiums have increased by 4.7% compared to the three months ended September 30, 2022, while policies in force have decreased by 4.5% as of September 30, 2023. For the same periods, our non-Core policies in force have decreased by 38.9% and direct written premiums have decreased by 43.9%. We believe that the above actions taken will continue to have the intended effect and will result in a return to profitability for the Company

	For the Three Months Ended				
	September 30, 2022	December 31, 2022	March 31, 2023	June 30, 2023	September 30, 2023
(000's except percentages and Policies in Force)					
Policies In Force, as of end of Three Month Period					
Core	71,705	71,359	72,081	70,132	68,498
Non-Core	22,007	20,695	18,945	16,224	13,457
Total policies in force	93,712	92,054	91,026	86,356	81,955
Direct written premiums					
Core	\$ 43,949	\$ 43,923	\$ 41,427	\$ 42,211	\$ 46,025
Non-Core	10,642	9,978	6,170	5,435	5,966
Total direct written premiums	\$ 54,592	\$ 53,901	\$ 47,597	\$ 47,647	\$ 51,992
Change from September 30, 2022					
Core					
Policies In Force					
\$ change	na	\$ (346)	\$ 376	\$ (1,573)	\$ (3,207)
% change	na	-0.5%	0.5%	-2.2%	-4.5%
Direct written premiums					
\$ change	na	\$ (26)	\$ (2,522)	\$ (1,738)	\$ 2,076
% change	na	-0.1%	-5.7%	-4.0%	4.7%
Non- Core					
Policies In Force					
\$ change	na	\$ (1,312)	\$ (3,062)	\$ (5,783)	\$ (8,550)
% change	na	-6.0%	-13.9%	-26.3%	-38.9%
Direct written premiums					
\$ change	na	\$ (664)	\$ (4,472)	\$ (5,207)	\$ (4,676)
% change	na	-6.2%	-42.0%	-48.9%	-43.9%

(Components may not sum due to rounding)

Consolidated Results of Operations

Nine Months Ended September 30, 2023 Compared to Nine Months Ended September 30, 2022

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,			
	2023	2022	Change	Percent
Revenues				
Direct written premiums	\$ 147,237	\$ 147,354	\$ (117)	(0.1)%
Assumed written premiums	-	-	-	na%
	<u>147,237</u>	<u>147,354</u>	<u>(117)</u>	<u>(0.1)%</u>
Ceded written premiums				
Ceded to quota share treaties (1)	38,832	34,868	3,964	11.4%
Ceded to excess of loss treaties	3,861	2,937	924	31.5%
Ceded to catastrophe treaties	48,316	43,508	4,808	11.1%
Total ceded written premiums	<u>91,009</u>	<u>81,313</u>	<u>9,696</u>	<u>11.9%</u>
Net written premiums	<u>56,228</u>	<u>66,041</u>	<u>(9,813)</u>	<u>(14.9)%</u>
Change in unearned premiums				
Direct and assumed	4,331	(6,030)	10,361	na%
Ceded to reinsurance treaties (1)	25,143	23,925	1,218	5.1%
Change in net unearned premiums	<u>29,474</u>	<u>17,895</u>	<u>11,579</u>	<u>na%</u>
Premiums earned				
Direct and assumed	151,568	141,324	10,244	7.2%
Ceded to reinsurance treaties	<u>(65,866)</u>	<u>(57,388)</u>	<u>(8,478)</u>	<u>(14.8)%</u>
Net premiums earned	<u>85,701</u>	<u>83,936</u>	<u>1,766</u>	<u>2.1%</u>
Ceding commission revenue (1)	16,394	14,283	2,111	14.8%
Net investment income	4,437	3,412	1,025	30.0%
Net gains (losses) on investments	598	(9,313)	9,911	na%
Other income	454	750	(296)	(39.5)%
Total revenues	<u>107,584</u>	<u>93,068</u>	<u>14,517</u>	<u>15.6%</u>
Expenses				
Loss and loss adjustment expenses				
Direct and assumed:				
Loss and loss adjustment expenses excluding the effect of catastrophes	89,826	83,346	6,480	7.8%
Losses from catastrophes (2)	<u>10,746</u>	<u>7,510</u>	<u>3,236</u>	<u>43.1%</u>
Total direct and assumed loss and loss adjustment expenses	<u>100,572</u>	<u>90,856</u>	<u>9,716</u>	<u>10.7%</u>
Ceded loss and loss adjustment expenses:				
Loss and loss adjustment expenses excluding the effect of catastrophes	30,558	23,187	7,371	31.8%
Losses from catastrophes (2)	<u>3,461</u>	<u>4,044</u>	<u>(583)</u>	<u>(14.4)%</u>
Total ceded loss and loss adjustment expenses	<u>34,019</u>	<u>27,231</u>	<u>6,788</u>	<u>24.9%</u>
Net loss and loss adjustment expenses:				
Loss and loss adjustment expenses excluding the effect of catastrophes	59,268	60,159	(891)	(1.5)%
Losses from catastrophes (2)	<u>7,285</u>	<u>3,466</u>	<u>3,819</u>	<u>110.2%</u>
Net loss and loss adjustment expenses	<u>66,553</u>	<u>63,625</u>	<u>2,928</u>	<u>4.6%</u>
Commission expense	25,221	25,534	(313)	(1.2)%
Other underwriting expenses	19,874	20,717	(843)	(4.1)%
Other operating expenses	1,868	2,357	(489)	(20.7)%
Depreciation and amortization	2,328	2,472	(144)	(5.8)%
Interest expense	3,005	1,370	1,635	119.3%
Total expenses	<u>118,848</u>	<u>116,075</u>	<u>2,774</u>	<u>2.4%</u>
Loss before taxes	(11,264)	(23,007)	11,743	51.0%
Income tax benefit	<u>(2,149)</u>	<u>(4,433)</u>	<u>2,284</u>	<u>51.5%</u>
Net loss	<u>\$ (9,114)</u>	<u>\$ (18,575)</u>	<u>\$ 9,461</u>	<u>50.9%</u>

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

(1) Effective December 31, 2021, we entered into a 30% personal lines quota share treaty.

- (2) The nine months ended September 30, 2023 and 2022 include catastrophe losses, which are defined as losses from an event for which a catastrophe bulletin and related serial number has been issued by the Property Claims Services (PCS) unit of the Insurance Services Office (ISO). PCS catastrophe bulletins are issued for events that cause more than \$25 million in total insured losses and affect a significant number of policyholders and insurers.

	Nine months ended September 30,			
	2023	2022	Percentage Point Change	Percent Change
Key ratios:				
Net loss ratio	77.7%	75.8%	1.9	2.5%
Net underwriting expense ratio	33.0%	37.2%	(4.2)	(11.3)%
Net combined ratio	110.7%	113.0%	(2.3)	(2.0)%

Direct Written Premiums

Direct written premiums during the nine months ended September 30, 2023 (“Nine Months 2023”) were \$147,237,000 compared to \$147,354,000 during the nine months ended September 30, 2022 (“Nine Months 2022”). The decrease of \$117,000, or 0.1%, was primarily due to a decrease in premiums from our personal lines business.

Direct written premiums from our personal lines business for Nine Months 2023 were \$136,601,000, a decrease of \$1,597,000, or 1.2%, from \$138,198,000 in Nine Months 2022. The 1.2% decrease in premiums from our personal lines business was primarily due to the decrease in premiums associated with a 14.0% decrease in policies in force as of September 30, 2023 compared to September 30, 2022, offset by rate increases. The rate increases achieved along with a decrease in policies in force is in accordance with both our Kingstone 2.0 and Kingstone 3.0 strategic plans.

Direct written premiums from our livery physical damage business for Nine Months 2023 were \$10,559,000, an increase of \$1,522,000, or 16.8%, from \$9,037,000 in Nine Months 2022. The increase in livery physical damage direct written premiums was due to an increasing number of policies and an increase in the values of the autos insured.

Beginning in 2017, we commenced our non-Core business and started writing personal lines policies in New Jersey. Through 2019 we expanded our non-Core business to Rhode Island, Massachusetts and Connecticut. Direct written premiums from our Core business were \$129,665,000 in Nine Months 2023 compared to \$118,332,000 in Nine Months 2022, an increase of \$11,333,000, or 9.6%. Policies in force from our Core business decreased by 4.5% in Nine Months 2023 compared to Nine Months 2022. Direct written premiums from our non-Core business were \$17,572,000 in Nine Months 2023 down from \$29,022,000 in Nine Months 2022, a decrease of \$11,450,000, or 39.5%. The decrease in direct written premiums from our non-Core business is a result of our decision to aggressively reduce the book of business in these states. Policies in force from our non-Core business decreased by 38.9% in Nine Months 2023 compared to Nine Months 2022. The increase in our Core business and the decrease in our non-Core business is consistent with a key pillar of our Kingstone 3.0 strategy to reduce our non-Core business due to profitability concerns.

Net Written Premiums and Net Premiums Earned

Net written premiums decreased \$9,813,000, or 14.9%, to \$56,228,000 in Nine Months 2023 from \$66,041,000 in Nine Months 2022. Net written premiums include direct premiums, less the amount of written premiums ceded under our reinsurance treaties (quota share, excess of loss, and catastrophe). The decrease in Nine Months 2023 is primarily due to a decrease in direct written premiums and an increase in catastrophe premiums rates.

Quota share reinsurance treaties

Effective December 31, 2021, we entered into a quota share reinsurance treaty for our personal lines business covering the period from December 31, 2021 through January 1, 2023 (“2021/2023 Treaty”). Upon the expiration of the 2021/2023 Treaty on January 1, 2023, we entered into a new 30% quota share reinsurance treaty for our personal lines business, covering the period from January 1, 2023 through January 1, 2024 (“2023/2024 Treaty”). In Nine Months 2023, our premiums ceded under quota share treaties increased by \$3,964,000 in comparison to ceded premiums in Nine Months 2022 (see table above). The increase in Nine Months 2023 was attributable to the runoff of an 8.5% portion of the 30% 2021/2023 Treaty. The remainder of the 2021/2023 Treaty was on a cutoff basis and the new 2023/2024 Treaty was placed for 30% on January 1, 2023. Our personal lines business was subject to the 2023/2024 Treaty in Nine Months 2023, and the 2021-2023 Treaty in Nine Months 2022.

Excess of loss reinsurance treaties

An increase in written premiums will increase the premiums ceded under our excess of loss treaties. In Nine Months 2023, our ceded excess of loss reinsurance premiums increased by \$924,000 over the comparable ceded premiums for Nine Months 2022. The increase was due to an increase in subject premiums and the heightened cost of coverage obtained. Effective January 1, 2022, we entered into an underlying excess of loss reinsurance treaty covering the period from January 1, 2022 through January 1, 2023. The treaty provides 50% reinsurance coverage for losses of \$400,000 in excess of \$600,000. Losses from named storms are excluded from the treaty. Effective January 1, 2023, the Underlying XOL Treaty was renewed covering the period from January 1, 2023 through January 1, 2024.

