

KINGSTONE COMPANIES, INC.  
Form 10-Q  
May 20, 2011

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

(Mark one)

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

For the quarterly period ended March 31, 2011

OR

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

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

Commission File Number 0-1665

KINGSTONE COMPANIES, INC.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

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

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

(516) 374-7600

(Registrant's telephone number, including area code)

(Former Name, if Changed Since Last Report)

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

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

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

Accelerated filer

Non-accelerated filer

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Large accelerated  
filer

(Do not check if a smaller reporting  
company)

Smaller reporting  
company

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

As of May 20, 2011, there were 3,838,386 shares of the registrant's common stock outstanding.

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## Forward-Looking Statements

This Quarterly Report contains forward-looking statements as that term is defined in the federal securities laws. The events described in forward-looking statements contained in this Quarterly Report may not occur. Generally these statements relate to business plans or strategies, projected or anticipated benefits or other consequences of our plans or strategies, projected or anticipated benefits from acquisitions to be made by us, or projections involving anticipated revenues, earnings or other aspects of our operating results. The words "may," "will," "expect," "believe," "anticipate," "project," "plan," "intend," "estimate," and "continue," and their opposites and similar expressions are intended to identify forward-looking statements. We caution you that these statements are not guarantees of future performance or events and are subject to a number of uncertainties, risks and other influences, many of which are beyond our control, that may influence the accuracy of the statements and the projections upon which the statements are based. Factors which may affect our results include, but are not limited to, the risks and uncertainties discussed in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2010 under "Factors That May Affect Future Results and Financial Condition".

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

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

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KINGSTONE COMPANIES, INC. AND SUBSIDIARIES  
Condensed Consolidated Balance Sheets

|   | March 31,<br>2011<br>(unaudited) | December<br>31,<br>2010* |
|---|----------------------------------|--------------------------|
| <b>Assets</b>   |                                  |                          |
| Fixed-maturity securities, held to maturity, at amortized cost (fair value of \$583,792 at March 31, 2011 and \$606,398 at December 31, 2010)         | \$606,222                        | \$605,424                |
| Fixed-maturity securities, available for sale, at fair value (amortized cost of \$17,914,086 at March 31, 2011 and \$16,277,052 at December 31, 2010) | 18,030,072                       | 16,339,101               |
| Equity securities, available-for-sale, at fair value (cost of \$2,485,876 at March 31, 2011 and \$2,825,015 at December 31, 2010)                     | 2,621,809                        | 2,983,035                |
| Total investments   | 21,258,103                       | 19,927,560               |
| Cash and cash equivalents   | 393,968                          | 326,620                  |
| Premiums receivable, net of provision for uncollectible amounts   | 5,764,173                        | 5,001,886                |
| Receivables - reinsurance contracts   | 1,920,313                        | 1,174,729                |
| Reinsurance receivables, net of provision for uncollectible amounts   | 21,847,356                       | 20,720,194               |
| Notes receivable-sale of business   | 624,581                          | 705,019                  |
| Deferred acquisition costs  | 3,879,553                        | 3,619,001                |
| Intangible assets, net  | 4,017,457                        | 4,136,386                |
| Property and equipment, net of accumulated depreciation   | 1,549,590                        | 1,585,029                |
| Other assets  | 1,723,695                        | 1,486,249                |
| Total assets  | \$62,978,789                     | \$58,682,673             |
| <b>Liabilities</b>  |                                  |                          |
| Loss and loss adjustment expenses   | \$19,213,617                     | \$17,711,907             |
| Unearned premiums   | 18,512,071                       | 17,277,332               |
| Advance premiums  | 609,881                          | 410,574                  |
| Reinsurance balances payable  | 2,424,691                        | 1,106,897                |
| Deferred ceding commission revenue  | 3,324,448                        | 3,219,513                |
| Notes payable and capital lease obligations (includes payable to related parties of \$785,000)  | 1,454,479                        | 1,460,997                |
| Accounts payable, accrued expenses and other liabilities  | 2,268,419                        | 2,553,031                |
| Deferred income taxes   | 2,039,179                        | 1,998,557                |
| Total liabilities   | 49,846,785                       | 45,738,808               |
| <b>Commitments and Contingencies</b>  |                                  |                          |
| <b>Stockholders' Equity</b>   |                                  |                          |
| Common stock, \$.01 par value; authorized 10,000,000 shares; issued 4,643,122 shares; outstanding 3,838,386 shares                                    | 46,432                           | 46,432                   |
| Preferred stock, \$.01 par value; authorized 1,000,000 shares; -0- shares issued and outstanding  | -                                | -                        |
| Capital in excess of par  | 13,674,407                       | 13,633,913               |
| Accumulated other comprehensive income  | 166,268                          | 145,247                  |
| Retained earnings   | 408,155                          | 281,531                  |
|   | 14,295,262                       | 14,107,123               |

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|  |              |              |
|--|--------------|--------------|
| Treasury stock, at cost, 804,736 shares    | (1,163,258 ) | (1,163,258 ) |
| Total stockholders' equity                 | 13,132,004   | 12,943,865   |
| Total liabilities and stockholders' equity | \$62,978,789 | \$58,682,673 |

\* derived from audited financial information

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See accompanying notes to condensed consolidated financial statements.

## KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

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

| Three months ended March 31,                                      | 2011             | 2010             |
|---|------------------|------------------|
| <b>Revenues</b>   |                  |                  |
| Net premiums earned   | \$3,367,699      | \$2,217,947      |
| Ceding commission revenue   | 2,312,575        | 2,211,137        |
| Net investment income   | 177,670          | 132,280          |
| Net realized gain on investments                                  | 70,471           | 34,660           |
| Other income  | 247,472          | 221,104          |
| <b>Total revenues</b>   | <b>6,175,887</b> | <b>4,817,128</b> |
| <b>Expenses</b>   |                  |                  |
| Loss and loss adjustment expenses                                 | 2,550,764        | 1,434,618        |
| Commission expense  | 1,371,749        | 1,136,619        |
| Other underwriting expenses                                       | 1,576,819        | 1,103,920        |
| Other operating expenses  | 303,963          | 539,619          |
| Depreciation and amortization                                     | 158,460          | 156,687          |
| Interest expense  | 45,765           | 45,202           |
| Interest expense - mandatorily redeemable preferred stock         | -                | 37,353           |
| <b>Total expenses</b>   | <b>6,007,520</b> | <b>4,454,018</b> |
| Income from continuing operations before taxes                    | 168,367          | 363,110          |
| Income tax expense  | 41,743           | 144,564          |
| Income from continuing operations                                 | 126,624          | 218,546          |
| Income from discontinued operations, net of taxes                 | -                | 13,848           |
| <b>Net income</b>   | <b>126,624</b>   | <b>232,394</b>   |
| <b>Gross unrealized investment holding gains</b>                  |                  |                  |
| arising during period   | 31,850           | 39,879           |
| Income tax expense related to items of other comprehensive income | (10,829 )        | (13,559 )        |
| <b>Comprehensive income</b>                                       | <b>\$147,645</b> | <b>\$258,714</b> |
| <b>Basic and diluted earnings per common share:</b>               |                  |                  |
| Income from continuing operations                                 | \$0.03           | \$0.07           |
| Income from discontinued operations                               | \$-              | \$0.01           |
| <b>Income per common share</b>                                    | <b>\$0.03</b>    | <b>\$0.08</b>    |
| <b>Weighted average common shares outstanding</b>                 |                  |                  |
| Basic   | 3,838,386        | 2,992,400        |
| Diluted   | 3,838,386        | 2,992,400        |

See accompanying notes to condensed consolidated financial statements.





## KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

Condensed Consolidated Statement of Stockholders' Equity  
Three months ended March 31, 2011 (unaudited)

|   | Common Stock<br>Shares | Common Stock<br>Amount | Preferred<br>Stock<br>Shares | Preferred<br>Stock<br>Amount | Capital<br>in Excess<br>of Par | Accumulated<br>Other<br>Comprehensive<br>Income | Retained<br>Earnings | Treasury Stock<br>Shares | Treasury Stock<br>Amount | Total        |
|---|------------------------|------------------------|------------------------------|------------------------------|--------------------------------|---|----------------------|--------------------------|--------------------------|--------------|
| Balance,<br>December<br>31, 2010  | 4,643,122              | \$46,432               | -                            | \$-                          | \$13,633,913                   | \$145,247                                       | \$281,531            | 804,736                  | \$(1,163,258)            | \$12,943,865 |
| Stock-based<br>payments   | -                      | -                      | -                            | -                            | 40,494                         | -   | -                    | -                        | -                        | 40,494       |
| Net income  | -                      | -                      | -                            | -                            | -                              | -   | 126,624              | -                        | -                        | 126,624      |
| Net<br>unrealized<br>gains on<br>securities<br>available<br>for sale, net<br>of income<br>tax | -                      | -                      | -                            | -                            | -                              | 21,021  | -                    | -                        | -                        | 21,021       |
| Balance,<br>March 31,<br>2011   | 4,643,122              | \$46,432               | -                            | \$-                          | \$13,674,407                   | \$166,268                                       | \$408,155            | 804,736                  | \$(1,163,258)            | \$13,132,004 |

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See accompanying notes to condensed consolidated financial statements.

KINGSTONE COMPANIES, INC. AND SUBSIDIARIES  
Condensed Consolidated Statements of Cash Flows (Unaudited)  
Three months ended March 31,

|  | 2011        | 2010       |
|--|-------------|------------|
| <b>Cash flows provided by (used in) operating activities:</b>                  |             |            |
| Net income   | \$ 126,624  | \$ 232,394 |
| <b>Adjustments to reconcile net income to net cash provided by operations:</b> |             |            |
| Gain on sale of investments  | (70,471 )   | (34,660 )  |
| Depreciation and amortization  | 158,460     | 156,687    |
| Amortization of bond premium, net  | 23,482      | 17,358     |
| Stock-based payments   | 40,494      | 200,636    |
| Deferred income taxes  | 29,793      | (13,036 )  |
| <b>(Increase) decrease in assets:</b>  |             |            |
| Short term investments   | -           | (160,056 ) |
| Premiums receivable, net   | (762,287 )  | (360,714 ) |
| Receivables - reinsurance contracts  | (745,584 )  | (397,968 ) |
| Reinsurance receivables, net   | (1,127,162) | 603,965    |
| Deferred acquisition costs   | (260,552 )  | (201,509 ) |
| Other assets   | (240,372 )  | (118,142 ) |
| <b>Increase (decrease) in liabilities:</b>                                     |             |            |
| Loss and loss adjustment expenses  | 1,501,710   | 23,502     |
| Unearned premiums  | 1,234,739   | 887,949    |
| Advance premiums   | 199,307     | 16,753     |
| Reinsurance balances payable   | 1,317,794   | (21,138 )  |
| Deferred ceding commission revenue   | 104,935     | (456,961 ) |
| Accounts payable, accrued expenses and other liabilities                       | (284,612 )  | (608,262 ) |
| Net cash provided by (used in) operating activities of continuing operations   | 1,246,298   | (233,202 ) |
| Operating activities of discontinued operations                                | -           | (19,500 )  |
| Net cash flows provided by (used in) operating activities                      | 1,246,298   | (252,702 ) |
| <b>Cash flows used in investing activities:</b>                                |             |            |
| Purchase - fixed-maturity securities available for sale                        | (1,658,387) | (249,390 ) |
| Purchase - equity securities   | (580,638 )  | (233,135 ) |
| Sale - equity securities   | 990,247     | 410,167    |
| Collections of notes receivable and accrued interest - Sale of businesses      | 80,438      | 67,769     |
| Other investing activities   | (4,092 )    | (1,478 )   |
| Net cash flows used in investing activities                                    | (1,172,432) | (6,067 )   |
| <b>Cash flows (used in) provided by financing activities:</b>                  |             |            |
| Proceeds from long term debt (includes \$200,000 from related parties in 2010) | -           | 400,000    |
| Principal payments on long-term debt   | (6,518 )    | (5,952 )   |
| Net cash flows (used in) provided by financing activities                      | (6,518 )    | 394,048    |
| Increase in cash and cash equivalents  | 67,348      | 135,279    |
| Cash and cash equivalents, beginning of period                                 | 326,620     | 625,320    |
| Cash and cash equivalents, end of period                                       | \$ 393,968  | \$ 760,599 |
| <b>Supplemental disclosures of cash flow information:</b>                      |             |            |
| Cash paid for income taxes   | \$-         | \$ 227,000 |

|                        |          |           |
|------------------------|----------|-----------|
| Cash paid for interest | \$91,441 | \$133,118 |
|------------------------|----------|-----------|

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See accompanying notes to condensed consolidated financial statements.

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

Note 1 - Basis of Presentation and Nature of Business

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

The accompanying unaudited condensed consolidated financial statements included in this report have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and the instructions to Securities and Exchange Commission ("SEC") Form 10-Q and Article 8-03 of SEC Regulation S-X. The principles for condensed interim financial information do not require the inclusion of all the information and footnotes required by generally accepted accounting principles for complete financial statements. Therefore, these financial statements should be read in conjunction with the consolidated financial statements as of and for the year ended December 31, 2010 and notes thereto included in the Company's Annual Report on Form 10-K filed on March 31, 2011. The accompanying condensed consolidated financial statements have not been audited by an independent registered public accounting firm in accordance with standards of the Public Company Accounting Oversight Board (United States) but, in the opinion of management, such financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the Company's financial position and results of operations. The results of operations for the three months ended March 31 2011 may not be indicative of the results that may be expected for the year ending December 31, 2011.

Note 2 – Accounting Policies and Basis of Presentation

Use of Estimates

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

Reclassification

The Company has reclassified certain amounts in its 2010 statements of consolidated operations and cash flows to conform to the 2011 presentation. None of these reclassifications had an effect on the Company's consolidated net earnings, total stockholders' equity or cash flows.

Principles of Consolidation

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



## Accounting Pronouncements

With the exception of the pronouncement discussed below, there have been no recent accounting pronouncements or changes in accounting pronouncements during the three months ended March 31, 2011, as compared to those described in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010, that are of significance, or potential significance, to the Company.

In October 2010, the FASB issued new guidance concerning the accounting for costs associated with acquiring or renewing insurance contracts. This guidance generally follows the model of that for loan origination costs. Under the new guidance, only direct incremental costs associated with successful insurance contract acquisitions or renewals are deferrable. The Company adopted this guidance retrospectively effective January 1, 2011. The adoption of this guidance did not have a material impact on the Company's results of operations, financial position or liquidity.

In May 2011 the FASB issued ASU No. 2011-04, Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and International Financial Reporting Standards ("IFRS"). This ASU represents the converged guidance of the FASB and the IASB (the "Boards") on fair value measurements. The collective efforts of the Boards and their staffs, reflected in ASU 2011-04, have resulted in common requirements for measuring fair value and for disclosing information about fair value measurements, including a consistent meaning of the term "fair value." The Boards have concluded the common requirements will result in greater comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with GAAP and IFRSs. The amendments in this ASU are to be applied prospectively, and are effective for interim and annual periods beginning after December 15, 2011.

## Note 3 - Investments

### Available for Sale Securities

The amortized cost and fair value of investments in available for sale fixed-maturity securities, equities and short term investments as of March 31, 2011 and December 31, 2010 are summarized as follows:

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| Category  | March 31, 2011      |                  | Gross Unrealized Losses |                    | Fair Value          | Unrealized Gains/ (Losses) |
|---|---------------------|------------------|-------------------------|--------------------|---------------------|----------------------------|
|   | Cost or             | Gross            | Less than               | More than          |                     |                            |
|   | Amortized Cost      | Unrealized Gains | 12 Months               | 12 Months          |                     |                            |
| (unaudited)   |                     |                  |                         |                    |                     |                            |
| <b>Fixed-Maturity Securities:</b>   |                     |                  |                         |                    |                     |                            |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies |                     |                  |                         |                    |                     |                            |
|   | \$1,000,597         | \$34,668         | \$-                     | \$-                | \$1,035,265         | \$34,668                   |
| Political subdivisions of States, Territories and Possessions                         |                     |                  |                         |                    |                     |                            |
|   | 7,264,437           | 73,805           | (46,262 )               | (32,472 )          | 7,259,508           | (4,929 )                   |
| Corporate and other bonds   |                     |                  |                         |                    |                     |                            |
| Industrial and miscellaneous  |                     |                  |                         |                    |                     |                            |
|   | 9,649,052           | 200,179          | (113,932 )              | -                  | 9,735,299           | 86,247                     |
| <b>Total fixed-maturity securities</b>  | <b>17,914,086</b>   | <b>308,652</b>   | <b>(160,194 )</b>       | <b>(32,472 )</b>   | <b>18,030,072</b>   | <b>115,986</b>             |
| <b>Equity Securities:</b>   |                     |                  |                         |                    |                     |                            |
| Preferred stocks  |                     |                  |                         |                    |                     |                            |
|   | 742,215             | 30,514           | (4,223 )                | -                  | 768,506             | 26,291                     |
| Common stocks   |                     |                  |                         |                    |                     |                            |
|   | 1,743,661           | 132,004          | (22,362 )               | -                  | 1,853,303           | 109,642                    |
| <b>Total equity securities</b>  | <b>2,485,876</b>    | <b>162,518</b>   | <b>(26,585 )</b>        | <b>-</b>           | <b>2,621,809</b>    | <b>135,933</b>             |
| <b>Total</b>  | <b>\$20,399,962</b> | <b>\$471,170</b> | <b>\$(186,779 )</b>     | <b>\$(32,472 )</b> | <b>\$20,651,881</b> | <b>\$251,919</b>           |
| Category  | December 31, 2010   |                  | Gross Unrealized Losses |                    | Fair Value          | Unrealized Gains/ (Losses) |
|   | Cost or             | Gross            | Less than               | More than          |                     |                            |
|   | Amortized Cost      | Unrealized Gains | 12 Months               | 12 Months          |                     |                            |
| (unaudited)   |                     |                  |                         |                    |                     |                            |
| <b>Fixed-Maturity Securities:</b>   |                     |                  |                         |                    |                     |                            |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies |                     |                  |                         |                    |                     |                            |
|   | \$1,000,572         | \$42,085         | \$-                     | \$-                | \$1,042,657         | \$42,085                   |
| Political subdivisions of States, Territories and Possessions                         |                     |                  |                         |                    |                     |                            |
|   | 7,278,663           | 79,791           | (86,234 )               | (12,995 )          | 7,259,225           | (19,438 )                  |
| Corporate and other bonds   |                     |                  |                         |                    |                     |                            |
| Industrial and miscellaneous  |                     |                  |                         |                    |                     |                            |
|   | 7,997,817           | 176,999          | (137,597 )              | -                  | 8,037,219           | 39,402                     |
| <b>Total fixed-maturity securities</b>  | <b>16,277,052</b>   | <b>298,875</b>   | <b>(223,831 )</b>       | <b>(12,995 )</b>   | <b>16,339,101</b>   | <b>62,049</b>              |
| <b>Equity Securities:</b>   |                     |                  |                         |                    |                     |                            |
| Preferred stocks  |                     |                  |                         |                    |                     |                            |
|   | 824,569             | 29,934           | (6,333 )                | -                  | 848,170             | 23,601                     |
| Common stocks   |                     |                  |                         |                    |                     |                            |
|   | 2,000,446           | 188,783          | (54,364 )               | -                  | 2,134,865           | 134,419                    |
| <b>Total equity securities</b>  | <b>2,825,015</b>    | <b>218,717</b>   | <b>(60,697 )</b>        | <b>-</b>           | <b>2,983,035</b>    | <b>158,020</b>             |



|       |              |           |              |             |              |           |
|-------|--------------|-----------|--------------|-------------|--------------|-----------|
| Total | \$19,102,067 | \$517,592 | \$(284,528 ) | \$(12,995 ) | \$19,322,136 | \$220,069 |
|-------|--------------|-----------|--------------|-------------|--------------|-----------|

A summary of the amortized cost and fair value of the Company's available for sale investments in fixed-maturity securities by contractual maturity as of March 31, 2011 and December 31, 2010 is shown below:

| Remaining Time to Maturity | March 31, 2011 |               | December 31, 2010 |               |
|----------------------------|----------------|---------------|-------------------|---------------|
|                            | Amortized      |               | Amortized         |               |
|                            | Cost           | Fair Value    | Cost              | Fair Value    |
|                            | (unaudited)    |               |                   |               |
| Less than one year         | \$ 572,785     | \$ 558,284    | \$ 263,098        | \$ 253,385    |
| One to five years          | 6,332,452      | 6,451,604     | 6,868,952         | 6,997,694     |
| Five to ten years          | 9,003,965      | 9,019,288     | 7,132,079         | 7,118,405     |
| More than 10 years         | 2,004,884      | 2,000,896     | 2,012,923         | 1,969,617     |
| Total                      | \$ 17,914,086  | \$ 18,030,072 | \$ 16,277,052     | \$ 16,339,101 |

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

#### Held to Maturity Securities

The amortized cost and fair value of investments in held to maturity fixed-maturity securities as of March 31, 2011 and December 31, 2010 are summarized as follows:

| Category                 | March 31, 2011         |                        | Gross Unrealized Losses |           | Fair Value | Unrealized Gains/ (Losses) |
|--------------------------|------------------------|------------------------|-------------------------|-----------|------------|----------------------------|
|                          | Cost or Amortized Cost | Gross Unrealized Gains | Less than 12 Months     | More than |            |                            |
|                          |                        |                        |                         | 12 Months |            |                            |
|                          |                        |                        | (unaudited)             |           |            |                            |
| U.S. Treasury securities | \$606,222              | \$-                    | \$(22,430)              | \$-       | \$583,792  | \$(22,430)                 |

| Category                 | December 31, 2010      |                        | Gross Unrealized Losses |           | Fair Value | Unrealized Gains/ (Losses) |
|--------------------------|------------------------|------------------------|-------------------------|-----------|------------|----------------------------|
|                          | Cost or Amortized Cost | Gross Unrealized Gains | Less than 12 Months     | More than |            |                            |
|                          |                        |                        |                         | 12 Months |            |                            |
|                          |                        |                        | (unaudited)             |           |            |                            |
| U.S. Treasury securities | \$605,424              | \$974                  | \$-                     | \$-       | \$606,398  | \$974                      |

All held to maturity securities are held in trust pursuant to the New York State Insurance Department's minimum funds requirement.