Catastrophe reinsurance treaties

Most of the premiums written under our personal lines policies are also subject to our catastrophe treaties. An increase in our personal lines business gives rise to more property exposure, which increases our exposure to catastrophe risk; therefore, our premiums ceded under catastrophe treaties will increase. An increase in our personal lines business results in an increase in premiums ceded under our catastrophe treaties if reinsurance rates are stable or are increasing. Catastrophe premiums increased \$4,808,000, or 11.1%, to \$48,316,000 in Nine Months 2023 from \$43,508,000 in Nine Months 2022. The increase was primarily due to an increase in catastrophe reinsurance rates. In accordance with our Kingstone 2.0 and Kingstone 3.0 goals, we have reduced our PML in Nine Months 2023, which partially offset the increase in premiums effective July 1, 2023.

Net premiums earned

Net premiums earned increased \$1,766,000, or 2.1%, to \$85,701,000 in Nine Months 2023 from \$83,936,000 in Nine Months 2022. The increase was due in part to the increased premiums written in prior periods due to rate increases and increased replacement costs. The run-off of a portion of the 2021-2023 Treaty increased the premiums ceded and reduced the growth of net premiums earned.

Ceding Commission Revenue

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,			
	2023	2022	Change	Percent
Provisional ceding commissions earned	\$ 15,733	\$ 14,116	\$ 1,617	11.5%
Contingent ceding commissions earned	661	167	494	295.8%
Total ceding commission revenue	<u>\$ 16,394</u>	<u>\$ 14,283</u>	<u>\$ 2,111</u>	14.8%

Ceding commission revenue was \$16,394,000 in Nine Months 2023 compared to \$14,283,000 in Nine Months 2022. The increase of \$2,111,000 was due to an increase in provisional ceding commissions earned and an increase in contingent ceding commissions earned. See below for a discussion of provisional ceding commissions earned and contingent ceding commissions earned.

Provisional Ceding Commissions Earned

In Nine Months 2023 we earned provisional ceding commissions of \$15,733,000 from personal lines earned premiums ceded under the 2023/2024 Treaty, and in Nine Months 2022 we earned provisional ceding commissions of \$14,116,000 from personal lines earned premiums ceded under the 2021/2023 Treaty. The increase of \$1,617,000 in provisional ceding commissions earned was due to the increase in premiums ceded under these treaties during Nine Months 2023 compared to Nine Months 2022.

Contingent Ceding Commissions Earned

The structure of the 2023/2024 Treaty and the 2021/2023 Treaty calls for a fixed provisional ceding commission with no opportunity to earn additional contingent ceding commissions. Under our prior years' quota share treaties, we received a contingent ceding commission based on a sliding scale in relation to the losses incurred under our quota share treaties. The lower the ceded loss ratio, the more contingent commission we received.

Net Investment Income

Net investment income was \$4,437,000 in Nine Months 2023 compared to \$3,412,000 in Nine Months 2022, an increase of \$1,025,000, or 30.0%. The increase in investment income is attributable to a \$766,000 reversal in Nine Months 2022 of prior years' estimated accrued interest income stemming from an error in third party investment reporting. The increase was also due to higher interest rates earned on cash balances. The average yield on non-cash invested assets was 3.73% as of September 30, 2023 compared to 3.48% as of September 30, 2022.

Cash and invested assets were \$172,095,000 as of September 30, 2023 compared to \$192,229,000 as of September 30, 2022. The \$20,134,000 decrease in cash and invested assets was primarily attributable to increased disbursements of losses in connection with higher severity and inflation's impact on losses along with catastrophe losses incurred in 2023 and prior periods. An increase in unrealized losses on our investment portfolio also contributed to the reduction.

Net Gains (Losses) on Investments

Net gains on investments were \$598,000 in Nine Months 2023 compared to net (losses) of \$(9,313,000) in Nine Months 2022. Unrealized gains on our equity securities and other investments in Nine Months 2023 were \$615,000, compared to net unrealized (losses) of \$(10,502,000) in Nine Months 2022. Realized (losses) on sales of investments were \$(17,000) in Nine Months 2023 compared to realized gains of \$1,189,000 in Nine Months 2022.

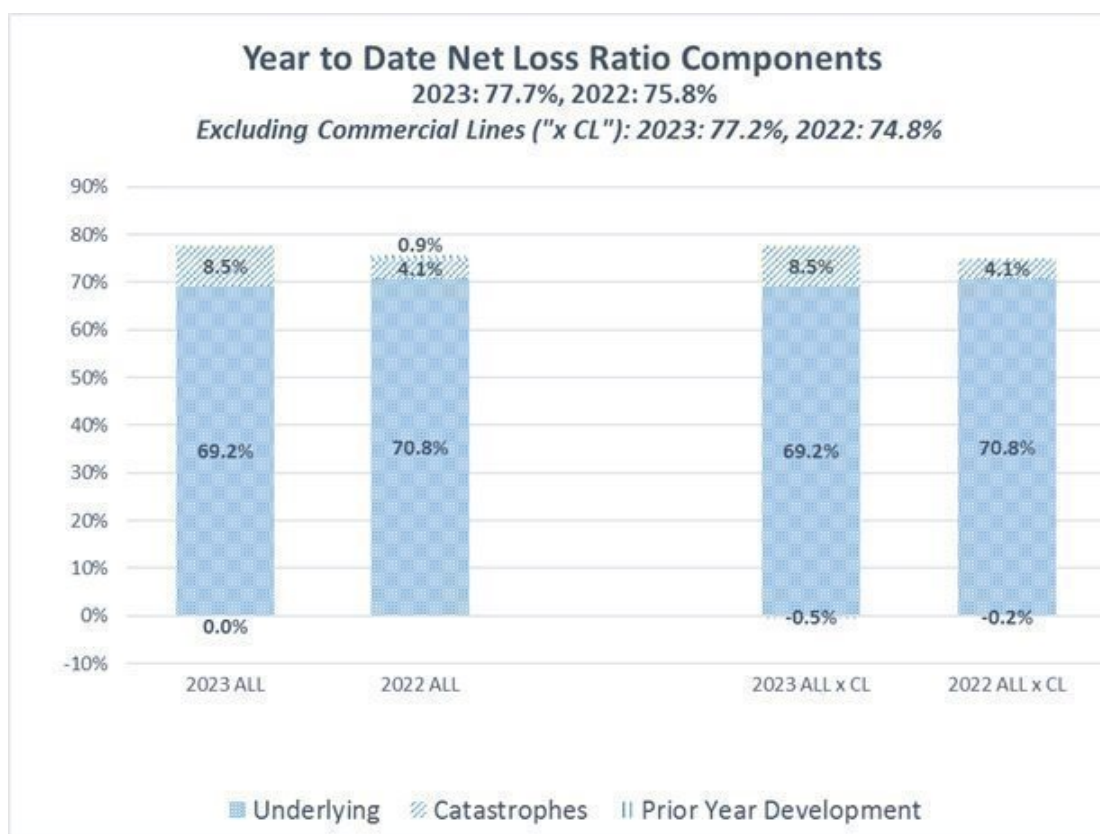
Other Income

Other income was \$454,000 in Nine Months 2023 compared to \$750,000 in Nine Months 2022, a decrease of \$296,000, or 39.5%.

Net Loss and LAE

Net loss and LAE was \$66,553,000 for Nine Months 2023 compared to \$63,625,000 for Nine Months 2022. The net loss ratio was 77.7% in Nine Months 2023 compared to 75.8% in Nine Months 2022, an increase of 1.9 percentage points.

The following graph summarizes the changes in the components of net loss ratio for the periods indicated, along with the comparable components excluding commercial lines business:



(Percent components may not sum to totals due to rounding)

For Nine Months 2023, the net loss ratio was higher than for Nine Months 2022 mainly due to a larger impact from catastrophe losses.

The net catastrophe losses were \$7,285,000 for Nine Months 2023, which contributed 8.5 points to the loss ratio. There were two winter storm events including a major freezing event at the beginning of February, eight wind and thunderstorm events, and one tropical storm classified as catastrophe for Nine Months 2023. By comparison, catastrophe events had a loss ratio impact of 4.1 points for Nine Months 2022.

The underlying loss ratio (loss ratio excluding the impact of catastrophe and prior year development) was 69.2% for Nine Months 2023, a decrease of 1.6 points from the 70.8% underlying loss ratio recorded for Nine Months 2022. The underlying loss experience in Nine Months 2023 was improved due to lower frequency, but was offset by increasing severity resulting from inflation and an elevated number of large losses.

Prior year development was stable for Nine Months 2023. There was an overall favorable development of \$16,000, which had marginal impact on the loss ratio.

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

Commission Expense

Commission expense was \$25,221,000 in Nine Months 2023 or 16.6% of direct earned premiums. Commission expense was \$25,534,000 in Nine Months 2022 or 18.1% of direct earned premiums. The decrease of \$313,000 was primarily due to a reduction of commission rates on our legacy policies in accordance with Kingstone 3.0 as well as the lower commission rate paid on Select products as compared to legacy products but offset in part by an increase in direct earned premiums of \$10,244,000 to \$151,568,000.

Other Underwriting Expenses

Other underwriting expenses were \$19,874,000, or 13.1% of direct earned premiums, in Nine Months 2023 compared to \$20,717,000, or 14.7% of direct earned premiums, in Nine Months 2022. The decrease of \$843,000, or 4.1%, was primarily due to decreases in professional fees, credit card fees and policy management system fees as result of the completion of our policy management system conversion, allowing us to eliminate multiple legacy systems. The decreases were partially offset by increases in salaries and employment costs.

Our largest single component of other underwriting expenses is salaries and employment costs, with costs of \$8,692,000 in Nine Months 2023 compared to \$8,027,000 in Nine Months 2022. The increase of \$665,000, or 8.3%, is compared unfavorably to the 0.1% decrease in direct written premiums. In the periods following Nine Months 2022, we continued to strengthen our professional team by investing in the hiring of higher-level and higher compensated managers and staff needed to manage the business consistent with our Kingstone 2.0 and Kingstone 3.0 strategies. The increase in salaries was partially offset by a reduction in our staff in June and July of 2023 as we have been reducing our non-Core business. The effect of staff reductions on salaries and employment costs is expected to have a greater impact on year to date other underwriting expenses in future periods.

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Our net underwriting expense ratio in Nine Months 2023 was 33.0% compared to 37.2% in Nine Months 2022. The following table shows the individual components of our net underwriting expense ratio for the periods indicated:

	Nine months ended September 30,		
	2023	2022	Percentage Point Change
Other underwriting expenses			
Employment costs	10.1%	9.6%	0.5
Underwriting fees (inspections/surveys)	1.6	1.7	(0.1)
IT expenses	3.0	4.2	(1.2)
Professional fees	1.0	1.4	(0.4)
Other expenses	7.3	7.7	(0.4)
Total other underwriting expenses	23.0	24.6	(1.6)
Commission expense	29.4	30.4	(1.0)
Ceding commission revenue			
Provisional	(18.4)	(16.8)	(1.6)
Contingent	(0.8)	(0.2)	(0.6)
Total ceding commission revenue	(19.2)	(17.0)	(2.2)
Other income	(0.5)	(0.9)	0.4
Net underwriting expense ratio	33.0%	37.2%	(4.2)

(Components may not sum to totals due to rounding)

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Other Operating Expenses

Other operating expenses, related to the expenses of our holding company and Cosi, were \$1,868,000 for Nine Months 2023 compared to \$2,357,000 for Nine Months 2022. The following table shows a breakdown of the significant components of other operating expenses for the periods indicated:

(\$ in thousands)	Nine months ended September 30,		Change	Percent
	2023	2022		
Other operating expenses				
Employment costs	\$ 235	\$ (101)	\$ 336	na%
Bonuses	-	-	-	na
Equity compensation	636	1,205	(569)	(47.2)
Professional	223	524	(301)	(57.4)
Directors fees	206	245	(39)	(15.9)
Insurance	139	115	24	20.9
Other expenses	429	369	60	16.3
Total other operating expenses	<u>\$ 1,868</u>	<u>\$ 2,357</u>	<u>\$ (489)</u>	<u>(20.7)%</u>

(Components may not sum to totals due to rounding)

The decrease in Nine Months 2023 of \$489,000, or 20.7%, as compared to Nine Months 2022 was primarily due to a decrease in equity compensation and professional fees, partially offset by an increase in employment costs. The increase in employment costs was due to the hiring of our new Chief Financial Officer in Nine Months 2023 and fluctuations in deferred compensation liability related to changes in the underlying invested portfolio. The decrease in professional fees is due to \$316,000 incurred in Nine Months 2022 related to a then contemplated transaction that would have resulted in a third party acquiring all of the outstanding equity of our company.

Depreciation and Amortization

Depreciation and amortization was \$2,328,000 in Nine Months 2023 compared to \$2,472,000 in Nine Months 2022. The decrease of \$144,000, or 5.8%, in depreciation and amortization was primarily due to the completion and deployment of our customized policy management software as planned for in Kingstone 2.0, now allowing us to consolidate multiple legacy systems into one efficient system and retire those older more costly and less reliable systems. Depreciation on older assets that were retired, which had a shorter useful life, is greater than the depreciation on newly acquired assets which have a longer useful life.

Interest Expense

Interest expense in Nine Months 2023 was \$3,005,000 compared to \$1,370,000 in Nine Months 2022, an increase of \$1,635,000 or 119.3%. In Nine Months 2023, as disclosed in Note 7 to the condensed consolidated financial statements, we incurred increased interest expense in connection with the 2022 Notes, which provide for interest at the rate of 12% per annum, and the 2022 equipment financing. In Nine Months 2022, we incurred interest expense in connection with the 2017 Notes, our \$30.0 million issuance of long-term debt in December 2017, which provided for interest at the rate of 5.5% per annum.

Income Tax Benefit

Income tax benefit in Nine Months 2023 was \$2,149,000, which resulted in an effective tax benefit rate of 19.1%. Income tax benefit in Nine Months 2022 was \$4,433,000 which resulted in an effective tax rate of 19.3%. Loss before taxes was \$11,264,000 in Nine Months 2023 compared to \$23,007,000 in Nine Months 2022. The difference in effective tax rate is due to the effect of permanent differences in Nine Months 2023 compared to Nine Months 2022.

Net Loss

Net loss was \$9,114,000 in Nine Months 2023 compared to \$18,575,000 in Nine Months 2022. The decrease in net loss of \$9,461,000 was due to the circumstances described above.

Three Months Ended September 30, 2023 Compared to Three Months Ended September 30, 2022

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,			
	2023	2022	Change	Percent
Revenues				
Direct written premiums	\$ 51,992	\$ 54,592	\$ (2,600)	(4.8)%
Assumed written premiums	-	-	-	na%
	<u>51,992</u>	<u>54,592</u>	<u>(2,600)</u>	<u>(4.8)%</u>
Ceded written premiums				
Ceded to quota share treaties (1)	12,210	12,919	(709)	(5.5)%
Ceded to excess of loss treaties	1,726	1,194	532	44.6%
Ceded to catastrophe treaties	34,380	29,382	4,998	17.0%
Total ceded written premiums	<u>48,316</u>	<u>43,494</u>	<u>4,821</u>	<u>11.1%</u>
Net written premiums	<u>3,675</u>	<u>11,097</u>	<u>(7,422)</u>	<u>(66.9)%</u>
Change in unearned premiums				
Direct and assumed	(1,247)	(5,636)	4,389	77.9%
Ceded to reinsurance treaties (1)	25,509	23,900	1,609	6.7%
Change in net unearned premiums	<u>24,262</u>	<u>18,264</u>	<u>5,998</u>	<u>na%</u>
Premiums earned				
Direct and assumed	50,745	48,955	1,790	3.7%
Ceded to reinsurance treaties	(22,807)	(19,594)	(3,213)	(16.4)%
Net premiums earned	<u>27,938</u>	<u>29,361</u>	<u>(1,423)</u>	<u>(4.8)%</u>
Ceding commission revenue (1)	5,536	4,886	650	13.3%
Net investment income	1,444	1,419	25	1.8%
Net losses on investments	(824)	(397)	(427)	(107.6)%
Other income	142	270	(128)	(47.4)%
Total revenues	<u>34,237</u>	<u>35,538</u>	<u>(1,303)</u>	<u>(3.7)%</u>
Expenses				
Loss and loss adjustment expenses				
Direct and assumed:				
Loss and loss adjustment expenses excluding the effect of catastrophes	29,570	30,514	(944)	(3.1)%
Losses from catastrophes (2)	2,871	477	2,394	501.9%
Total direct and assumed loss and loss adjustment expenses	<u>32,441</u>	<u>30,991</u>	<u>1,450</u>	<u>4.7%</u>
Ceded loss and loss adjustment expenses:				
Loss and loss adjustment expenses excluding the effect of catastrophes	9,797	8,820	977	11.1%
Losses from catastrophes (2)	712	143	569	397.9%
Total ceded loss and loss adjustment expenses	<u>10,509</u>	<u>8,963</u>	<u>1,546</u>	<u>17.2%</u>
Net loss and loss adjustment expenses:				
Loss and loss adjustment expenses excluding the effect of catastrophes	19,773	21,694	(1,921)	(8.9)%
Losses from catastrophes (2)	2,159	334	1,825	546.4%
Net loss and loss adjustment expenses	<u>21,932</u>	<u>22,028</u>	<u>(96)</u>	<u>(0.4)%</u>
Commission expense	8,210	8,702	(492)	(5.7)%
Other underwriting expenses	6,319	7,276	(957)	(13.2)%
Other operating expenses	442	810	(368)	(45.4)%
Depreciation and amortization	741	825	(84)	(10.2)%
Interest expense	989	457	532	116.4%
Total expenses	<u>38,633</u>	<u>40,097</u>	<u>(1,465)</u>	<u>(3.7)%</u>
Loss before taxes	(4,397)	(4,559)	162	3.6%
Income tax benefit	(859)	(562)	(297)	(52.8)%
Net loss	<u>\$ (3,538)</u>	<u>\$ (3,998)</u>	<u>\$ 460</u>	<u>11.5%</u>

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

- (1) Effective December 31, 2021, we entered into a 30% personal lines quota share treaty.
- (2) The three months ended September 30, 2023 and 2022 include catastrophe losses, which are defined as losses from an event for which a

catastrophe bulletin and related serial number has been issued by the Property Claims Services (PCS) unit of the Insurance Services Office (ISO). PCS catastrophe bulletins are issued for events that cause more than \$25 million in total insured losses and affect a significant number of policyholders and insurers.

	Three months ended September 30,			
	2023	2022	Percentage Point Change	Percent Change
Key ratios:				
Net loss ratio	78.5%	75.0%	3.5	4.7%
Net underwriting expense ratio	31.7%	36.9%	(5.2)	(14.1)%
Net combined ratio	110.2%	111.9%	(1.7)	(1.5)%

Direct Written Premiums

Direct written premiums during the three months ended September 30, 2023 (“Three Months 2023”) were \$51,992,000 compared to \$54,592,000 during the three months ended September 30, 2022 (“Three Months 2022”). The decrease of \$2,600,000, or 4.8%, was primarily due to a decrease in premiums from our personal lines business, partially offset by an increase in premiums from our livery physical damage business.

Direct written premiums from our personal lines business for Three Months 2023 were \$48,419,000, a decrease of \$2,824,000, or 5.5%, from \$51,243,000 in Three Months 2022. The 5.5% decrease in premiums from our personal lines business was primarily due to a decrease in premiums associated with a 14.0% decrease in policies in force as of September 30, 2023 compared to September 30, 2022, offset by rate increases. The rate increases achieved along with a decrease in policies in force is in accordance with both our Kingstone 2.0 and Kingstone 3.0 strategic plans.

Direct written premiums from our livery physical damage business for Three Months 2023 were \$3,544,000, an increase of \$234,000, or 7.1%, from \$3,310,000 in Three Months 2022. The increase in livery physical damage direct written premiums was due to an increasing number of policies and an increase in the values of the autos insured.

Beginning in 2017, we commenced our non-Core business and started writing personal lines policies in New Jersey. Through 2019 we expanded our non-Core business to Rhode Island, Massachusetts and Connecticut. Direct written premiums from our Core business were \$46,025,000 in Three Months 2023 compared to \$43,949,000 in Three Months 2022, an increase of \$2,076,000, or 4.7%. Policies in force from our Core business decreased by 4.5% in Three Months 2023 compared to Three Months 2022. Direct written premiums from our non-Core business were \$5,966,000 in Three Months 2023 down from \$10,642,000 in Three Months 2022, a decrease of \$4,676,000, or 43.9%. The decrease in direct written premiums from our non-Core business is a result of our decision to aggressively reduce the book of business in these states. Policies in force from our non-Core business decreased by 38.9% in Three Months 2023 compared to Three Months 2022. The increase in direct written premiums in our Core business and the decrease in our non-Core business is consistent with a key pillar of our Kingstone 3.0 strategy to reduce our non-Core business due to profitability concerns.