Contractual maturities of all held to maturity securities are greater than ten years.

#### Investment Income

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



|                           | Three months ended |                   |
|---------------------------|--------------------|-------------------|
|                           | 2011               | March 31,<br>2010 |
|                           | (unaudited)        |                   |
| <b>Income</b>             |                    |                   |
| Fixed-maturity securities | \$ 182,137         | \$ 129,107        |
| Equity securities         | 36,824             | 27,301            |
| Cash and cash equivalents | 1,987              | 1,850             |
| Other                     | 10                 | 15                |
| Total                     | 220,958            | 158,273           |
| <b>Expenses</b>           |                    |                   |
| Investment expenses       | 43,288             | 25,993            |
| Net investment income     | \$ 177,670         | \$ 132,280        |

There were no proceeds from the sale and maturity of fixed-maturity securities for the three months ended March 31, 2011 and 2010.

Proceeds from the sale of equity securities were \$990,247 and \$410,167 for the three months ended March 31, 2011 and 2010, respectively.

The Company's gross realized gains and losses on investments are summarized as follows:

|                          | Three months ended |                   |
|--------------------------|--------------------|-------------------|
|                          | 2011               | March 31,<br>2010 |
|                          | (unaudited)        |                   |
| <b>Equity securities</b> |                    |                   |
| Gross realized gains     | \$ 117,333         | \$ 46,398         |
| Gross realized losses    | (46,862 )          | (11,738 )         |
| Net realized gains       | \$ 70,471          | \$ 34,660         |

### Impairment Review

The Company regularly reviews its fixed-maturity securities and equity securities portfolios to evaluate the necessity of recording impairment losses for other-than-temporary declines ("OTTI") in the fair value of investments. In evaluating potential impairment, management considers, among other criteria: (i) the current fair value compared to amortized cost or cost, as appropriate; (ii) the length of time the security's fair value has been below amortized cost or cost; (iii) specific credit issues related to the issuer such as changes in credit rating, reduction or elimination of dividends or non-payment of scheduled interest payments; (iv) management's intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in value to cost; and (v) current economic conditions.

OTTI losses are recorded in the condensed consolidated statement of operations and comprehensive income as net realized losses on investments and result in a permanent reduction of the cost basis of the underlying investment. The determination of OTTI is a subjective process and different judgments and assumptions could affect the timing of loss realization. There are 50 securities at March 31, 2011 that account for the gross unrealized loss. The Company determined that none of the unrealized losses were deemed to be OTTI for its portfolio of fixed maturity investments and equity securities for the three months ended March 31, 2011 and 2010. Significant factors influencing the Company's determination that unrealized losses were temporary included the magnitude of the unrealized losses in

relation to each security's cost, the nature of the investment and management's intent and ability to retain the investment for a period of time sufficient to allow for anticipated recovery of fair value to the Company's cost basis.

The Company held securities with unrealized losses representing declines that were considered temporary at March 31, 2011 as follows:

| Category   | March 31, 2011      |                      |                             | 12 months or more  |                      |                             | Total              |                      |
|--|---------------------|----------------------|-----------------------------|--------------------|----------------------|-----------------------------|--------------------|----------------------|
|  | Less than 12 months |                      | No. of<br>Positions<br>Held | 12 months or more  |                      | No. of<br>Positions<br>Held | Fair<br>Value      | Unrealized<br>Losses |
|  | Fair<br>Value       | Unrealized<br>Losses |                             | Fair<br>Value      | Unrealized<br>Losses |                             |                    |                      |
|  |                     |                      |                             |                    |                      |                             |                    |                      |
| <b>Fixed-Maturity Securities:</b>                                      |                     |                      |                             |                    |                      |                             |                    |                      |
| Political subdivisions of<br>States, Territories<br>and<br>Possessions | \$1,638,318         | \$(46,262 )          | 7                           | \$1,338,826        | \$(32,472 )          | 4                           | \$2,977,144        | \$(78,734 )          |
| Corporate and other<br>bonds industrial and<br>miscellaneous           | 4,307,000           | (113,932 )           | 22                          | -                  | -                    | -                           | 4,307,000          | (113,932 )           |
| <b>Total fixed-maturity<br/>securities</b>                             | <b>\$5,945,318</b>  | <b>\$(160,194 )</b>  | <b>29</b>                   | <b>\$1,338,826</b> | <b>\$(32,472 )</b>   | <b>4</b>                    | <b>\$7,284,144</b> | <b>\$(192,666 )</b>  |
| <b>Equity Securities:</b>  |                     |                      |                             |                    |                      |                             |                    |                      |
| Preferred stocks   | \$316,000           | \$(4,223 )           | 8                           | \$-                | \$-                  | -                           | \$316,000          | \$(4,223 )           |
| Common stocks  | 488,948             | (22,362 )            | 9                           | -                  | -                    | -                           | 488,948            | (22,362 )            |
| <b>Total equity<br/>securities</b>                                     | <b>\$804,948</b>    | <b>\$(26,585 )</b>   | <b>17</b>                   | <b>\$-</b>         | <b>\$-</b>           | <b>-</b>                    | <b>\$804,948</b>   | <b>\$(26,585 )</b>   |
| <b>Total</b>   | <b>\$6,750,266</b>  | <b>\$(186,779 )</b>  | <b>46</b>                   | <b>\$1,338,826</b> | <b>\$(32,472 )</b>   | <b>4</b>                    | <b>\$8,089,092</b> | <b>\$(219,251 )</b>  |

#### Note 4 - Fair Value Measurements

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

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

Level 1—Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities traded in active markets. Included are those investments traded on an active exchange, such as the NASDAQ Global Select

Market, U.S. Treasury securities and obligations of U.S. government agencies, together with municipal bonds, corporate debt securities that are generally investment grade.

Level 2—Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and market-corroborated inputs.

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

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

The Company's investments are allocated among pricing input levels at March 31, 2011 and December 31, 2010 as follows:

| (\$ in thousands)   | March 31, 2011 |          |             | Total     |
|---|----------------|----------|-------------|-----------|
|   | Level 1        | Level 2  | Level 3     |           |
|   |                |          | (unaudited) |           |
| Fixed-maturity investments available for sale   |                |          |             |           |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | \$ 1,035       | \$ -     | \$ -        | \$ 1,035  |
| Political subdivisions of States, Territories and Possessions                         | 5,352          | 1,908    | -           | 7,260     |
| Corporate and other bonds industrial and miscellaneous                                | 9,501          | 234      | -           | 9,735     |
| Total fixed maturities  | 15,888         | 2,142    | -           | 18,030    |
| Equity investments  | 2,622          | -        | -           | 2,622     |
| Total investments   | \$ 18,510      | \$ 2,142 | \$ -        | \$ 20,652 |



| (\$ in thousands)   | December 31, 2010 |          |         | Total     |
|---|-------------------|----------|---------|-----------|
|   | Level 1           | Level 2  | Level 3 |           |
| Fixed-maturity investments  |                   |          |         |           |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | \$ 1,043          | \$ -     | \$ -    | \$ 1,043  |
| Political subdivisions of States, Territories and Possessions                         | 5,351             | 1,908    | -       | 7,259     |
| Corporate and other bonds industrial and miscellaneous                                | 8,037             | -        | -       | 8,037     |
| Total fixed maturities  | 14,431            | 1,908    | -       | 16,339    |
| Equity investments  | 2,983             | -        | -       | 2,983     |
| Total investments   | \$ 17,414         | \$ 1,908 | \$ -    | \$ 19,322 |

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

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

Equity and fixed income investments: Fair value disclosures for investments are included in "Note 3 - Investments."

Cash and cash equivalents: The carrying values of cash and cash equivalents approximate their fair values because of the short maturity of these instruments.

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

Notes receivable: The carrying amount of notes receivable related to the sale of businesses approximates fair value because of the recently negotiated interest rates based on term of the loan, risk and guaranty.

Real Estate: The fair value of the land and building included in property and equipment, which is used in the Company's operations, approximates the carrying value. The fair value was based on an appraisal prepared using the sales comparison approach.

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

Notes payable (including related parties): The Company estimates that the carrying amount of notes payable approximates fair value because of the recently negotiated interest rates based on term of the loan, risk and guaranty.



The estimated fair values of the Company's financial instruments are as follows:

|  | March 31, 2011    |            | December 31, 2010 |            |
|--|-------------------|------------|-------------------|------------|
|  | Carrying<br>Value | Fair Value | Carrying<br>Value | Fair Value |
|  | (unaudited)       |            |                   |            |
| Fixed-maturity investments held to maturity  | \$ 606,222        | \$ 583,792 | \$ 605,424        | \$ 606,398 |
| Cash and cash equivalents                    | 393,968           | 393,968    | 326,620           | 326,620    |
| Premiums receivable                          | 5,764,173         | 5,764,173  | 5,001,886         | 5,001,886  |
| Receivables - reinsurance contracts          | 1,920,313         | 1,920,313  | 1,174,729         | 1,174,729  |
| Reinsurance receivables                      | 21,847,356        | 21,847,356 | 20,720,194        | 20,720,194 |
| Notes receivable-sale of business            | 624,581           | 624,581    | 705,019           | 705,019    |
| Real estate, net of accumulated depreciation | 1,423,302         | 1,510,000  | 1,437,787         | 1,510,000  |
| Reinsurance balances payable                 | 2,424,691         | 2,424,691  | 1,106,897         | 1,106,897  |
| Notes payable (including related parties)    | 1,454,479         | 1,454,479  | 1,460,997         | 1,460,997  |

#### Note 6 - Notes Receivable-Sale of Businesses

##### Retail Business

New York Stores: On April 17, 2009, the Company's wholly-owned subsidiaries that owned and operated 16 Retail Business locations in New York State sold substantially all of their assets, including their book of business (the "New York Assets"). The purchase price for the New York Assets was approximately \$2,337,000, of which approximately \$1,786,000 was paid at closing. Promissory notes in the aggregate approximate original principal amount of \$551,000 (the "New York Notes") were also delivered at the closing. As of March 31, 2011, the New York Notes were payable in monthly installments of varying payments that average approximately \$28,000 each between April 30, 2011 and July 31, 2011, and provided for interest at the rate of 12.625% per annum. On April 1, 2011 the purchaser of the New York Assets paid in advance the balance of the New York Notes in the amount of \$138,762.

Pennsylvania Stores: Effective June 30, 2009, the Company sold all of the outstanding stock of the subsidiary that operated the three remaining Pennsylvania stores (the "Pennsylvania Stock"). The purchase price for the Pennsylvania Stock was approximately \$397,000 which was paid by delivery of two promissory notes, one in the approximate principal amount of \$238,000 and payable with interest at the rate of 9.375% per annum in 120 equal monthly installments, and the other in the approximate principal amount of \$159,000 and payable with interest at the rate of 6% per annum in 60 monthly installments commencing August 10, 2011 (with interest only being payable prior to such date).

##### Franchise Business

Effective May 1, 2009, the Company sold all of the outstanding stock of the subsidiaries that operated the DCAP franchise business (collectively, the "Franchise Stock"). The purchase price for the Franchise Stock was \$200,000 which was paid by delivery of a promissory note in such principal amount (the "Franchise Note"). As of March 31, 2011, the terms of the Franchise Note called for installments of \$50,000 on May 15, 2009, \$50,000 on May 1, 2010 and \$100,000 plus accrued interest on May 1, 2011 and provides for interest at the rate of 5.25% per annum. On May 1, 2011, the Franchise Note was amended. Under the amended Franchise Note, the payment due on May 1, 2011 was reduced to a principal payment only of \$75,000. The remaining balance of \$25,000 plus accrued interest is due on May 1, 2012. A principal of the buyer is the son-in-law of Morton L. Certilman, one of the Company's principal

shareholders at the time.

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Notes receivable arising from the sale of businesses as of March 31, 2011 and December 31, 2010 consists of:

|                             | March 31, 2011 |                                |            | December 31, 2010 |                    |            |
|-----------------------------|----------------|--------------------------------|------------|-------------------|--------------------|------------|
|                             | Total Note     | Current Maturities (unaudited) | Long-Term  | Total Note        | Current Maturities | Long-Term  |
| Sale of NY stores           | \$ 129,036     | \$ 129,036                     | \$ -       | \$ 211,536        | \$ 211,536         | \$ -       |
| Sale of Pennsylvania stores | 371,052        | 36,172                         | 334,880    | 375,211           | 28,730             | 346,481    |
| Sale of Franchise business  | 100,000        | 75,000                         | 25,000     | 100,000           | 100,000            | -          |
|                             | 600,088        | 240,208                        | 359,880    | 686,747           | 340,266            | 346,481    |
| Accrued interest            | 24,493         | 24,493                         | -          | 18,272            | 18,272             | -          |
| Total                       | \$ 624,581     | \$ 264,701                     | \$ 359,880 | \$ 705,019        | \$ 358,538         | \$ 346,481 |

#### Note 7 – Property and Casualty Activity

##### Earned Premiums

Premiums written, ceded and earned are as follows:

|   | Direct       | Assumed  | Ceded          | Net          |
|---|--------------|----------|----------------|--------------|
| Three months ended March 31, 2011 (unaudited) |              |          |                |              |
| Premiums written                              | \$ 9,533,146 | \$ 234   | \$ (5,496,365) | \$ 4,037,015 |
| Change in unearned premiums                   | (1,236,876 ) | 2,138    | 565,422        | (669,316 )   |
| Premiums earned                               | \$ 8,296,270 | \$ 2,372 | \$ (4,930,943) | \$ 3,367,699 |
| Three months ended March 31, 2010 (unaudited) |              |          |                |              |
| Premiums written                              | \$ 7,660,983 | \$ 1,361 | \$ (4,283,853) | \$ 3,378,491 |
| Change in unearned premiums                   | (889,358 )   | 1,409    | (272,595 )     | (1,160,544)  |
| Premiums earned                               | \$ 6,771,625 | \$ 2,770 | \$ (4,556,448) | \$ 2,217,947 |

Premium receipts in advance of the policy effective date are recorded as advance premiums. The balance of advance premiums was approximately \$610,000 and \$411,000 as of March 31, 2011 (unaudited) and December 31, 2010, respectively.

##### Loss and Loss Adjustment Expenses

The following table provides a reconciliation of the beginning and ending balances for unpaid losses and loss adjustment expenses (“LAE”):

|                                  | Three months ended |               |
|----------------------------------|--------------------|---------------|
|                                  | March 31,          |               |
|                                  | 2011               | 2010          |
|                                  | (unaudited)        |               |
| Balance at beginning of period   | \$ 17,711,907      | \$ 16,513,318 |
| Less reinsurance recoverables    | (10,431,415)       | (10,512,203)  |
| Net balance, beginning of period | 7,280,492          | 6,001,115     |
| Incurred related to:             |                    |               |
| Current year                     | 2,617,490          | 1,133,892     |
| Prior years                      | (66,726 )          | 300,726       |
| Total incurred                   | 2,550,764          | 1,434,618     |
| Paid related to:                 |                    |               |
| Current year                     | 502,497            | 407,338       |
| Prior years                      | 936,756            | 848,472       |
| Total paid                       | 1,439,253          | 1,255,810     |
| Net balance at end of period     | 8,392,003          | 6,179,923     |
| Add reinsurance recoverables     | 10,821,614         | 10,356,897    |
| Balance at end of period         | \$ 19,213,617      | \$ 16,536,820 |

Incurred losses and LAE are net of reinsurance recoveries under reinsurance contracts of \$1,688,251 and \$2,640,562 for the three months ended March 31, 2011 and 2010.

Prior year incurred loss and LAE development is based upon numerous estimates by line of business and accident year. The Company's management continually monitors claims activity to assess the appropriateness of carried case and IBNR reserves, giving consideration to Company and industry trends.

#### Loss and loss adjustment expense reserves

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

Due to the inherent uncertainty associated with the reserving process, the ultimate liability may differ, perhaps substantially, from the original estimate. Such estimates are regularly reviewed and updated and any resulting

adjustments are included in the current year's results. Reserves are closely monitored and are recomputed periodically using the most recent information on reported claims and a variety of statistical techniques. Specifically, on at least a quarterly basis, the Company reviews, by line of business, existing reserves, new claims, changes to existing case reserves and paid losses with respect to the current and prior years.

## Reinsurance

The Company's reinsurance treaties for both its Personal Lines business, which primarily consists of homeowners' policies, and Commercial Lines business, other than commercial auto were renewed as of July 1, 2010.

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

## Ceding Commission Revenue

The Company earns ceding commissions under its quota share reinsurance agreements based on a sliding scale of commission rates and ultimate treaty year loss ratios on the policies reinsured under each of these agreements. The sliding scale includes minimum and maximum commission rates in relation to specified ultimate loss ratios. The commission rate and ceding commissions earned increase when the estimated ultimate loss ratio decreases and, conversely, the commission rate and ceding commissions earned decrease when the estimated ultimate loss ratio increases.

As of March 31, 2011 and 2010 the Company's estimated ultimate loss ratios attributable to these contracts are lower than the contractual ultimate loss ratios at which the minimum amount of ceding commissions can be earned. Accordingly, the Company has recorded ceding commissions earned that are greater than the minimum commissions.

Ceding commission revenue consists of the following:

|  | Three months ended<br>March 31, |              |
|--|---------------------------------|--------------|
|  | 2011                            | 2010         |
|  | (unaudited)                     |              |
| Ceded commission on reinsurance treaties | \$ 1,588,306                    | \$ 1,809,593 |
| Contingent commission ceded              | 724,269                         | 401,544      |
|  | \$ 2,312,575                    | \$ 2,211,137 |

## Note 8 – Notes Payable and Capital Lease Obligations

Notes payable and capital lease obligations consist of:



|                          | March 31, 2011               |                               |                   | December 31, 2010 |                               |                   |
|--------------------------|------------------------------|-------------------------------|-------------------|-------------------|-------------------------------|-------------------|
|                          | Total<br>Debt<br>(unaudited) | Less<br>Current<br>Maturities | Long-Term<br>Debt | Total<br>Debt     | Less<br>Current<br>Maturities | Long-Term<br>Debt |
| Capital lease obligation | \$ 4,479                     | \$ 4,479                      | \$ -              | \$ 10,997         | \$ 10,997                     | \$ -              |
| Notes payable            | 1,450,000                    | 1,450,000                     | -                 | 1,450,000         | 1,450,000                     | -                 |
|                          | \$ 1,454,479                 | \$ 1,454,479                  | \$ -              | \$ 1,460,997      | \$ 1,460,997                  | \$ -              |

### Notes Payable

From June 2009 through January 2010, the Company borrowed \$1,450,000 (including \$785,000 from related parties as discussed below) and issued promissory notes in such aggregate principal amount (the "2009 Notes"). The 2009 Notes provide for interest at the rate of 12.625% per annum through July 10, 2011, at which time the entire principal balance is due. The 2009 Notes are prepayable without premium or penalty; provided, however, that, under any circumstances, the holders of the 2009 Notes are entitled to receive an aggregate of six months interest from the issue date of the 2009 Notes with respect to the amount prepaid.

Interest expense on the 2009 Notes for the three months ended March 31, 2011 and 2010 was approximately \$46,000 and \$42,000, respectively.