Net Written Premiums and Net Premiums Earned

Net written premiums decreased \$7,422,000, or 66.9%, to \$3,675,000 in Three Months 2023 from \$11,097,000 in Three Months 2022. Net written premiums include direct premiums, less the amount of written premiums ceded under our reinsurance treaties (quota share, excess of loss, and catastrophe). The decrease in Three Months 2023 is primarily due to changes in the terms of our catastrophe reinsurance treaty. See catastrophe reinsurance treaties discussion below.

Quota share reinsurance treaties

Effective December 31, 2021, we entered into a quota share reinsurance treaty for our personal lines business covering the period from December 31, 2021 through January 1, 2023 (“2021/2023 Treaty”). Upon the expiration of the 2021/2023 Treaty on January 1, 2023, we entered into a new 30% quota share reinsurance treaty for our personal lines business, covering the period from January 1, 2023 through January 1, 2024 (“2023/2024 Treaty”). In Three Months 2023, our premiums ceded under quota share treaties decreased by \$709,000 in comparison to ceded premiums in Three Months 2022 (see table above). The decrease in Three Months 2023 was attributable to the decrease in direct written premiums discussed above, partially offset by the runoff of an 8.5% portion of the 30% 2021/2023 Treaty. The remainder of the 2021/2023 Treaty was on a cutoff basis and the new 2023/2024 Treaty was placed for 30% on January 1, 2023. Our personal lines business was subject to the 2023/2024 Treaty in Three Months 2023, and the 2021-2023 Treaty in Three Months 2022.

Excess of loss reinsurance treaties

An increase in written premiums will increase the premiums ceded under our excess of loss treaties. In Three Months 2023, our ceded excess of loss reinsurance premiums increased by \$532,000 over the comparable ceded premiums for Three Months 2022. The increase was due to an increase in subject premiums and the heightened cost of coverage obtained. Effective January 1, 2022, we entered into an underlying excess of loss reinsurance treaty covering the period from January 1, 2022 through January 1, 2023. The treaty provides 50% reinsurance coverage for losses of \$400,000 in excess of \$600,000. Losses from named storms are excluded from the treaty. Effective January 1, 2023, the Underlying XOL Treaty was renewed covering the period from January 1, 2023 through January 1, 2024.

Catastrophe reinsurance treaties

Most of the premiums written under our personal lines policies are also subject to our catastrophe treaties. An increase in our personal lines business gives rise to more property exposure, which increases our exposure to catastrophe risk; therefore, our premiums ceded under catastrophe treaties will increase. An increase in our personal lines business results in an increase in premiums ceded under our catastrophe treaties if reinsurance rates are stable or are increasing. Catastrophe premiums increased \$4,998,000, or 17.0%, to \$34,380,000 in Three Months 2023 from \$29,382,000 in Three Months 2022. The increase was primarily due to an increase in catastrophe reinsurance rates. In accordance with our Kingstone 2.0 and Kingstone 3.0 goals, we have reduced our PML in Three Months 2023, which partially offset the increase in premiums effective July 1, 2023.

Net premiums earned

Net premiums earned decreased \$1,423,000, or 4.8%, to \$27,938,000 in Three Months 2023 from \$29,361,000 in Three Months 2022. The decrease was due to the 4.8% decrease in direct written premiums during Three Months 2023, the run-off of a portion of the 2021-2023 Treaty, which increased the premiums ceded and reduced the net premiums earned, and an increase in catastrophe premiums rates, which also reduced net premiums earned. These reductions to net premiums earned were partially offset by the increased premiums written in prior periods due to rate increases and increased replacement costs.

Ceding Commission Revenue

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

(\$ in thousands)	Three months ended September 30,			
	2023	2022	Change	Percent
Provisional ceding commissions earned	\$ 4,992	\$ 4,882	\$ 110	2.3%
Contingent ceding commissions earned	544	4	540	13,500.0%
Total ceding commission revenue	<u>\$ 5,536</u>	<u>\$ 4,886</u>	<u>\$ 650</u>	13.3%

Ceding commission revenue was \$5,536,000 in Three Months 2023 compared to \$4,886,000 in Three Months 2022. The increase of \$650,000 was due to an increase in provisional ceding commissions earned and an increase in contingent ceding commissions earned. See below for a discussion of provisional ceding commissions earned and contingent ceding commissions earned.

Provisional Ceding Commissions Earned

In Three Months 2023 we earned provisional ceding commissions of \$4,992,000 from personal lines earned premiums ceded under the 2023/2024 Treaty, and in Three Months 2022 we earned provisional ceding commissions of \$4,882,000 from personal lines earned premiums ceded under the 2021/2023 Treaty. The increase of \$110,000 in provisional ceding commissions earned was due to the runoff of an 8.5% portion of the 30% 2021/2023 Treaty, partially offset by a decrease in premiums subject to quota share treaties as a result of the decrease in direct written premiums discussed above.

Contingent Ceding Commissions Earned

The structure of the 2023/2024 Treaty and the 2021/2023 Treaty calls for a fixed provisional ceding commission with no opportunity to earn additional contingent ceding commissions. Under our prior years' quota share treaties, we received a contingent ceding commission based on a sliding scale in relation to the losses incurred under our quota share treaties. The lower the ceded loss ratio, the more contingent commission we received.

Net Investment Income

Net investment income was \$1,444,000 in Three Months 2023 compared to \$1,419,000 in Three Months 2022, an increase of \$25,000, or 1.8%. The increase in investment income is attributable to higher interest rates earned on cash balances. The average yield on non-cash invested assets was 3.73% as of September 30, 2023 compared to 3.48% as of September 30, 2022.

Cash and invested assets were \$172,095,000 as of September 30, 2023 compared to \$192,229,000 as of September 30, 2022. The \$20,134,000 decrease in cash and invested assets was primarily attributable to increased disbursements of losses in connection with higher severity and inflation's impact on losses along with catastrophe losses incurred in 2023 and prior periods. An increase in unrealized losses on our investment portfolio also contributed to the reduction.

Net Gains (Losses) on Investments

Net (losses) on investments were \$(824,000) in Three Months 2023 compared to net (losses) of \$(398,000) in Three Months 2022. Unrealized (losses) on our equity securities and other investments in Three Months 2023 were \$(820,000) compared to net unrealized (losses) of \$(1,798,000) in Three Months 2022. Realized (losses) on sales of investments were \$(4,000) in Three Months 2023 compared to realized gains of \$1,400,000 in Three Months 2022.

Other Income

Other income was \$142,000 in Three Months 2023 compared to \$270,000 in Three Months 2022, a decrease of \$128,000, or 47.4%.

Net Loss and LAE

Net loss and LAE was \$21,932,000 for Three Months 2023 compared to \$22,028,000 for Three Months 2022. The net loss ratio was 78.5% in Three Months 2023 compared to 75.0% in Three Months 2022, an increase of 3.5 percentage points.

The following graph summarizes the changes in the components of net loss ratio for the periods indicated, along with the comparable components excluding commercial lines business:



(Percent components may not sum to totals due to rounding)

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For Three Months 2023, the net loss ratio was higher than for Three Months 2022. Although the catastrophe impact for Three Months 2023 was larger than for Three Months 2022, the underlying loss ratio (loss ratio excluding the impact of catastrophe and prior year development) was lower.

There were six newly designated catastrophe events for Three Months 2023. The estimated total net catastrophe losses for the calendar quarter were \$2,159,000, which contributed 7.7 points to the loss ratio. By comparison, the catastrophe impact for Three Months 2022 was 1.1 points.

The underlying loss ratio was 70.8% for Three Months 2023, a decrease of 1.6 points from the 72.4% underlying loss ratio recorded for Three Months 2022. The underlying loss experience for Three Months 2023 was improved due to lower frequency which is believed to be the result of the Company's new product rollout as well as the Company's active efforts to manage less profitable segments. The improvement in frequency was offset by increased severity due to inflation and large losses, similar to what was observed in the first six months of 2023.

Prior year development was stable for Three Months 2023. There was an overall unfavorable development of \$3,000, which had marginal impact on the loss ratio.

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

Commission Expense

Commission expense was \$8,210,000 in Three Months 2023 or 16.2% of direct earned premiums. Commission expense was \$8,702,000 in Three Months 2022 or 17.8% of direct earned premiums. The decrease of \$492,000 was primarily due to a reduction of commission rates on our legacy policies in accordance with Kingstone 3.0 as well as the lower commission rate paid on Select products as compared to legacy products, but offset by an increase in direct earned premiums of \$1,791,000 to \$50,746,000.

Other Underwriting Expenses

Other underwriting expenses were \$6,319,000, or 12.5% of direct earned premiums in Three Months 2023 compared to \$7,276,000, or 14.9% of direct earned premiums, in Three Months 2022. The decrease of \$957,000, or 13.2%, was primarily due to decreases in salaries and employment costs, credit card fees, and policy management system fees as result of the completion of our policy management system conversion, allowing us to eliminate multiple legacy systems.

Our largest single component of other underwriting expenses is salaries and employment costs, with costs of \$2,817,000 in Three Months 2023 compared to \$2,961,000 in Three Months 2022. The decrease of \$144,000, or 4.9%, compared favorably to the 4.8% decrease in direct written premiums. The decrease in salaries and employment costs was due to a reduction in our staff in June and July of 2023 as we have been reducing our non-Core business. As an offset to the decrease in employment costs from staff reductions, in the periods following Three Months 2022, we continued to strengthen our professional team by investing in the hiring of higher-level and higher compensated managers and staff needed to manage the business consistent with our Kingstone 2.0 and Kingstone 3.0 strategies.

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Our net underwriting expense ratio in Three Months 2023 was 31.7% compared to 36.9% in Three Months 2022. The following table shows the individual components of our net underwriting expense ratio for the periods indicated:

	Three months ended September 30,		
	2023	2022	Percentage Point Change
Other underwriting expenses			
Employment costs	10.1%	10.1%	-
Underwriting fees (inspections/surveys)	1.5	1.6	(0.1)
IT expenses	2.9	4.2	(1.3)
Professional fees	1.1	1.1	-
Other expenses	7.0	7.8	(0.8)
Total other underwriting expenses	22.6	24.8	(2.2)
Commission expense	29.4	29.6	(0.2)
Ceding commission revenue			
Provisional	(17.9)	(16.6)	(1.3)
Contingent	(1.9)	-	(1.9)
Total ceding commission revenue	(19.8)	(16.6)	(3.2)
Other income	(0.5)	(0.9)	0.4
Net underwriting expense ratio	31.7%	36.9%	(5.2)

(Components may not sum to totals due to rounding)

Other Operating Expenses

Other operating expenses, related to the expenses of our holding company and Cosi, were \$442,000 for Three Months 2023 compared to \$810,000 for Three Months 2022. The following table shows a breakdown of the significant components of other operating expenses for the periods indicated:

(\$ in thousands)	Three months ended September 30,		Change	Percent
	2023	2022		
Other operating expenses				
Employment costs	\$ 36	\$ (5)	\$ 41	na%
Bonuses	-	-	-	na
Equity compensation	207	188	19	10.1
Professional	(9)	378	(387)	na
Directors fees	69	82	(13)	(15.9)
Insurance	53	38	15	39.5
Other expenses	86	129	(43)	(33.3)
Total other operating expenses	<u>\$ 442</u>	<u>\$ 810</u>	<u>\$ (368)</u>	<u>(45.4)%</u>

(Components may not sum to totals due to rounding)

The decrease in Three Months 2023 of \$368,000, or 45.4%, as compared to Three Months 2022 was primarily due to a decrease in professional fees, partially offset by an increase in employment costs. The decrease in professional fees is due to \$268,000 incurred in Three Months 2022 related to a then contemplated transaction that would have resulted in a third party acquiring all of the outstanding equity of our company. The negative balance of professional fees in Three Months 2023 is due to credits received on previously billed amounts. The increase in employment costs was due to the hiring of our new Chief Financial Officer in January 2023 and fluctuations in deferred compensation liability related to changes in the underlying invested portfolio.