Aggregate related party borrowings of \$785,000 at March 31, 2011 and December 31, 2010 are as follows:

The IRA of Barry Goldstein purchased a 2009 Note in the principal amount of \$150,000. A limited liability company owned by Mr. Goldstein, along with Sam Yedid and Steven Shapiro (who are both directors of KICO), purchased a 2009 Note in the principal amount of \$120,000. Jay Haft, a director of the Company, purchased a 2009 Note in the principal amount of \$50,000. A member of the family of Michael Feinsod, a director of the Company, purchased a 2009 Note in the principal amount of \$100,000. Mr. Yedid and members of his family purchased 2009 Notes in the aggregate principal amount of \$295,000. A member of the family of Floyd Tupper, a director of KICO, purchased a 2009 Note in the principal amount of \$70,000. Interest expense on related party borrowings for the three months ended March 31, 2011 and 2010 was approximately \$25,000 and \$23,000, respectively.

### Note 9 – Preferred Stock

Upon issuance, the Company's Preferred Stock, which was exchanged for common stock effective June 30, 2010, was reported as a liability, in accordance with GAAP guidance for accounting for certain financial instruments with characteristics of both liabilities and equity. For the three months ended March 31, 2011 and 2010, the preferred dividends have been classified as interest expense of \$-0- and \$37,353 (including \$32,637 to related parties), respectively.

### Note 10 – Equity Stock Compensation

#### Other Equity Compensation

The results of operations for the three months ended March 31, 2011 and 2010 include other share-based stock compensation expense totaling approximately \$-0- and \$112,000, respectively. For the three months ended March 31, 2010, other equity compensation consists of 50,000 shares granted to the Company's chief executive officer pursuant to an amended employment agreement dated March 24, 2010. The fair value of the stock grant is \$112,000. Such

amount has been included in the Condensed Consolidated Statement of Operations and Comprehensive Income within other operating expenses.

## Stock Options

In December 2005, the Company's shareholders ratified the adoption of the 2005 Equity Participation Plan (the "2005 Plan"), which provides for the issuance of incentive stock options, non-statutory stock options and restricted stock. Under the 2005 Plan, a maximum of 300,000 shares of Common Stock were permitted to be issued pursuant to options granted and restricted stock issued. In March 2010, the Board of Directors of the Company increased the number of shares of Common Stock authorized to be issued pursuant to the 2005 Plan to 550,000, subject to stockholder approval. In June 2010, the stockholders approved the increase to 550,000 shares. Incentive stock options granted under the 2005 Plan expire no later than ten years from date of grant (except no later than five years for a grant to a 10% stockholder). The Board of Directors or the Stock Option Committee will determine the expiration date with respect to non-statutory options, and the vesting provisions for restricted stock, granted under the 2005 Plan.

The results of operations for the three months ended March 31, 2011 and 2010 include share-based stock option compensation expense totaling approximately \$40,000 and \$89,000, respectively. Share-based compensation expense related to stock options is net of estimated forfeitures of 21% and 23% for the three months ended March 31, 2011 and 2010, respectively. Such amounts have been included in the Condensed Consolidated Statement of Operations and Comprehensive Income within other operating expenses.

Stock option compensation expense in 2011 and 2010 is the estimated fair value of options granted amortized on a straight-line basis over the requisite service period for the entire portion of the award. The weighted average estimated fair value of stock options granted during the three months ended March 31, 2010 was \$2.04. The fair value of options at the grant date was estimated using the Black-Scholes option-pricing method. No stock options were granted during the three months ended March 31, 2011. The following weighted average assumptions were used for grants during the three months ended March 31 2010:

|                    |         |
|--------------------|---------|
| Dividend Yield     | 0.00%   |
| Volatility         | 101.25% |
| Risk-Free Interest |         |
| Rate               | 2.62%   |
| Expected Life      | 5 years |

A summary of option activity under the Company's 1998 Stock Option Plan (terminated in November 2008) and the 2005 Plan as of March 31, 2011, and changes during the three months then ended 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, 2011           | 393,865          | \$ 2.32                                   | 3.28  | \$ 463,465                |
| Granted                                  | -                | \$ -                                      | -   | -                         |
| Forfeited                                | -                | \$ -                                      | -   | -                         |
| Outstanding at March 31, 2011            | 393,865          | \$ 2.32                                   | 3.03  | \$ 301,980                |
| Vested and Exercisable at March 31, 2011 | 251,932          | \$ 2.25                                   | 2.62  | \$ 211,340                |

The aggregate intrinsic value of options outstanding and options exercisable at March 31, 2011 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 \$3.09 closing price of the Company's Common Stock on March 31, 2011. No stock options were exercised in the three months ended March 31, 2011 and 2010.

As of March 31, 2011 the fair value of unamortized compensation cost related to unvested stock option awards was approximately \$121,000. Unamortized compensation cost as of March 31, 2011 is expected to be recognized over a remaining weighted-average vesting period of 1.58 years.

#### Note 11 – 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 basis depending on applicable laws. The Company's effective tax rate from continuing operations for the three months ended March 31, 2011 and 2010 was 24.8% and 39.8%, respectively.

At December 31, 2010, the Company had the following net operating loss carryforwards for tax purposes:

| Type of NOL   | Amount       | Expiration        |
|---|--------------|-------------------|
| Federal only  | \$ 37,270    | December 31, 2030 |
| State only  | \$ 2,742,552 | December 31, 2030 |
| Amount subject to Annual Limitation, Federal only (A) | \$ 110,000   | December 31, 2019 |

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

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

at a various rates depending on whether the temporary differences are subject to Federal taxes, State taxes, or both. As of March 31, 2011 and December 31, 2010 the Company's net deferred tax liability was \$2,039,179 and \$1,998,557, respectively.

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 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.

Under GAAP guidance for the “Accounting for Uncertainty in Income Taxes”, the Company had no material unrecognized tax benefit and no adjustments to liabilities or operations were required. Additionally, Accounting for Uncertainty in Income Taxes, provides guidance on the recognition of interest and penalties related to income taxes. There were no interest or penalties related to income taxes that have been accrued or recognized as of and for the three months ended March 31, 2011 and 2010. If any had been recognized these would be reported in income tax expense.

#### Note 12 - Net Income (Loss) Per Common Share

For the three months ended March 31, 2011 and 2010 there were 251,932 and 153,468 vested options with an exercise price below the average market price of the Company’s Common Stock during the period. For the three months ended March 31, 2011 and 2010 the inclusion of 87,633 shares of net Common Stock and 39,921 shares of net Common Stock, respectively, assumed to issued upon the exercise of such options in the computation of diluted earnings per share would have been anti-dilutive for both periods, and as a result, the weighted average number of shares of Common Stock used in the calculation of basic and diluted earnings per share of Common Stock have not been adjusted for the effects of such options.

For the three months ended March 31, 2010 mandatorily redeemable Preferred Stock had a conversion price in below the average market price of the Company’s Common Stock during the period and the inclusion of 649,615 assumed converted shares of Common Stock in the computation of diluted earnings per share would have been anti-dilutive, and as a result, the weighted average number of shares of Common Stock used in the calculation of basic and diluted earnings per common share have not been adjusted for the effects of such mandatorily redeemable Preferred Stock.

#### Note 13 - Commitments and Contingencies

##### Legal Proceedings

From time to time, the Company is involved in various legal proceedings in the ordinary course of business. For example, to the extent a claim asserted by a third party in a law suit against one of the Company’s insureds covered by a particular policy, the Company may have a duty to defend the insured party against the claim. These claims may relate to bodily injury, property damage or other compensable injuries as set forth in the policy. Such proceedings are considered in estimating the liability for loss and LAE expenses. The Company is not subject to any other pending legal proceedings that management believes are likely to have a material adverse effect on the financial statements.

#### Note 14 - Discontinued Operations

On April 17, 2009, the Company’s wholly-owned subsidiaries that owned and operated its former network of retail brokerage outlets in New York State sold substantially all of their assets, including the book of business (the “New York Assets”). As additional consideration, the Company was entitled to receive through September 30, 2010 an additional amount equal to 60% of the net commissions derived from the book of business of six New York retail locations that were closed in 2008. Income from discontinued operations for the three months ended March 31, 2011 and 2010 includes approximately \$-0- and \$14,000 of income from additional consideration from the sale of the New York Assets.



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

### Overview

We offer property and casualty insurance products to small businesses and individuals in New York State through our subsidiary, Kingstone Insurance Company ("KICO").

We derive substantially all of our revenue from KICO, which includes revenues from earned premiums, ceding commissions from quota share reinsurance, investment income and net realized and unrealized gains and losses on investment securities. 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 life of the policy). A significant period of time normally elapses between the receipt of insurance premiums and the payment of insurance claims. During this time, KICO invests the premiums, earns investment income and generates net realized and unrealized investment gains and losses on investments.

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

Other operating expenses include the corporate expenses of our holding company, Kingstone Companies, Inc. These expenses include executive employment costs, legal, auditing and consulting fees, occupancy costs related to our corporate office and other costs directly associated with being a public company.

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 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 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.

Net premiums earned less expenses included in combined ratio (underwriting income). Underwriting income is a measure of an insurance company's overall operating profitability before items such as investment income, interest expense and income taxes.

#### Critical Accounting Policies

Our condensed consolidated financial statements include the accounts of Kingstone Companies, Inc. and all majority-owned and controlled subsidiaries. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires our management to make estimates and assumptions in certain circumstances that affect amounts reported in our consolidated financial statements and related notes. In preparing these financial statements, our management has utilized information available including our past history, industry standards and the current economic environment, among other factors, in forming its estimates and judgments of certain amounts included in the consolidated financial statements, giving due consideration to materiality. It is possible that the ultimate outcome as anticipated by our management in formulating its estimates inherent in these financial statements might not materialize. However, application of the critical accounting policies below involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. In addition, other companies may utilize different estimates, which may impact comparability of our results of operations to those of companies in similar businesses.