Depreciation and Amortization

Depreciation and amortization was \$741,000 in Three Months 2023 compared to \$825,000 in Three Months 2022. The decrease of \$84,000, or 10.2%, in depreciation and amortization was primarily due to the completion and deployment of our customized policy management software as planned for in Kingstone 2.0, now allowing us to consolidate multiple legacy systems into one efficient system and retire those older more costly and less reliable systems. Depreciation on older assets that were retired, which had a shorter useful life, is greater than the depreciation on newly acquired assets which have a longer useful life.

Interest Expense

Interest expense in Three Months 2023 was \$989,000 compared to \$457,000 in Three Months 2022, an increase of \$532,000 or 116.4%. In Three Months 2023, as disclosed in Note 7 to the condensed consolidated financial statements, we incurred increased interest expense in connection with the 2022 Notes, which provide for interest at the rate of 12% per annum, and the 2022 equipment financing. In Three Months 2022, we incurred interest expense in connection with the 2017 Notes, our \$30.0 million issuance of long-term debt in December 2017, which provided for interest at the rate of 5.5% per annum.

Income Tax Benefit

Income tax benefit in Three Months 2023 was \$859,000, which resulted in an effective tax benefit rate of 19.5%. Income tax benefit in Three Months 2022 was \$562,000, which resulted in an effective tax rate of 12.3%. Loss before taxes was \$4,397,000 in Three Months 2023 compared to \$4,559,000 in Three Months 2022. The difference in effective tax rate is due to the effect of permanent differences in Three Months 2023 compared to Three Months 2022.

Net Loss

Net loss was \$3,538,000 in Three Months 2023 compared to \$3,998,000 in Three Months 2022. The decrease in net loss of \$460,000 was due to the circumstances described above.

Additional Financial Information

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Gross premiums written:				
Personal lines	\$ 48,418,956	\$ 51,242,544	\$ 136,601,070	\$ 138,197,960
Livery physical damage	3,543,810	3,309,845	10,559,310	9,036,713
Other(1)	29,480	39,162	76,256	119,238
Total gross premiums written	<u>\$ 51,992,246</u>	<u>\$ 54,591,551</u>	<u>\$ 147,236,636</u>	<u>\$ 147,353,911</u>
Net premiums written:				
Personal lines	\$ 110,328	\$ 7,758,513	\$ 45,616,286	\$ 56,917,763
Livery physical damage	3,543,810	3,309,845	10,559,310	9,036,713
Other(1)	21,162	28,374	51,179	86,224
Total net premiums written	<u>\$ 3,675,300</u>	<u>\$ 11,096,732</u>	<u>\$ 56,226,775</u>	<u>\$ 66,040,700</u>
Net premiums earned:				
Personal lines	\$ 24,346,521	\$ 26,407,939	\$ 75,441,482	\$ 75,747,009
Livery physical damage	3,571,160	2,920,335	10,192,773	8,082,173
Other(1)	20,637	32,702	67,212	107,242
Total net premiums earned	<u>\$ 27,938,318</u>	<u>\$ 29,360,976</u>	<u>\$ 85,701,467</u>	<u>\$ 83,936,424</u>
Net loss and loss adjustment expenses(3):				
Personal lines	\$ 19,132,159	\$ 18,719,715	\$ 59,627,739	\$ 56,296,473
Livery physical damage	1,720,620	1,716,383	3,999,787	3,727,175
Other(1)	(13,757)	9,494	137,886	(14,873)
Unallocated loss adjustment expenses	733,061	919,738	2,453,114	2,870,115
Total without commercial lines	<u>21,572,083</u>	<u>21,365,330</u>	<u>66,218,526</u>	<u>62,878,890</u>
Commercial lines (in run-off effective July 2019)(2)	360,370	662,186	334,039	745,865
Total net loss and loss adjustment expenses	<u>\$ 21,932,453</u>	<u>\$ 22,027,516</u>	<u>\$ 66,552,565</u>	<u>\$ 63,624,755</u>
Net loss ratio(3):				
Personal lines	78.6%	70.9%	79.0%	74.3%
Livery physical damage	48.2%	58.8%	39.2%	46.1%
Other(1)	-66.7%	29.0%	205.2%	-13.9%
Total without commercial lines	<u>77.2%</u>	<u>72.8%</u>	<u>77.3%</u>	<u>74.9%</u>
Commercial lines (in run-off effective July 2019)(2)	na	na	na	na
Total	<u>78.5%</u>	<u>75.0%</u>	<u>77.7%</u>	<u>75.8%</u>

- (1) "Other" includes, among other things, premiums and loss and loss adjustment expenses from our participation in a mandatory state joint underwriting association and loss and loss adjustment expenses from commercial auto.
- (2) In July 2019, we decided that we will no longer underwrite Commercial Liability risks. See discussions above regarding the discontinuation of this line of business.
- (3) See discussion above with regard to "Net Loss and LAE", as to catastrophe losses in the three months and nine months ended September 30, 2023 and 2022.

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,	
	2023	2022	2023	2022
Revenues				
Net premiums earned	\$ 27,938,318	\$ 29,360,976	\$ 85,701,467	\$ 83,936,424
Ceding commission revenue	5,536,327	4,886,094	16,393,944	14,283,077
Net investment income	1,444,360	1,418,521	4,437,208	3,411,946
Net (losses) gains on investments	(799,348)	(366,411)	531,277	(9,098,008)
Other income	141,711	269,297	449,782	740,424
Total revenues	34,261,368	35,568,477	107,513,678	93,273,863
Expenses				
Loss and loss adjustment expenses	21,932,453	22,027,516	66,552,565	63,624,755
Commission expense	8,210,430	8,702,190	25,221,374	25,534,307
Other underwriting expenses	6,318,625	7,276,101	19,873,882	20,717,047
Depreciation and amortization	741,059	803,568	2,327,691	2,430,769
Interest expense	106,580	-	331,606	-
Total expenses	37,309,147	38,809,375	114,307,118	112,306,878
Loss from operations	(3,047,779)	(3,240,898)	(6,793,440)	(19,033,015)
Income tax benefit	(585,797)	(345,080)	(1,246,788)	(3,702,374)
Net loss	<u>\$ (2,461,982)</u>	<u>\$ (2,895,818)</u>	<u>\$ (5,546,652)</u>	<u>\$ (15,330,641)</u>
Key Measures:				
Net loss ratio	78.5%	75.0%	77.7%	75.8%
Net underwriting expense ratio	31.7%	36.9%	33.0%	37.2%
Net combined ratio	<u>110.2%</u>	<u>111.9%</u>	<u>110.7%</u>	<u>113.0%</u>
Reconciliation of net underwriting expense ratio:				
Acquisition costs and other underwriting expenses	\$ 14,529,055	\$ 15,978,291	\$ 45,095,256	\$ 46,251,354
Less: Ceding commission revenue	(5,536,327)	(4,886,094)	(16,393,944)	(14,283,077)
Less: Other income	(141,711)	(269,297)	(449,782)	(740,424)
Net underwriting expenses	<u>\$ 8,851,017</u>	<u>\$ 10,822,900</u>	<u>\$ 28,251,530</u>	<u>\$ 31,227,853</u>
Net premiums earned	<u>\$ 27,938,318</u>	<u>\$ 29,360,976</u>	<u>\$ 85,701,467</u>	<u>\$ 83,936,424</u>
Net Underwriting Expense Ratio	<u>31.7%</u>	<u>36.9%</u>	<u>33.0%</u>	<u>37.2%</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
Nine months ended September 30, 2023				
Written premiums	\$ 147,236,636	\$ -	\$ (91,009,861)	\$ 56,226,775
Change in unearned premiums	4,331,226	-	25,143,466	29,474,692
Earned premiums	<u>\$ 151,567,862</u>	<u>\$ -</u>	<u>\$ (65,866,395)</u>	<u>\$ 85,701,467</u>
Loss and loss adjustment expenses excluding the effect of catastrophes	\$ 89,825,751	\$ -	\$ (30,558,103)	\$ 59,267,648
Catastrophe loss	10,746,184	-	(3,461,267)	7,284,917
Loss and loss adjustment expenses	<u>\$ 100,571,935</u>	<u>\$ -</u>	<u>\$ (34,019,370)</u>	<u>\$ 66,552,565</u>
Loss ratio excluding the effect of catastrophes	59.3%	0.0%	46.4%	69.2%
Catastrophe loss	7.1%	0.0%	5.3%	8.5%
Loss ratio	<u>66.4%</u>	<u>0.0%</u>	<u>51.7%</u>	<u>77.7%</u>
Nine months ended September 30, 2022				
Written premiums	\$ 147,353,911	\$ -	\$ (81,313,211)	\$ 66,040,700
Change in unearned premiums	(6,029,774)	-	23,925,498	17,895,724
Earned premiums	<u>\$ 141,324,137</u>	<u>\$ -</u>	<u>\$ (57,387,713)</u>	<u>\$ 83,936,424</u>
Loss and loss adjustment expenses excluding the effect of catastrophes	\$ 83,345,972	\$ -	\$ (23,186,898)	\$ 60,159,074
Catastrophe loss	7,509,597	-	(4,043,916)	3,465,681
Loss and loss adjustment expenses	<u>\$ 90,855,569</u>	<u>\$ -</u>	<u>\$ (27,230,814)</u>	<u>\$ 63,624,755</u>
Loss ratio excluding the effect of catastrophes	59.0%	0.0%	40.4%	71.7%
Catastrophe loss	5.3%	0.0%	7.0%	4.1%
Loss ratio	<u>64.3%</u>	<u>0.0%</u>	<u>47.4%</u>	<u>75.8%</u>
Three months ended September 30, 2023				
Written premiums	\$ 51,992,246	\$ -	\$ (48,316,946)	\$ 3,675,300
Change in unearned premiums	(1,246,657)	-	25,509,675	24,263,018
Earned premiums	<u>\$ 50,745,589</u>	<u>\$ -</u>	<u>\$ (22,807,271)</u>	<u>\$ 27,938,318</u>
Loss and loss adjustment expenses excluding the effect of catastrophes	\$ 29,569,767	\$ -	\$ (9,796,769)	\$ 19,772,998
Catastrophe loss	2,871,300	-	(711,845)	2,159,455
Loss and loss adjustment expenses	<u>\$ 32,441,067</u>	<u>\$ -</u>	<u>\$ (10,508,614)</u>	<u>\$ 21,932,453</u>
Loss ratio excluding the effect of catastrophes	58.3%	0.0%	43.0%	70.8%
Catastrophe loss	5.7%	0.0%	3.1%	7.7%
Loss ratio	<u>64.0%</u>	<u>0.0%</u>	<u>46.1%</u>	<u>78.5%</u>
Three months ended September 30, 2022				
Written premiums	\$ 54,591,551	\$ -	\$ (43,494,819)	\$ 11,096,732
Change in unearned premiums	(5,636,421)	-	23,900,665	18,264,244
Earned premiums	<u>\$ 48,955,130</u>	<u>\$ -</u>	<u>\$ (19,594,154)</u>	<u>\$ 29,360,976</u>
Loss and loss adjustment expenses excluding the effect of catastrophes	\$ 30,513,819	\$ -	\$ (8,820,270)	\$ 21,693,549
Catastrophe loss	477,127	-	(143,160)	333,967
Loss and loss adjustment expenses	<u>\$ 30,990,946</u>	<u>\$ -</u>	<u>\$ (8,963,430)</u>	<u>\$ 22,027,516</u>
Loss ratio excluding the effect of catastrophes	62.3%	0.0%	45.0%	73.9%
Catastrophe loss	1.0%	0.0%	0.7%	1.1%
Loss ratio	<u>63.3%</u>	<u>0.0%</u>	<u>45.7%</u>	<u>75.0%</u>

(Percent components may not sum to totals due to rounding)

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,	
	2023	2022	2023	2022
Net premiums earned	\$ 27,938,318	\$ 29,360,976	\$ 85,701,467	\$ 83,936,424
Ceding commission revenue	5,536,327	4,886,094	16,393,944	14,283,077
Other income	141,711	269,297	449,782	740,424
Loss and loss adjustment expenses (1)	21,932,453	22,027,516	66,552,565	63,624,755
Acquisition costs and other underwriting expenses:				
Commission expense	8,210,430	8,702,190	25,221,374	25,534,307
Other underwriting expenses	6,318,625	7,276,101	19,873,882	20,717,047
Total acquisition costs and other underwriting expenses	14,529,055	15,978,291	45,095,256	46,251,354
Underwriting loss	\$ (2,845,152)	\$ (3,489,440)	\$ (9,102,628)	\$ (10,916,184)
Key Measures:				
Net loss ratio excluding the effect of catastrophes	70.8%	73.9%	69.2%	71.7%
Effect of catastrophe loss on net loss ratio (1)	7.7%	1.1%	8.5%	4.1%
Net loss ratio	78.5%	75.0%	77.7%	75.8%
Net underwriting expense ratio excluding the effect of catastrophes	31.7%	36.9%	33.0%	37.2%
Effect of catastrophe loss on net underwriting expense ratio	0.0%	0.0%	0.0%	0.0%
Net underwriting expense ratio	31.7%	36.9%	33.0%	37.2%
Net combined ratio excluding the effect of catastrophes	102.5%	110.8%	102.2%	108.9%
Effect of catastrophe loss on net combined ratio (1)	7.7%	1.1%	8.5%	4.1%
Net combined ratio	110.2%	111.9%	110.7%	113.0%
Reconciliation of net underwriting expense ratio:				
Acquisition costs and other underwriting expenses	\$ 14,529,055	\$ 15,978,291	\$ 45,095,256	\$ 46,251,354
Less: Ceding commission revenue	(5,536,327)	(4,886,094)	(16,393,944)	(14,283,077)
Less: Other income	(141,711)	(269,297)	(449,782)	(740,424)
	\$ 8,851,017	\$ 10,822,900	\$ 28,251,530	\$ 31,227,853
Net earned premium	\$ 27,938,318	\$ 29,360,976	\$ 85,701,467	\$ 83,936,424
Net Underwriting Expense Ratio	31.7%	36.9%	33.0%	37.2%

- (1) For the three months ended September 30, 2023 and 2022, includes the sum of net catastrophe losses and loss adjustment expenses of \$2,159,455 and \$333,967, respectively. For the nine months ended September 30, 2023 and 2022, includes the sum of net catastrophe losses and loss adjustment expenses of \$7,284,917 and \$3,465,681, respectively.

Investments

Portfolio Summary
Fixed-Maturity Securities

The following table presents a breakdown of the amortized cost, estimated fair value, and gross unrealized gains and losses of our investments in fixed-maturity securities classified as available-for-sale for which an allowance for credit loss has not been recorded, as of September 30, 2023 and December 31, 2022:

Category	September 30, 2023					
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Estimated Fair Value	% of Estimated Fair Value
			Less than 12 Months	More than 12 Months		
U.S. Treasury securities and obligations of U.S. government corporations and agencies (1)	\$ 8,224,680	\$ -	\$ (56,835)	\$ -	\$ 8,167,845	6.2%
Political subdivisions of States, Territories and Possessions	16,615,369	-	-	(4,201,015)	12,414,354	9.3%
Corporate and other bonds						
Industrial and miscellaneous	78,116,754	-	-	(8,651,516)	69,465,238	52.3%
Residential mortgage and other asset backed securities (2)	51,503,046	63,626	(5,987)	(8,821,223)	42,739,462	32.2%
Total fixed-maturity securities	<u>\$ 154,459,849</u>	<u>\$ 63,626</u>	<u>\$ (62,822)</u>	<u>\$ (21,673,754)</u>	<u>\$ 132,786,899</u>	<u>100.0%</u>
Category	December 31, 2022					
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Estimated Fair Value	% of Estimated Fair Value
			Less than 12 Months	More than 12 Months		
U.S. Treasury securities and obligations of U.S. government corporations and agencies (1)	\$ 23,874,545	\$ 1,479	\$ (6,928)	\$ -	\$ 23,869,096	15.4%
Political subdivisions of States, Territories and Possessions	17,108,154	-	(2,195,273)	(1,771,494)	13,141,387	8.5%
Corporate and other bonds						
Industrial and miscellaneous	80,338,464	-	(5,796,994)	(2,458,985)	72,082,485	46.6%
Residential mortgage and other asset backed securities (2)	53,597,264	58,398	(882,664)	(7,150,803)	45,622,195	29.5%
Total fixed-maturity securities	<u>\$ 174,918,427</u>	<u>\$ 59,877</u>	<u>\$ (8,881,859)</u>	<u>\$ (11,381,282)</u>	<u>\$ 154,715,163</u>	<u>100.0%</u>

(1) In October 2022, KICO placed certain U.S. Treasury securities to fulfill the required collateral for a sale leaseback transaction in a designated custodian account (see Note 7 – Debt - “Equipment Financing”). As of September 30, 2023 and December 31, 2022, the amount of required collateral was approximately \$7,422,000 and \$8,691,000, respectively. As of September 30, 2023 and December 31, 2022, the estimated fair value of the eligible collateral was approximately \$8,168,000 and \$8,691,000, respectively.

(2) KICO has placed certain residential mortgage backed securities as eligible collateral in a designated custodian account related to its membership in the Federal Home Loan Bank of New York ("FHLBNY") (see Note 7 – Debt – “Federal Home Loan Bank”). The eligible collateral would be pledged to FHLBNY if KICO draws an advance from the FHLBNY credit line. As of September 30, 2023 and December 31, 2022, the estimated fair value of the eligible investments was approximately \$10,911,000 and \$12,228,000, respectively. KICO will retain all rights regarding all securities if pledged as collateral. As of September 30, 2023 and December 31, 2022 there was no outstanding balance on the FHLBNY credit line.

Equity Securities

The following table presents a breakdown of the cost and estimated fair value of, and gross gains and losses on, investments in equity securities as of September 30, 2023 and December 31, 2022:

Category	September 30, 2023				
	Cost	Gross Gains	Gross Losses	Estimated Fair Value	% of Estimated Fair Value
Equity Securities:					
Preferred stocks	\$ 13,583,942	\$ -	\$ (3,384,701)	\$ 10,199,241	73.3%
Common stocks and exchange traded funds	4,402,841	225,001	(919,432)	3,708,410	26.7%
Total	<u>\$ 17,986,783</u>	<u>\$ 225,001</u>	<u>\$ (4,304,133)</u>	<u>\$ 13,907,651</u>	<u>100.0%</u>
Category	December 31, 2022				
	Cost	Gross Gains	Gross Losses	Estimated Fair Value	% of Estimated Fair Value
Equity Securities:					
Preferred stocks	\$ 13,583,942	\$ -	\$ (3,589,313)	\$ 9,994,629	72.2%
Common stocks and exchange traded funds	4,502,758	158,635	(821,632)	3,839,761	27.8%
Total	<u>\$ 18,086,700</u>	<u>\$ 158,635</u>	<u>\$ (4,410,945)</u>	<u>\$ 13,834,390</u>	<u>100.0%</u>

Other Investments

The following table presents a breakdown of the cost and estimated fair value of, and gross gains on our other investments as of September 30, 2023 and December 31, 2022:

Category	September 30, 2023			December 31, 2022		
	Cost	Gross Gains	Estimated Fair Value	Cost	Gross Gains	Estimated Fair Value
Other Investments:						
Hedge fund	<u>\$ 1,987,040</u>	<u>\$ 1,226,278</u>	<u>\$ 3,213,318</u>	<u>\$ 1,987,040</u>	<u>\$ 784,612</u>	<u>\$ 2,771,652</u>
-						

Held-to-Maturity Securities

The following table presents a breakdown of the amortized cost and estimated fair value of, and gross unrealized gains and losses on, investments in held-to-maturity securities as of September 30, 2023 and December 31, 2022:

Category	September 30, 2023					
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Estimated Fair Value	% of Estimated Fair Value
			Less than 12 Months	More than 12 Months		
Held-to-Maturity Securities:						
U.S. Treasury securities	\$ 1,228,783	\$ -	\$ (49,795)	\$ (31,495)	\$ 1,147,493	20.1%
Political subdivisions of States, Territories and Possessions	499,036	-	(9,046)	-	489,990	8.6%
Exchange traded debt	304,111	-	(51,611)	-	252,500	4.4%
Corporate and other bonds						
Industrial and miscellaneous	5,021,895	-	-	(1,212,380)	3,809,515	66.9%
Total	<u>\$ 7,053,825</u>	<u>\$ -</u>	<u>\$ (110,452)</u>	<u>\$ (1,243,875)</u>	<u>\$ 5,699,498</u>	<u>100.0%</u>
Category	December 31, 2022					
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Estimated Fair Value	% of Estimated Fair Value
			Less than 12 Months	More than 12 Months		
Held-to-Maturity Securities:						
U.S. Treasury securities	\$ 1,228,560	\$ 28,400	\$ (34,077)	\$ -	\$ 1,222,883	18.5%
Political subdivisions of States, Territories and Possessions	498,638	2,092	-	-	500,730	7.6%
Exchange traded debt	304,111	-	(29,111)	-	275,000	4.2%
Corporate and other bonds						
Industrial and miscellaneous	5,734,831	36,968	(809,746)	(360,278)	4,601,775	69.7%
Total	<u>\$ 7,766,140</u>	<u>\$ 67,460</u>	<u>\$ (872,934)</u>	<u>\$ (360,278)</u>	<u>\$ 6,600,388</u>	<u>100.0%</u>

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

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A summary of the amortized cost and fair value of our investments in held-to-maturity securities by contractual maturity as of September 30, 2023 and December 31, 2022 is shown below:

Remaining Time to Maturity	September 30, 2023		December 31, 2022	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Less than one year	\$ -	\$ -	\$ 708,535	\$ 743,575
One to five years	1,121,091	1,069,974	1,120,507	1,088,522
Five to ten years	1,411,819	1,166,505	1,402,704	1,200,720
More than 10 years	4,520,915	3,463,019	4,534,394	3,567,571
Total	\$ 7,053,825	\$ 5,699,498	\$ 7,766,140	\$ 6,600,388

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, 2023 and December 31, 2022 as rated by Standard & Poor's (or, if unavailable from Standard & Poor's, then Moody's, Fitch, or Kroll):

Rating	September 30, 2023		December 31, 2022	
	Estimated Fair Value	Percentage of Estimated Fair Value	Estimated Fair Value	Percentage of Estimated Fair Value
U.S. Treasury securities	\$ 8,167,845	6.2%	\$ 23,869,096	15.4%
Corporate and municipal bonds				
AAA	1,716,858	1.3%	1,824,478	1.2%
AA	9,196,422	6.9%	9,785,908	6.3%
A	31,296,689	23.6%	31,099,075	20.2%
BBB+	15,436,321	11.6%	16,682,159	10.8%
BBB	22,592,113	17.0%	19,664,051	12.7%
BBB-	-	0.0%	4,516,713	2.9%
Total corporate and municipal bonds	80,238,403	60.4%	83,572,384	54.1%
Residential mortgage backed, asset backed, and other collateralized obligations				
AAA	12,028,321	9.1%	16,497,621	10.7%
AA	21,295,991	16.0%	23,062,233	14.9%
A	6,806,737	5.1%	6,722,902	4.3%
BBB+	15,373	0.0%	-	0.0%
BBB	-	0.0%	20,067	0.0%
CCC	411,851	0.3%	457,683	0.3%
CC	88,531	0.1%	99,600	0.1%
D	-	0.0%	40,474	0.0%
Non rated	3,733,847	2.8%	373,103	0.2%
Total residential mortgage backed, asset backed, and other collateralized obligations	44,380,651	33.4%	47,273,683	30.5%
Total	\$ 132,786,899	100.0%	\$ 154,715,163	100.0%

The table below summarizes the average yield by type of fixed-maturity security as of September 30, 2023 and December 31, 2022:

Category	September 30, 2023	December 31, 2022
U.S. Treasury securities and obligations of U.S. government corporations and agencies	4.53%	2.58%
Political subdivisions of States, Territories and Possessions	3.61%	3.58%
Corporate and other bonds		
Industrial and miscellaneous	3.72%	3.68%
Residential mortgage backed securities	2.97%	2.70%
Total	3.53%	3.20%

The table below lists the weighted average maturity and effective duration in years on our fixed-maturity securities as of September 30, 2023 and December 31, 2022:

	September 30, 2023	December 31, 2022
Weighted average effective maturity	8.4	5.8
Weighted average final maturity	12.6	13.5
Effective duration	4.3	4.5

Fair Value Consideration

Fair value is the price that would be received to sell an asset or paid to transfer a liability in a transaction involving identical or comparable assets or liabilities between market participants (an “exit price”). The fair value hierarchy distinguishes between inputs based on market data from independent sources (“observable inputs”) and a reporting entity’s internal assumptions based upon the best information available when external market data is limited or unavailable (“unobservable inputs”). The fair value hierarchy prioritizes fair value measurements into three levels based on the nature of the inputs. Quoted prices in active markets for identical assets have the highest priority (“Level 1”), followed by observable inputs other than quoted prices including prices for similar but not identical assets or liabilities (“Level 2”), and unobservable inputs, including the reporting entity’s estimates of the assumption that market participants would use, having the lowest priority (“Level 3”). As of September 30, 2023 and December 31, 2022, 62% and 65%, respectively, of the investment portfolio recorded at fair value was priced based upon quoted market prices.

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The table below summarizes the gross unrealized losses of our fixed-maturity securities available-for-sale and equity securities by length of time the security has continuously been in an unrealized loss position as of September 30, 2023 and December 31, 2022:

Category	September 30, 2023							
	Less than 12 months			12 months or more			Total	
	Estimated Fair Value	Unrealized Losses	No. of Positions Held	Estimated Fair Value	Unrealized Losses	No. of Positions Held	Estimated Fair Value	Unrealized Losses
Fixed-Maturity Securities:								
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 8,167,845	\$ (56,835)	2	\$ -	-	-	\$ 8,167,845	\$ (56,835)
Political subdivisions of States, Territories and Possessions	-	-	-	12,414,354	(4,201,015)	13	12,414,354	(4,201,015)
Corporate and other bonds industrial and miscellaneous	-	-	-	69,465,238	(8,651,516)	88	69,465,238	(8,651,516)
Residential mortgage and other asset backed securities	204,418	(5,987)	9	38,962,381	(8,821,223)	38	39,166,799	(8,827,210)
Total fixed-maturity securities	<u>\$ 8,372,263</u>	<u>\$ (62,822)</u>	<u>11</u>	<u>\$ 120,841,973</u>	<u>\$ (21,673,754)</u>	<u>139</u>	<u>\$ 129,214,236</u>	<u>\$ (21,736,576)</u>

Category	December 31, 2022							
	Less than 12 months			12 months or more			Total	
	Estimated Fair Value	Unrealized Losses	No. of Positions Held	Estimated Fair Value	Unrealized Losses	No. of Positions Held	Estimated Fair Value	Unrealized Losses
Fixed-Maturity Securities:								
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 18,918,196	\$ (6,928)	3	\$ -	-	-	\$ 18,918,196	\$ (6,928)
Political subdivisions of States, Territories and Possessions	7,970,633	(2,195,273)	9	5,170,753	(1,771,494)	5	13,141,386	(3,966,767)
Corporate and other bonds industrial and miscellaneous	56,910,104	(5,796,994)	75	15,172,381	(2,458,985)	15	72,082,485	(8,255,979)
Residential mortgage and other asset backed securities	10,145,880	(882,664)	22	34,753,178	(7,150,803)	26	44,899,058	(8,033,467)
Total fixed-maturity securities	<u>\$ 93,944,813</u>	<u>\$ (8,881,859)</u>	<u>109</u>	<u>\$ 55,096,312</u>	<u>\$ (11,381,282)</u>	<u>46</u>	<u>\$ 149,041,125</u>	<u>\$ (20,263,141)</u>

There were 150 securities at September 30, 2023 that accounted for the gross unrealized loss of our fixed-maturity securities available-for-sale, none of which were deemed to be credit losses by us. There were 155 securities at December 31, 2022 that accounted for the gross unrealized loss of our fixed-maturity securities available-for-sale, none of which were deemed to be credit losses by us. Significant factors influencing our determination that unrealized losses were temporary included credit quality considerations, the magnitude of the unrealized losses in relation to each security's cost, the nature of the investment and interest rate environment factors, 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.

The primary source of cash flow for our holding company are dividends and distributions received from KICO, which are subject to statutory restrictions. For the nine months ended September 30, 2023, KICO paid a dividend of \$1,250,000 to us. As of September 30, 2023, KICO had a negative unassigned surplus and currently will not be able to pay any distributions to us without prior regulatory approval. In September 2023, KICO received regulatory approval and paid us a \$2,700,000 distribution from paid in capital.

KICO is a member of the FHLBNY, which provides additional access to liquidity. Members have access to a variety of flexible, low cost funding through FHLBNY's credit products, enabling members to customize advances. Advances are to be fully collateralized; eligible collateral to pledge to FHLBNY includes residential and commercial mortgage backed securities, along with U.S. Treasury and agency securities. See Note 3 – Investments to our condensed consolidated financial statements for eligible collateral held in a designated custodian account available for future advances. Advances are limited to 5% of KICO's net admitted assets as of the end of the previous quarter, which is June 30, 2023, and are due and payable within 90 days of borrowing. The maximum allowable advance as of September 30, 2023, based on the net admitted assets as of June 30, 2023, was approximately \$13,268,000. Available collateral as of September 30, 2023 was approximately \$10,911,000. Advances are limited to 85% of the amount of available collateral. There were no borrowings under this facility during the nine months ended September 30, 2023.

On December 15, 2022, we issued \$19,950,000 of our 2022 Notes pursuant to the Exchange Agreement. We are required to make a mandatory redemption payment with regard to the 2022 Notes on December 30, 2023 in an amount discussed in Note 7 – Debt of the condensed consolidated financial statements included in this Quarterly Report. We are also required to make semi-annual interest payments in arrears on June 30 and December 30 of each year. The maturity date of the 2022 Notes is December 30, 2024.

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

<i>Nine Months ended September 30,</i>	2023	2022
Cash flows (used in) provided by:		
Operating activities	\$(15,754,344)	\$ (7,921,438)
Investing activities	19,755,073	398,911
Financing activities	(825,988)	(1,656,865)
Net increase (decrease) in cash and cash equivalents	3,174,741	(9,179,392)
Cash and cash equivalents, beginning of period	11,958,228	24,290,598
Cash and cash equivalents, end of period	\$ 15,132,969	\$ 15,111,206

Net cash used in operating activities was \$15,754,000 in Nine Months 2023 as compared to \$7,921,000 used in operating activities in Nine Months 2022. The \$7,833,000 increase in cash flows used in operating activities in Nine Months 2023 as compared to Nine Months 2022 was primarily the result of an increase in cash arising from net fluctuations in operating assets and liabilities, partially offset by a decrease in net loss (adjusted for non-cash items) of \$597,000. The increase in cash used in operating activities is also partially offset by the payment of \$13,245,000 to reinsurers in Nine Months 2022 pursuant to the inception of our quota share reinsurance treaty, effective December 31, 2021. The net fluctuations in assets and liabilities are related to operating activities of KICO as affected by growth or declines in its operations, payments on claims and other changes, which are described above.