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

#### Consolidated Results of Operations

Three Months Ended March 31, 2011 Compared to Three Months Ended March 31, 2010

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

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| (\$ in thousands)   | Three months ended March 31, |          |          |            |
|---|------------------------------|----------|----------|------------|
|   | 2011                         | 2010     | Change   | Percent    |
| <b>Revenues</b>   |                              |          |          |            |
| Gross written premium   | \$9,533                      | \$7,661  | \$1,872  | 24.4 %     |
| Net written premium   | 4,037                        | 3,378    | 659      | 19.5 %     |
| Change in net unearned premiums   | (669 )                       | (1,160 ) | 491      | (42.3 ) %  |
| Net premiums earned   | 3,368                        | 2,218    | 1,150    | 51.8 %     |
| Ceding commission revenue   | 2,313                        | 2,211    | 102      | 4.6 %      |
| Net investment income   | 178                          | 132      | 46       | 34.8 %     |
| Net realized gain on investments  | 70                           | 35       | 35       | 100.0 %    |
| Other income  | 247                          | 221      | 26       | 11.8 %     |
| Total revenues  | 6,176                        | 4,817    | 1,359    | 28.2 %     |
| <b>Expenses</b>   |                              |          |          |            |
| <b>Loss and loss adjustment expenses</b>  |                              |          |          |            |
| Gross loss and loss adjustment expenses   | 4,239                        | 4,074    | 165      | 4.0 %      |
| Less: ceded loss and loss adjustment expenses   | (1,688 )                     | (2,641 ) | 952      | (36.1 ) %  |
| Net loss and loss adjustment expenses   | 2,551                        | 1,434    | 1,117    | 77.9 %     |
| Commission expense  | 1,372                        | 1,137    | 235      | 20.7 %     |
| Other underwriting expenses   | 1,577                        | 1,104    | 473      | 42.8 %     |
| Other operating expenses  | 304                          | 540      | (236 )   | (43.7 ) %  |
| Depreciation and amortization   | 158                          | 157      | 1        | 0.6 %      |
| Interest expense  | 46                           | 45       | 1        | 2.2 %      |
| Interest expense - mandatorily redeemable preferred stock   | -                            | 37       | (37 )    | (100.0 ) % |
| Total expenses  | 6,008                        | 4,454    | 1,554    | 34.9 %     |
| Income from continuing operations before taxes  | 168                          | 363      | (195 )   | (53.7 ) %  |
| Provision for income tax  | 42                           | 145      | (103 )   | (71.0 ) %  |
| Income from continuing operations   | 126                          | 218      | (92 )    | (42.2 ) %  |
| Income from discontinued operations, net of taxes   | -                            | 14       | (14 )    | 100.0 %    |
| Net income  | \$126                        | \$232    | \$(106 ) | (45.7 ) %  |
| <b>Percent of total revenues:</b>   |                              |          |          |            |
| Net premiums earned   | 54.5 %                       | 46.0 %   |          |            |
| Ceding commission revenue   | 37.5 %                       | 45.9 %   |          |            |
| Net investment income   | 2.9 %                        | 2.8 %    |          |            |
| Net realized gains on investments   | 1.1 %                        | 0.7 %    |          |            |
| Other income  | 4.0 %                        | 4.6 %    |          |            |
|   | 100.0 %                      | 100.0 %  |          |            |
| <b>Ceded premiums as a percent of gross premiums:</b>   |                              |          |          |            |
| Written   | 57.7 %                       | 55.9 %   |          |            |
| Earned  | 59.4 %                       | 67.3 %   |          |            |
| <b>Ceded loss and loss adjustment expenses as a percent of gross loss and loss and loss adjustment expenses</b> |                              |          |          |            |
|   | 39.8 %                       | 64.8 %   |          |            |
| Net loss ratio  | 75.7 %                       | 64.6 %   |          |            |

Gross premiums written during the three months ended March 31, 2011 (“2011”) were \$9,533,000 compared to \$7,661,000 during the three months ended March 31, 2010 (“2010”). The increase of \$1,872,000 or 24.4% was primarily due to an increase in policies in-force during 2011 as compared to 2010. Policies in-force increased by 18.7% as of March 31, 2011 compared to March 31, 2010. In addition, the increase in written premiums is due to growth in our commercial lines business, which has higher premiums associated with it.

Net written premium increased \$659,000, or 19.5%, to \$4,037,000 in 2011 from \$3,378,000 in 2010. The increase in net written premiums resulted from an increase of gross written premiums in 2011 compared to gross written premium in 2010. Net written premiums grew at a lower rate than gross written premiums (19.5 % compared to 24.4%) due to a greater increase in premiums written in lines of business that are subject to quota share treaties compared to lines of business that are not subject to quota share treaties.

Net premiums earned increased \$1,150,000, or 51.8%, to \$3,368,000 in 2011 from \$2,218,000 in 2010. As premiums written earn ratably primarily over a twelve month period, the increase was a result of higher net written premium for the twelve months ended March 31, 2011 compared to the twelve months ended March 31, 2010.

Ceding commission revenue was \$2,313,000 in 2011 compared to \$2,211,000 in 2010. The increase of \$102,000 or 4.6% was due to the increase in the amount of premiums ceded and more favorable ceding commission rates. Ceding commission revenue also increased as a result of decreases in ceded loss ratios on prior year's quota share treaties.

Net investment income was \$178,000 in 2011 compared to \$132,000 in 2010. The increase of \$46,000 or 34.8% was due to an increase in average invested assets in 2011 as compared to 2010. The increase in cash and invested assets resulted primarily from increased operating cash flows. The tax equivalent investment yield, excluding cash, was 5.61% and 5.57% at March 31, 2011 and 2010, respectively.

Net loss and loss adjustment expenses were \$2,551,000 in 2011 compared to \$1,434,000 in 2010. The net loss ratio was 75.7% in 2011 compared to 64.6% in 2010. The increase of 11.1 percentage points in our net loss ratio for 2011 as compared to 2010 is primarily due to an increase in losses in our commercial auto line of business, which is not subject to a quota share treaty in 2011. Ceded losses as a percentage of total losses decreased to 39.8% in 2011 from 64.8% in 2010.

Commission expense was \$1,372,000 in 2011 or 14.4% of gross premiums written. Commission expense was \$1,137,000 in 2010 or 14.8% of gross premiums written. The increase of \$235,000 or 20.7% is due to the 24.4% increase in gross premiums written in 2011 as compared to 2010.

Other underwriting expenses were \$1,577,000 in 2011 compared to \$1,104,000 in 2010. The \$473,000 increase in other underwriting expenses was primarily due to expenses directly related to the increase in gross premiums written and additional employment costs due to the hiring of additional staff needed to service our growth in written premiums. The gross underwriting expense ratio was 16.5% in 2011 as compared to 14.4% in 2010. The net underwriting expense ratio was 46.8% in 2011 as compared to 49.8% in 2010.

Other operating expenses, related to the corporate expenses of our holding company, were \$304,000 in 2011 compared to \$540,000 in 2010. The \$236,000 decrease in 2010 was primarily due to decreases in professional fees and executive employment costs. The reduction of professional fees in 2011 was due to the elimination of the additional costs incurred in 2010 stemming from the acquisition of KICO on July 1, 2009. The reduction of executive employment costs is due to bonus compensation to our Chief Executive Officer in 2010, which was incurred pursuant to his amended employment agreement dated March 24, 2010.

Interest expense on mandatorily redeemable preferred stock was \$-0- in 2011 compared to \$37,000 in 2010. The reduction was due to the exchange of all of the outstanding preferred stock into common stock on June 30, 2010, which resulted in the elimination of additional related interest expense as of that date.

Income tax expense in 2011 was \$42,000, which resulted in an effective tax rate of 24.8%. Income tax expense in 2010 was \$145,000, which resulted in an effective tax rate of 39.8%. The decrease in our effective rate resulted primarily from an increase in the percentage of tax exempt permanent differences to book income in 2011 compared to 2010.

Net income was \$126,000 in 2011 compared to \$232,000 in 2010. The decrease in net income of \$106,000 was due to the circumstances that caused the increase in both our net loss ratio and net underwriting ratios, offset by increases in both net premiums earned and ceding commission revenue, and a decrease in operating expenses, as described above.

#### Insurance Underwriting Business on a Standalone Basis

Our insurance underwriting business reported on a standalone basis for the three months ended March 31, 2011 and 2010 is as follows:

|                                   | Three months ended<br>March 31, |                   |
|-----------------------------------|---------------------------------|-------------------|
|                                   | 2011                            | 2010              |
| <b>Revenues</b>                   |                                 |                   |
| Net premiums earned               | \$ 3,367,699                    | \$ 2,217,947      |
| Ceding commission revenue         | 2,312,575                       | 2,211,137         |
| Net investment income             | 177,670                         | 132,280           |
| Net realized gain on investments  | 70,471                          | 34,660            |
| Other income                      | 97,930                          | 75,077            |
| <b>Total revenues</b>             | <b>6,026,345</b>                | <b>4,671,101</b>  |
| <b>Expenses</b>                   |                                 |                   |
| Loss and loss adjustment expenses | 2,550,764                       | 1,434,618         |
| Commission expense                | 1,371,749                       | 1,136,619         |
| Other underwriting expenses       | 1,576,819                       | 1,103,920         |
| Depreciation and amortization     | 155,915                         | 155,629           |
| <b>Total expenses</b>             | <b>5,655,247</b>                | <b>3,830,786</b>  |
| Income from operations            | 371,098                         | 840,315           |
| Income tax expense                | 119,379                         | 275,814           |
| <b>Net income</b>                 | <b>\$ 251,719</b>               | <b>\$ 564,501</b> |

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

|                                    | Direct       | Assumed  | Ceded          | Net          |
|------------------------------------|--------------|----------|----------------|--------------|
| Three months ended March 31, 2011: |              |          |                |              |
| Written premiums                   | \$ 9,533,146 | \$ 234   | \$ (5,496,365) | \$ 4,037,015 |
| Unearned premiums                  | (1,236,876)  | 2,138    | 565,422        | (669,316 )   |
| Earned premiums                    | \$ 8,296,270 | \$ 2,372 | \$ (4,930,943) | \$ 3,367,699 |
| Loss and loss adjustment expenses  |              |          |                |              |
|                                    | \$ 4,237,389 | \$ 1,626 | \$ (1,688,251) | \$ 2,550,764 |
| Loss ratio                         | 51.1         | % 68.5   | % 34.2         | % 75.7       |
| Three months ended March 31, 2010: |              |          |                |              |
| Written premiums                   | \$ 7,660,983 | \$ 1,361 | \$ (4,283,853) | \$ 3,378,491 |
| Unearned premiums                  | (889,358 )   | 1,409    | (272,595 )     | (1,160,544)  |
| Earned premiums                    | \$ 6,771,625 | \$ 2,770 | \$ (4,556,448) | \$ 2,217,947 |
| Loss and loss adjustment expenses  |              |          |                |              |
|                                    | \$ 4,074,050 | \$ 1,130 | \$ (2,640,562) | \$ 1,434,618 |
| Loss ratio                         | 60.2         | % 40.8   | % 58.0         | % 64.7       |