Net cash provided by investing activities was \$19,755,000 in Nine Months 2023 compared to \$399,000 provided by investing activities in Nine Months 2022 resulting in a \$19,356,000 increase in net cash provided by investing activities. In Nine Months 2023, we had net cash provided by our investment portfolio of \$21,135,000, compared to \$3,741,000 provided in Nine Months 2022. In addition, we decreased our acquisition of fixed assets by \$1,962,000 in Nine Months 2023 compared to Nine Months 2022.

Net cash used in financing activities was \$826,000 in Nine Months 2023 compared to \$1,657,000 used in Nine Months 2022. The \$831,000 decrease in net cash used in financing activities was attributable to no dividends being paid to shareholders in Nine Months 2023 compared to \$1,277,000 being paid in Nine Months 2022 and a \$378,000 decrease in withholding taxes paid on the vesting of restricted stock awards. The decreases in cash used in financing activities were partially offset by \$810,000 of principal payments on the equipment financing in connection with KICO's sale-leaseback transaction.

Reinsurance

Effective December 31, 2021, we entered into a quota share reinsurance treaty for our personal lines business, which primarily consists of homeowners' and dwelling fire policies, covering the period from December 31, 2021 through January 1, 2023 ("2021/2023 Treaty"). Upon the expiration of the 2021/2023 Treaty on January 1, 2023, we entered into a new quota share reinsurance treaty for our personal lines business, covering the period from January 1, 2023 through January 1, 2024 ("2023/2024 Treaty").

We entered into new excess of loss and catastrophe reinsurance treaties effective July 1, 2023. Effective January 1, 2022, we entered into an underlying excess of loss reinsurance treaty ("Underlying XOL Treaty") covering the period from January 1, 2022 through January 1, 2023. The Underlying XOL Treaty provides 50% reinsurance coverage for losses of \$400,000 in excess of \$600,000. Losses from named storms are excluded from the Underlying XOL Treaty. Effective January 1, 2023, the Underlying XOL Treaty was renewed covering the period from January 1, 2023 through January 1, 2024. Material terms for our reinsurance treaties in effect for the treaty years shown below are as follows:

Line of Business	Treaty Period				
	2023/2024 Treaty			2021/2023 Treaty	
	January 2, 2024 to June 30, 2024	July 1, 2023 to January 1, 2024	January 1, 2023 to June 30, 2023	July 1, 2022 to January 1, 2023	December 31, 2021 to June 30, 2022
Personal Lines:					
Homeowners, dwelling fire and canine legal liability					
Quota share treaty:					
Percent ceded (7)	(6)	30%	30%	30%	30%
Risk retained on initial \$1,000,000 of losses (5) (6) (7)	\$ 1,000,000	\$ 700,000	\$ 700,000	\$ 700,000	\$ 700,000
Losses per occurrence subject to quota share reinsurance coverage	(6)	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000
Expiration date	(6)	January 1, 2024	January 1, 2024	January 1, 2023	January 1, 2023
Excess of loss coverage and facultative facility coverage					
(1) (5) (6)	\$ 8,000,000	\$ 8,400,000	\$ 8,400,000	\$ 8,400,000	\$ 8,400,000
	in excess of	in excess of	in excess of	in excess of	in excess of
	\$ 1,000,000	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000
Total reinsurance coverage per occurrence (5) (6)	\$ 8,000,000	\$ 8,500,000	\$ 8,500,000	\$ 8,500,000	\$ 8,500,000
Losses per occurrence subject to reinsurance coverage	\$ 8,000,000	\$ 8,000,000	\$ 8,000,000	\$ 9,000,000	\$ 9,000,000
Expiration date (6)	June 30, 2024	June 30, 2024	June 30, 2023	June 30, 2023	June 30, 2022
Catastrophe Reinsurance:					
Initial loss subject to personal lines quota share treaty (6)	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000
Risk retained per catastrophe occurrence (6) (7) (8)	\$ 10,000,000	\$ 8,750,000	\$ 8,750,000	\$ 7,400,000	\$ 7,400,000
Catastrophe loss coverage					
in excess of quota share coverage (2) (6)	\$ 315,000,000	\$ 315,000,000	\$ 335,000,000	\$ 335,000,000	\$ 490,000,000
Reinstatement premium					
protection (3) (4)	Yes	Yes	Yes	Yes	Yes
(1) For personal lines, includes the addition of an automatic facultative facility allowing KICO to obtain homeowners single risk coverage up to \$9,000,000 in total insured value, which covers direct losses from \$3,500,000 to \$9,000,000 through September 30, 2024. (2) Catastrophe coverage is limited on an annual basis to two times the per occurrence amounts. Duration of 168 consecutive hours for a catastrophe occurrence from windstorm, hail, tornado, hurricane and cyclone. (3) For the period December 31, 2021 through June 30, 2022, reinstatement premium protection for \$70,000,000 of catastrophe coverage in excess of \$10,000,000. (4) For the period July 1, 2022 through June 30, 2023, reinstatement premium protection for \$9,800,000 of catastrophe coverage in excess of \$10,000,000. For the period July 1, 2023 through June 30, 2024, reinstatement premium protection for \$12,500,000 of catastrophe coverage in excess of \$10,000,000					

- (5) For the period January 1, 2022 through January 1, 2024, underlying excess of loss treaty provides 50% reinsurance coverage for losses of \$400,000 in excess of \$600,000. Reduces retention to \$500,000 from \$700,000 under the 2021/2023 Treaty and 2022/2023 Treaty. Excludes losses from named storms.
- (6) Personal lines quota share (homeowners, dwelling fire and canine liability) and underlying excess of loss reinsurance will expire on January 1, 2024; reinsurance coverage in effect from January 2, 2024 through June 30, 2024 is only for excess of loss and catastrophe reinsurance treaties.
- (7) For the 2021/2023 Treaty, 4% of the 30% total of losses ceded under this treaty are excluded from a named catastrophe event. For the 2023/2024 Treaty, 17.5% of the 30% total of losses ceded under this treaty are excluded from a named catastrophe event.
- (8) Plus losses in excess of catastrophe coverage

Line of Business	Treaty Year		
	July 1, 2023 to June 30, 2024	July 1, 2022 to June 30, 2023	July 1, 2021 to June 30, 2022
Personal Lines:			
Personal Umbrella			
Quota share treaty:			
Percent ceded - first \$1,000,000 of coverage	90%	90%	90%
Percent ceded - excess of \$1,000,000 dollars of coverage	95%	95%	95%
Risk retained	\$ 3,00,000	\$ 3,00,000	\$ 3,00,000
Total reinsurance coverage per occurrence	\$ 47,00,000	\$ 47,00,000	\$ 47,00,000
Losses per occurrence subject to quota share reinsurance coverage	\$ 50,00,000	\$ 50,00,000	\$ 50,00,000
Expiration date	June 30, 2024	June 30, 2023	June 30, 2022

Commercial Lines (1)

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

Inflation

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

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

Nine Months 2023 included continuing economic inflation, which resulted in a sustained increase in interest rates, a widening of credit spreads, lower public equity valuations, and significant financial market volatility. The higher interest rates and widening of credit spreads previously reduced the value of our fixed income securities, saw a reversal which had previously lowered our stockholders' equity materially in prior quarters. For Nine Months 2023, the continuing economic inflation impacted our loss and loss adjustment expenses as well; should these trends continue in the near-term, it would in all likelihood negatively impact our results of operations.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Outlook

Our net premiums earned may be impacted by a number of factors. Net premiums earned are a function of net written premium volume. Net written premiums comprise both renewal business and new business and are recognized as earned premium over the term of the underlying policies. Net written premiums from both renewal and new business are impacted by competitive market conditions as well as general economic conditions. We have made underwriting changes to emphasize profitability over growth and have culled out the type of risks that do not generate an acceptable level of return. This action has led, and may continue to lead, to a slowdown in premium growth, particularly in new business.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

This item is not applicable to smaller reporting companies.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We maintain a system of disclosure controls and procedures as defined in Rule 13a-15(e) under the Exchange Act that are designed to assure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2023, our disclosure controls and procedures were: (i) effective in recording, processing, summarizing, and reporting information on a timely basis that we are required to disclose in the reports that we file or submit under the Exchange Act, and (ii) effective in ensuring that information that we are required to disclose in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As required by Exchange Act Rule 13a-15(b), as of the end of the period covered by this Quarterly Report, under the supervision and with the participation of our Chief Executive Officer and 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, 2023.

Changes in Internal Control over Financial Reporting

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during our most recently completed fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitation on Effectiveness of Controls

Internal control over financial reporting is a process designed by, or under the supervision of, our Chief Executive Officer and Principal Financial Officer, and effected by the board of directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP including those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP and that receipts and expenditures are being made only in accordance with authorizations of our management and directors, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 1A. Risk Factors.

For a discussion of the Company’s potential risks and uncertainties, see Part I, Item 1A— “Risk Factors” and Part II, Item 7— “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Company’s 2022 Annual Report filed with the SEC, and Part I, Item 2 —“Management’s Discussion and Analysis of Financial Condition and Results of Operations” herein, in each case as updated by the Company's periodic filings with the SEC. There have been no material changes to the risk factors disclosed in Part I, Item 1A of the Company’s 2022 Annual Report.

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

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

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

3(a)	Restated Certificate of Incorporation, as amended (incorporated by reference to Exhibit 3(a) to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2014 filed on May 15, 2014).
3(b)	By-laws, as amended (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on November 9, 2009).
31(a)	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31(b)	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32+	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.

- + This exhibit will not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Such exhibit shall not be deemed incorporated into any filing under the Securities Act of 1933, as amended, or the Securities Act of 1934, as amended.

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 20, 2023

By: /s/ Meryl Golden
Meryl Golden
Chief Executive Officer

Dated: November 20, 2023

By: /s/ Jennifer Gravelle
Jennifer Gravelle
Chief Financial Officer

CERTIFICATION

I, Meryl Golden, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Kingstone Companies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 20, 2023

/s/ Meryl Golden

Meryl Golden
Chief Executive Officer

CERTIFICATION

I, Jennifer Gravelle, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Kingstone Companies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 20, 2023

/s/ Jennifer Gravelle

Jennifer Gravelle
Chief 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, 2023 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 20, 2023

/s/ Meryl Golden

Meryl Golden

Chief Executive Officer

/s/ Jennifer Gravelle

Jennifer Gravelle

Chief Financial Officer