### Key Measures

The key measures for our insurance underwriting business for the three months ended March 31, 2011 and 2010 are as follows:

|   | Three months ended<br>March 31, |              |
|---|---------------------------------|--------------|
|   | 2011                            | 2010         |
| Net premiums earned                                     | \$ 3,367,699                    | \$ 2,217,947 |
| Ceding commission revenue                               | 2,312,575                       | 2,211,137    |
| Other income  | 97,930                          | 75,077       |
| Loss and loss adjustment expenses                       | 2,550,764                       | 1,434,618    |
| Acquisition costs and other underwriting expenses:      |                                 |              |
| Commission expense                                      | 1,371,749                       | 1,136,619    |
| Other underwriting expenses                             | 1,576,819                       | 1,103,920    |
| Total acquisition costs and other underwriting expenses | 2,948,568                       | 2,240,539    |
| Underwriting income                                     | \$ 278,872                      | \$ 829,004   |
| Key Measures:   |                                 |              |
| Net loss ratio  | 75.7                            | % 64.7       |
| Net underwriting expense ratio                          | 16.0                            | % -2.1       |

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|   |              |   |              |   |
|---|--------------|---|--------------|---|
| Net combined ratio                                | 91.7         | % | 62.6         | % |
| Reconciliation of net underwriting expense ratio: |              |   |              |   |
| Acquisition costs and other underwriting expenses | \$ 2,948,568 |   | \$ 2,240,539 |   |
| Less: Ceding commission revenue                   | (2,312,575)  |   | (2,211,137)  |   |
| Less: Other income                                | (97,930 )    |   | (75,077 )    |   |
|   | \$ 538,063   |   | \$ (45,675 ) |   |
| Net earned premium                                | \$ 3,367,699 |   | \$ 2,217,947 |   |

## Investments

## Portfolio Summary

The following table presents a breakdown of the amortized cost, aggregate fair value and unrealized gains and losses by investment type as of March 31, 2011 and December 31, 2010:

## Available for Sale Securities

| Category  | March 31, 2011               |                              |  |   |                            |                       |
|---|------------------------------|------------------------------|--|---|----------------------------|-----------------------|
|   | Cost or<br>Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross Unrealized<br>Losses<br>Less than<br>12<br>Months<br>(unaudited) | Gross Unrealized<br>Losses<br>More than<br>12<br>Months | Aggregate<br>Fair<br>Value | % of<br>Fair<br>Value |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | \$ 1,000,597                 | \$ 34,668                    | \$ -   | \$ -  | \$ 1,035,265               | 5.0 %                 |
| Political subdivisions of States, Territories and Possessions                         | 7,264,437                    | 73,805                       | (46,262 )  | (32,472 )   | 7,259,508                  | 35.2 %                |
| Corporate and other bonds   |                              |                              |  |   |                            |                       |
| Industrial and miscellaneous  | 9,649,052                    | 200,179                      | (113,932 )   | -   | 9,735,299                  | 47.1 %                |
| Total fixed-maturity securities   | 17,914,086                   | 308,652                      | (160,194 )   | (32,472 )   | 18,030,072                 | 87.3 %                |
| Equity Securities   | 2,485,876                    | 162,518                      | (26,585 )  | -   | 2,621,809                  | 12.7 %                |
| Total   | \$ 20,399,962                | \$ 471,170                   | \$ (186,779 )  | \$ (32,472 )  | \$ 20,651,881              | 100.0 %               |

## December 31, 2010

| Category | December 31, 2010            |                              |   |   |                            |                       |
|----------|------------------------------|------------------------------|---|---|----------------------------|-----------------------|
|          | Cost or<br>Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross Unrealized<br>Losses<br>Less than<br>12<br>Months | Gross Unrealized<br>Losses<br>More than<br>12<br>Months | Aggregate<br>Fair<br>Value | % of<br>Fair<br>Value |
|          |                              |                              |   |   |                            |                       |



|   |               |            |               |              |               |       |   |
|---|---------------|------------|---------------|--------------|---------------|-------|---|
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | \$ 1,000,572  | \$ 42,085  | \$ -          | \$ -         | \$ 1,042,657  | 5.4   | % |
| Political subdivisions of States, Territories and Possessions                         | 7,278,663     | 79,791     | (86,234 )     | (12,995 )    | 7,259,225     | 37.6  | % |
| Corporate and other bonds   |               |            |               |              |               |       |   |
| Industrial and miscellaneous  | 7,997,817     | 176,999    | (137,597 )    | -            | 8,037,219     | 41.6  | % |
| Total fixed-maturity securities   | 16,277,052    | 298,875    | (223,831 )    | (12,995 )    | 16,339,101    | 84.6  | % |
| Equity Securities   | 2,825,015     | 218,717    | (60,697 )     | -            | 2,983,035     | 15.4  | % |
| Total   | \$ 19,102,067 | \$ 517,592 | \$ (284,528 ) | \$ (12,995 ) | \$ 19,322,136 | 100.0 | % |

Held to Maturity Securities

| March 31, 2011           |                |                  |                         |                     |            |                 |
|--------------------------|----------------|------------------|-------------------------|---------------------|------------|-----------------|
| Category                 | Cost or        | Gross            | Gross Unrealized Losses |                     | Fair Value | % of Fair Value |
|                          | Amortized Cost | Unrealized Gains | Less than 12 Months     | More than 12 Months |            |                 |
| U.S. Treasury securities | \$606,222      | \$-              | \$(22,430)              | \$-                 | \$583,792  | 100.0 %         |

| December 31, 2010        |                |                  |                         |                     |            |                 |
|--------------------------|----------------|------------------|-------------------------|---------------------|------------|-----------------|
| Category                 | Cost or        | Gross            | Gross Unrealized Losses |                     | Fair Value | % of Fair Value |
|                          | Amortized Cost | Unrealized Gains | Less than 12 Months     | More than 12 Months |            |                 |
| U.S. Treasury securities | \$605,424      | \$974            | \$-                     | \$-                 | \$606,398  | 100.0 %         |

Credit Rating of Fixed-Maturity Securities

The table below summarizes the credit quality of our fixed-maturity securities available for sale as of March 31, 2011 and December 31, 2010 as rated by Standard and Poor's.

| Rating                   | March 31, 2011                |                                 | December 31, 2010 |                                 |
|--------------------------|-------------------------------|---------------------------------|-------------------|---------------------------------|
|                          | Fair Market Value (unaudited) | Percentage of Fair Market Value | Fair Market Value | Percentage of Fair Market Value |
| U.S. Treasury securities | \$ 1,035,265                  | 5.7 %                           | \$ 1,042,657      | 6.4 %                           |
| AAA                      | 4,233,318                     | 23.6 %                          | 4,229,483         | 25.9 %                          |
| AA                       | 3,847,658                     | 21.3 %                          | 3,698,610         | 22.6 %                          |
| A                        | 5,283,590                     | 29.3 %                          | 4,770,488         | 29.2 %                          |
| BBB                      | 3,630,241                     | 20.1 %                          | 2,597,863         | 15.9 %                          |
| Total                    | \$ 18,030,072                 | 100.0 %                         | \$ 16,339,101     | 100.0 %                         |

The table below summarizes the average duration by type of fixed-maturity security available for sale as well as detailing the average yield as of March 31, 2011 and December 31, 2010:



| Category  | March 31, 2011  |                                    | December 31, 2010 |                                    |
|---|-----------------|------------------------------------|-------------------|------------------------------------|
|   | Average Yield % | Weighted Average Duration in Years | Average Yield %   | Weighted Average Duration in Years |
|   | (unaudited)     |                                    |                   |                                    |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | 2.68 %          | 13.8                               | 3.27 %            | 14.1                               |
| Political subdivisions of States, Territories and Possessions                         | 4.24 %          | 6.7                                | 4.24 %            | 6.9                                |
| Corporate and other bonds   |                 |                                    |                   |                                    |
| Industrial and miscellaneous  | 5.10 %          | 7.4                                | 5.20 %            | 7.6                                |

#### Fair Value Consideration

As disclosed in Note 5 to the Condensed Consolidated Financial Statements, with respect to “Fair Value Measurements,” we define fair value under GAAP guidance as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (an “exit price”). This GAAP guidance establishes a fair value hierarchy that distinguishes between inputs based on market data from independent sources (“observable inputs”) and a reporting entity’s internal assumptions based upon the best information available when external market data is limited or unavailable (“unobservable inputs”). The fair value hierarchy in GAAP prioritizes fair value measurements into three levels based on the nature of the inputs. Quoted prices in active markets for identical assets have the highest priority (“Level 1”), followed by observable inputs other than quoted prices including prices for similar but not identical assets or liabilities (“Level 2”), and unobservable inputs, including the reporting entity’s estimates of the assumption that market participants would use, having the lowest priority (“Level 3”). As of March 31, 2011 and December 31, 2010, 100% of the investment portfolio recorded at fair value was priced based upon quoted market prices.

As more fully described in Note 3 to our Consolidated Financial Statements, “Investments—Impairment Review,” we completed a detailed review of all our securities in a continuous loss position as of March 31, 2011 and December 31, 2010, and concluded that the unrealized losses in these asset classes are the result of a decrease in value due to technical spread widening and broader market sentiment, rather than fundamental collateral deterioration, and are temporary in nature.

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 March 31, 2011 and December 31, 2010:



| Category   | March 31, 2011      |                      |                             | 12 months or more |                      |                             | Total                      |                      |
|--|---------------------|----------------------|-----------------------------|-------------------|----------------------|-----------------------------|----------------------------|----------------------|
|  | Less than 12 months |                      | No. of<br>Positions<br>Held | Fair<br>Value     | Unrealized<br>Losses | No. of<br>Positions<br>Held | Aggregate<br>Fair<br>Value | Unrealized<br>Losses |
|  | Fair<br>Value       | Unrealized<br>Losses |                             |                   |                      |                             |                            |                      |
| <b>Fixed-Maturity Securities:</b>                                      |                     |                      |                             |                   |                      |                             |                            |                      |
| Political subdivisions of<br>States, Territories<br>and<br>Possessions |                     |                      |                             |                   |                      |                             |                            |                      |
|  | \$1,638,318         | \$(46,262 )          | 7                           | \$1,338,826       | \$(32,472 )          | 4                           | \$2,977,144                | \$(78,734 )          |
| Corporate and<br>other<br>bonds industrial<br>and<br>miscellaneous     |                     |                      |                             |                   |                      |                             |                            |                      |
|  | 4,307,000           | (113,932 )           | 22                          | -                 | -                    | -                           | 4,307,000                  | (113,932 )           |
| Total<br>fixed-maturity<br>securities                                  |                     |                      |                             |                   |                      |                             |                            |                      |
|  | \$5,945,318         | \$(160,194 )         | 29                          | \$1,338,826       | \$(32,472 )          | 4                           | \$7,284,144                | \$(192,666 )         |
| <b>Equity Securities:</b>  |                     |                      |                             |                   |                      |                             |                            |                      |
| Preferred stocks   |                     |                      |                             |                   |                      |                             |                            |                      |
|  | \$316,000           | \$(4,223 )           | 8                           | \$-               | \$-                  | -                           | \$316,000                  | \$(4,223 )           |
| Common stocks  |                     |                      |                             |                   |                      |                             |                            |                      |
|  | 488,948             | (22,362 )            | 9                           | -                 | -                    | -                           | 488,948                    | (22,362 )            |
| Total equity<br>securities   |                     |                      |                             |                   |                      |                             |                            |                      |
|  | \$804,948           | \$(26,585 )          | 17                          | \$-               | \$-                  | -                           | \$804,948                  | \$(26,585 )          |
| Total  |                     |                      |                             |                   |                      |                             |                            |                      |
|  | \$6,750,266         | \$(186,779 )         | 46                          | \$1,338,826       | \$(32,472 )          | 4                           | \$8,089,092                | \$(219,251 )         |

| Category  | December 31, 2010   |                      |                             |                   |                      |                             | Total                      |                      |
|---|---------------------|----------------------|-----------------------------|-------------------|----------------------|-----------------------------|----------------------------|----------------------|
|   | Less than 12 months |                      | No. of<br>Positions<br>Held | 12 months or more |                      | No. of<br>Positions<br>Held | Aggregate<br>Fair<br>Value | Unrealized<br>Losses |
|   | Fair<br>Value       | Unrealized<br>Losses |                             | Fair<br>Value     | Unrealized<br>Losses |                             |                            |                      |
| <b>Fixed-Maturity Securities:</b>                             |                     |                      |                             |                   |                      |                             |                            |                      |
| Political subdivisions of States, Territories and Possessions |                     |                      |                             |                   |                      |                             |                            |                      |
|   | \$2,870,728         | \$(86,234 )          | 11                          | \$1,119,244       | \$(12,995 )          | 4                           | \$3,989,972                | \$(99,229 )          |
| Corporate and other bonds industrial and miscellaneous        |                     |                      |                             |                   |                      |                             |                            |                      |
|   | 4,113,912           | (137,597 )           | 20                          | -                 | -                    | -                           | 4,113,912                  | (137,597 )           |
| <b>Total fixed-maturity securities</b>                        |                     |                      |                             |                   |                      |                             |                            |                      |
|   | \$6,984,640         | \$(223,831 )         | 31                          | \$1,119,244       | \$(12,995 )          | 4                           | \$8,103,884                | \$(236,826 )         |
| <b>Equity Securities:</b>                                     |                     |                      |                             |                   |                      |                             |                            |                      |
| Preferred stocks  |                     |                      |                             |                   |                      |                             |                            |                      |
|   | \$363,670           | \$(6,333 )           | 9                           | \$-               | \$-                  | -                           | \$363,670                  | \$(6,333 )           |
| Common stocks   |                     |                      |                             |                   |                      |                             |                            |                      |
|   | 690,634             | (54,364 )            | 16                          | -                 | -                    | -                           | 690,634                    | (54,364 )            |
| <b>Total equity securities</b>                                |                     |                      |                             |                   |                      |                             |                            |                      |
|   | \$1,054,304         | \$(60,697 )          | 25                          | \$-               | \$-                  | -                           | \$1,054,304                | \$(60,697 )          |
| <b>Total</b>  |                     |                      |                             |                   |                      |                             |                            |                      |
|   | \$8,038,944         | \$(284,528 )         | 56                          | \$1,119,244       | \$(12,995 )          | 4                           | \$9,158,188                | \$(297,523 )         |

There are 50 securities at March 31, 2011 that account for the gross unrealized loss, none of which is deemed by us to be other than temporarily impaired. There were 60 securities at December 31, 2010 that account for the gross unrealized loss, none of which were deemed by us to be other than temporarily impaired. Significant factors influencing our determination that unrealized losses were temporary included the magnitude of the unrealized losses in relation to each security's cost, the nature of the investment and management's intent not to sell these securities and it being not more likely than not that we will be required to sell these investments before anticipated recovery of fair value to our cost basis.

## Liquidity and Capital Resources

### Cash Flows

The primary sources of cash flow is from our insurance underwriting subsidiary, KICO, which are gross premiums written, ceding commissions from our quota share reinsurers, loss payments by 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.

On July 1, 2009, we 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, we acquired a 100% equity interest in KICO. In connection with the plan of conversion of CMIC, we have agreed with the Insurance Department that for a period of two years following the effective date of conversion of July 1, 2009, no dividend may be paid by KICO to us without the approval of the Insurance Department. As of March 31, 2011, no such request has been made by us to the Insurance Department. We have also agreed with the Insurance Department that certain intercompany transactions between KICO and us must be filed with the Insurance Department 30 days prior to implementation and not disapproved by the Insurance Department.

The primary sources of cash flow for our holding company operations are in connection with the fee income we receive from the premium finance loans and collection of principal and interest income from the notes received by us upon the sale of businesses that were included in our discontinued operations. If the aforementioned is insufficient to cover our holding company cash requirements, we will seek to obtain additional financing.

Notes payable with an outstanding principal balance of \$1,450,000 bear interest at the rate of 12.625% and mature on July 10, 2011. Certain of the noteholders have expressed the desire to amend and extend the notes at maturity, many having invested on these same terms with similar notes beginning in 2003. As of March 31, 2011 the related party holders represent \$785,000 or 54% of the principal amount. Prior to the scheduled maturity date, our Board of Directors will consider our options, as they have repeatedly done since the original issuance of \$3,500,000 of similar notes in 2003. We will attempt to reduce the outstanding principal balance and will offer to extend the due date of the remaining principal for an added period of time, which we anticipate to be from three to five years. Consideration will also be given to a significant reduction in the interest rate reflecting our current financial condition as compared to our financial condition when the notes were issued in 2009.



We believe that our present cash flows as described above will be sufficient on a short-term basis and over the next 12 months to fund our company-wide working capital requirements.

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

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

| Three Months Ended March 31,                   | 2011         | 2010         |
|--|--------------|--------------|
| Cash flows provided by (used in):              |              |              |
| Operating activities                           | \$ 1,246,298 | \$ (252,702) |
| Investing activities                           | (1,172,432)  | (6,067 )     |
| Financing activities                           | (6,518 )     | 394,048      |
| Net increase in cash and cash equivalents      | 67,348       | 135,279      |
| Cash and cash equivalents, beginning of period | 326,620      | 625,320      |
| Cash and cash equivalents, end of period       | \$ 393,968   | \$ 760,599   |

The increase in cash flows provided by operating activities in 2011 was primarily a result of the fluctuations in the operating activities of KICO, described above, as affected by the growth in its operations.

The increase in cash flows used in investing activities is a result of the increase in net investments of fixed-maturity securities and equity securities, resulting from positive cash flow for operations.

Net cash provided by financing activities decreased as a result of the \$400,000 decrease in proceeds from long term debt that was received in 2010.

#### 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.

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

Not applicable

#### Item 4. Controls and Procedures.

##### Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) that are designed to assure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.



As required by Exchange Act Rule 13a-15(b), as of the end of the period covered by this Quarterly Report, under the supervision and with the participation of our principal executive officer and principal 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 March 31, 2011.

#### Changes in Internal Control over Financial Reporting

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

None

Item 1A. Risk Factors.

Not applicable

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

None

Item 3. Defaults Upon Senior Securities.

None

Item 4. Reserved.

Item 5. Other Information.

None

Item 6. Exhibits.

2(a) Asset Purchase Agreement, dated as of March 27, 2009, by and among NII BSA LLC, Barry Scott Agency, Inc., DCAP Accurate, Inc. and DCAP Group, Inc.1

2(b) Stock Purchase Agreement, dated as of May 1, 2009, by and between Stuart Greenvald and Abraham Weinzimer and DCAP Group, Inc.2

2(c) Stock Purchase Agreement, dated as of June 30, 2009, between Barry Lefkowitz and Blast Acquisition Corp.3

3(a) Restated Certificate of Incorporation4

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1 Denotes document filed as an exhibit to our Annual Report on Form 10-K for the year ended December 31, 2008 and incorporated herein by reference.

2 Denotes document filed as an exhibit to our Current Report on Form 8-K for an event dated May 6, 2009 and incorporated herein by reference.

3 Denotes document filed as an exhibit to our Current Report on Form 8-K for an event dated June 30, 2009 and incorporated herein by reference.

4 Denotes document filed as an exhibit to our Quarterly Report on Form 10-QSB for the period ended September 30, 2004 and incorporated herein by reference.

3(b)Certificate of Amendment of Certificate of Incorporation filed July 1, 20095

3(c)Certificate of Designation of Series A Preferred Stock6

3(d)Certificate of Designation of Series B Preferred Stock7

3(e)Certificate of Designation of Series C Preferred Stock8

3(f)Certificate of Designation of Series D Preferred Stock9

3(g)Certificate of Designation of Series E Preferred Stock10

3(h)By-laws, as amended11

10Amendment No. 3, dated as of February 28, 2011, to Employment Contract between Kingstone Insurance Company and John D. Reiersen12

31(a)Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31(b)Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

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

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5 Denotes document filed as an exhibit to our Quarterly Report on Form 10-Q for the period ended June 30, 2009 and incorporated herein by reference.

6 Denotes document filed as an exhibit to our Current Report on Form 8-K for an event dated May 28, 2003 and incorporated herein by reference.

7 Denotes document filed as an exhibit to our Annual Report on Form 10-KSB for the year ended December 31, 2006 and incorporated herein by reference.

8 Denotes document filed as an exhibit to our Quarterly Report on Form 10-QSB for the period ended March 31, 2008 and incorporated herein by reference.

9 Denotes document filed as an exhibit to our Quarterly Report on Form 10-Q for the period ended September 30, 2008 and incorporated herein by reference.

10 Denotes document filed as an exhibit to our Current Report on Form 8-K for an event dated May 12, 2009 and incorporated herein by reference.

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

12 Denotes document filed as an exhibit to our Current Report on Form 8-K for an event dated February 28, 2011 and incorporated herein by reference.

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

KINGSTONE COMPANIES, INC.

Dated: May 20, 2011

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

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