KINGSTONE COMPANIES, INC.
Form 10-Q
November 14, 2012

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

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2012

OR

o 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	36-2476480
(State or other jurisdiction of incorporation or organization)	(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)

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 þ No o

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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

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 the definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company þ

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

As of November 14, 2012, there were 3,842,869 shares of the registrant's common stock outstanding.

KINGSTONE COMPANIES, INC.

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Forward-Looking Statements

This Quarterly Report contains forward-looking statements as that term is defined in the federal securities laws. The events described in forward-looking statements contained in this Quarterly Report may not occur. Generally these statements relate to business plans or strategies, projected or anticipated benefits or other consequences of our plans or strategies, projected or anticipated benefits from acquisitions to be made by us, or projections involving anticipated revenues, earnings or other aspects of our operating results. The words "may," "will," "expect," "believe," "anticipate," "project," "plan," "intend," "estimate," and "continue," and their opposites and similar expressions are intended to identify forward-looking statements. We caution you that these statements are not guarantees of future performance or events and are subject to a number of uncertainties, risks and other influences, many of which are beyond our control, that may influence the accuracy of the statements and the projections upon which the statements are based. Factors which may affect our results include, but are not limited to, the risks and uncertainties discussed in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2011 under “Factors That May Affect Future Results and Financial Condition”.

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

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

	September 30, 2012 (unaudited)	December 31, 2011
Assets		
Fixed-maturity securities, held to maturity, at amortized cost (fair value of $792,101 at September 30, 2012 and $777,953 at December 31, 2011)	$606,273	$606,234
Fixed-maturity securities, available for sale, at fair value (amortized cost of $21,780,082 at September 30, 2012 and $22,215,191 at December 31, 2011)	23,102,130	22,568,932
Equity securities, available-for-sale, at fair value (cost of $4,716,098 at September 30, 2012 and $3,857,741 at December 31, 2011)	5,230,893	4,065,210
Total investments	28,939,296	27,240,376
Cash and cash equivalents	2,447,849	173,126
Premiums receivable, net of provision for uncollectible amounts	6,854,026	5,779,085
Receivables - reinsurance contracts	2,668,123	1,734,535
Reinsurance receivables, net of provision for uncollectible amounts	28,047,484	23,880,814
Notes receivable-sale of business	331,207	393,511
Deferred acquisition costs	5,397,647	4,535,773
Intangible assets, net	3,303,886	3,660,672
Property and equipment, net of accumulated depreciation	1,640,464	1,646,341
Other assets	895,269	660,672
Total assets	$80,525,251	$69,704,905
Liabilities		
Loss and loss adjustment expenses	$22,283,145	$18,480,717
Unearned premiums	25,309,496	21,283,160
Advance premiums	497,273	544,791
Reinsurance balances payable	3,164,848	2,761,828
Deferred ceding commission revenue	4,662,272	3,982,399
Notes payable (includes payable to related parties of $378,000 at September 30, 2012 and December 31, 2011)	1,097,000	1,047,000
Accounts payable, accrued expenses and other liabilities	3,404,982	4,505,016
Deferred income taxes	2,011,122	1,789,439
Total liabilities	62,430,138	54,394,350
Commitments and Contingencies		
Stockholders' Equity		
Common stock, $.01 par value; authorized 10,000,000 shares; issued 4,715,829 shares at September 30, 2012 and 4,643,122 shares at December 31, 2011;		

outstanding 3,828,391 shares at September 30, 2012 and 3,759,900 shares at December 31, 2011	47,159	46,432
Preferred stock, $.01 par value; authorized 1,000,000 shares; -0- shares issued and outstanding	-	-
Capital in excess of par	13,839,741	13,739,792
Accumulated other comprehensive income	1,212,316	370,399
Retained earnings	4,414,024	2,554,349
	19,513,240	16,710,972
Treasury stock, at cost, 887,438 shares at September 30, 2012 and 883,222 shares at December 31, 2011	(1,418,127)	(1,400,417)
Total stockholders' equity	18,095,113	15,310,555
Total liabilities and stockholders' equity	$80,525,251	$69,704,905

See accompanying notes to condensed consolidated financial statements.

KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues				
Net premiums earned	$5,281,701	$3,937,189	$13,418,808	$10,822,137
Ceding commission revenue	2,711,431	2,307,390	8,525,945	7,347,832
Net investment income	242,159	172,039	739,555	510,173
Net realized gain on investments	65,986	196,574	111,546	357,006
Other income	218,723	228,615	680,469	693,188
Total revenues	8,520,000	6,841,807	23,476,323	19,730,336
Expenses				
Loss and loss adjustment expenses	2,691,402	2,933,531	7,378,421	7,307,925
Commission expense	1,952,583	1,596,281	5,430,000	4,472,924
Other underwriting expenses	2,134,106	1,734,137	5,986,428	5,045,051
Other operating expenses	255,628	260,149	829,957	863,114
Depreciation and amortization	150,351	144,122	447,372	457,264
Interest expense	19,781	23,577	60,677	108,249
Total expenses	7,203,851	6,691,797	20,132,855	18,254,527
Income from operations before taxes	1,316,149	150,010	3,343,468	1,475,809
Income tax expense (benefit)	402,162	(69,559)	1,103,747	355,685
Net income	913,987	219,569	2,239,721	1,120,124
Gross unrealized investment holding gains arising during period	533,877	(166,793)	1,275,632	166,513
Income tax (expense) benefit related to items of other comprehensive income	(181,518)	56,710	(433,715)	(56,614)
Comprehensive income	$1,266,346	$109,486	$3,081,638	$1,230,023
Earnings per common share:				
Basic	$0.24	$0.06	$0.59	$0.29
Diluted	$0.23	$0.06	$0.59	$0.29
Weighted average common shares outstanding				
Basic	3,824,461	3,838,386	3,794,979	3,838,386
Diluted	3,936,167	3,913,036	3,884,172	3,838,386
Dividends declared and paid per common share	$0.04	$0.03	$0.10	$0.03

See accompanying notes to condensed consolidated financial statements.

KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

Consolidated Statement of Stockholders' Equity
Nine months ended September 30, 2012 (unaudited)

	Common Stock		Preferred Stock		Capital	Accumulated Other		Treasury Stock		
	Shares	Amount	Shares	Amount	in Excess of Par	Comprehensive Income	Retained Earnings	Shares	Amount	Total
Balance, December 31, 2011	4,643,122	46,432	-	-	13,739,792	370,399	2,554,349	883,222	(1,400,417)	15,310,555
Stock-based compensation	-	-	-	-	39,125	-	-	-	-	39,125
Exercise of stock options	90,985	910	-	-	46,164	-	-	-	-	47,074
Shares deducted from exercise of stock options for payment of withholding taxes	(18,278)	(183)	-	-	(103,410)	-	-	-	-	(103,593
Tax benefit from exercise of stock options	-	-	-	-	118,070	-	-	-	-	118,070
Acquisition of treasury stock	-	-	-	-	-	-	-	4,216	(17,710)	(17,710
Dividends	-	-	-	-	-	-	(380,046)	-	-	(380,046
Net income	-	-	-	-	-	-	2,239,721	-	-	2,239,721
Change in unrealized gains on available for sale securities, net of tax	-	-	-	-	-	841,917	-	-	-	841,917
Balance, September 30, 2012	4,715,829	$47,159	-	$-	$13,839,741	$1,212,316	$4,414,024	887,438	$(1,418,127)	$18,095,113

See accompanying notes to condensed consolidated financial statements.

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KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows
(Unaudited)

Nine months ended September 30,		2012		2011
Cash flows provided by operating activities:				
Net income	$	2,239,721	$	1,120,124
Adjustments to reconcile net income to net cash provided by operations:				
Gain on sale of investments		(111,545)		(357,006)
Depreciation and amortization		447,372		457,264
Amortization of bond premium, net		88,127		162,990
Stock-based compensation		39,125		85,571
Deferred income tax expense		(212,032)		(402,447)
(Increase) decrease in assets:				
Premiums receivable, net		(1,074,941)		(1,036,447)
Receivables - reinsurance contracts		(933,588)		489,413
Reinsurance receivables, net		(4,166,670)		(4,923,362)
Deferred acquisition costs		(861,874)		(796,055)
Other assets		(264,712)		860,804
Increase (decrease) in liabilities:				
Loss and loss adjustment expenses		3,802,428		3,661,655
Unearned premiums		4,026,336		3,824,216
Advance premiums		(47,518)		226,783
Reinsurance balances payable		403,020		1,815,918
Deferred ceding commission revenue		679,873		638,307
Accounts payable, accrued expenses and other liabilities		(1,100,034)		(37,087)
Net cash flows provided by operating activities		2,953,088		5,790,641
Cash flows used in investing activities:				
Purchase - fixed-maturity securities available for sale		(2,264,507)		(4,372,917)
Purchase - equity securities		(1,873,253)		(2,570,333)
Sale or maturity - fixed-maturity securities available for sale		2,766,758		3,034,295
Sale - equity securities		1,001,247		1,362,700
Recovery of loss from failed bank		-		133,211
Collections of notes receivable and accrued interest - sale of businesses		62,304		304,602
Other investing activities		(84,709)		(148,601)
Net cash flows used in investing activities		(392,160)		(2,257,043)
Cash flows used in financing activities:				
Proceeds from line of credit		465,000		-
Principal payments on line of credit		(415,000)		-
Principal payments on long-term debt (includes $407,000 to related parties)		-		(713,997)

Proceeds from exercise of stock options		47,074			-	
Withholding taxes paid on cashless exercise of stock options		(103,593	)		-	
Tax benefit from exercise of stock options		118,070			-	
Purchase of treasury stock		(17,710	)		-	
Dividends paid		(380,046	)		(115,153	)
Net cash flows used in financing activities		(286,205	)		(829,150	)
Increase in cash and cash equivalents	$	2,274,723		$	2,704,448	
Cash and cash equivalents, beginning of period		173,126			326,620	
Cash and cash equivalents, end of period	$	2,447,849		$	3,031,068	
Supplemental disclosures of cash flow information:						
Cash paid for income taxes	$	1,853,000		$	458,871	
Cash paid for interest	$	78,122		$	172,964	

See accompanying notes to condensed consolidated financial statements.

KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 - Basis of Presentation and Nature of Business

Kingstone Companies, Inc. (referred to herein as "Kingstone" or the “Company”), through its subsidiary, Kingstone Insurance Company (“KICO”), underwrites property and casualty insurance to small businesses and individuals exclusively through independent agents and brokers. KICO is a licensed insurance company in the State of New York. In February 2011, KICO’s application for an insurance license to write insurance in the Commonwealth of Pennsylvania was approved; however, KICO has only nominally commenced writing business in Pennsylvania. Kingstone, through its subsidiary, Payments, Inc., a licensed premium finance company in the State of New York, receives fees for placing contracts with a third party licensed premium finance company.

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, 2011 and notes thereto included in the Company’s Annual Report on Form 10-K filed on March 30, 2012. 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 nine months ended September 30, 2012 may not be indicative of the results that may be expected for the year ending December 31, 2012.

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. Such estimates and assumptions, which include the reserves for losses and loss adjustment expenses, are subject to considerable estimation error due to the inherent uncertainty in projecting ultimate claim amounts that will be reported and settled over a period of several years. In addition, estimates and assumptions associated with receivables under reinsurance contracts related to contingent ceding commission revenue require considerable judgment by management. On an on-going basis, management reevaluates its assumptions and the methods of calculating its estimates. Actual results may differ significantly from the estimates and assumptions used in preparing the consolidated financial statements.

Principles of Consolidation

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

Accounting Pronouncements

In July 2012, the Financial Accounting Standards Board (the “FASB”) issued ASU 2012-02, Intangibles—Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment, to simplify the guidance for testing the decline in the realizable value (impairment) of indefinite-lived intangible assets other than goodwill. Under this update, an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of an intangible asset is less than its carrying amount. If such a determination is not reached, then performance of further impairment testing is not necessary. The new guidance is effective for annual and interim goodwill tests performed for fiscal years beginning after September 15, 2012. However, early adoption is permitted. The adoption of ASU 2012-02 is not expected to have a material effect on the Company’s consolidated financial condition or results of operations.

In June 2011 (and as amended in December 2011), the FASB issued ASU No. 2011-05, “Presentation of Comprehensive Income” (“ASU 2011-05”). ASU 2011-05 provides amendments to ASC No. 220 “Comprehensive Income”, which require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendments in this update are effective retrospectively for fiscal years and interim periods within those years, beginning after December 15, 2011, with early adoption permitted. The Company adopted this guidance effective January 1, 2012.

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

Note 3 - Investments

Available for Sale Securities

The amortized cost and fair value of investments in available for sale fixed-maturity securities and equities as of September 30, 2012 and December 31, 2011 are summarized as follows:

Category	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses Less than 12 Months	More than 12 Months	Fair Value	Net Unrealized Gains/ (Losses)
	September 30, 2012 (unaudited)					
Fixed-Maturity Securities:						
Political subdivisions of States, Territories and Possessions	$5,568,774	$290,672	$-	$(40,055)	$5,819,391	$250,617
Corporate and other bonds						
Industrial and miscellaneous	16,211,308	1,085,116	(5,348)	(8,337)	17,282,739	1,071,431
Total fixed-maturity securities	21,780,082	1,375,788	(5,348)	(48,392)	23,102,130	1,322,048
Equity Securities:						
Preferred stocks	1,453,688	44,552	(8,977)	-	1,489,263	35,575
Common stocks	3,262,410	505,609	(26,389)	-	3,741,630	479,220
Total equity securities	4,716,098	550,161	(35,366)	-	5,230,893	514,795
Total	$26,496,180	$1,925,949	$(40,714)	$(48,392)	$28,333,023	$1,836,843

Category	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses Less than 12 Months	More than 12 Months	Fair Value	Net Unrealized Gains/ (Losses)
	December 31, 2011					
Fixed-Maturity Securities:						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 499,832	$ 50,356	$ -	$ -	$ 550,188	$ 50,356
Political subdivisions of States, Territories and Possessions	5,868,743	301,559	-	-	6,170,302	301,559
Corporate and other bonds						
Industrial and miscellaneous	15,846,616	338,284	(228,792)	(107,666)	15,848,442	1,826

Total fixed-maturity securities	22,215,191	690,199	(228,792)	(107,666)	22,568,932	353,741
Equity Securities:						
Preferred stocks	1,428,435	36,762	(76,969)	(4,893)	1,383,335	(45,100)
Common stocks	2,429,306	274,538	(21,969)	-	2,681,875	252,569
Total equity securities	3,857,741	311,300	(98,938)	(4,893)	4,065,210	207,469
Total	$ 26,072,932	$ 1,001,499	$ (327,730)	$ (112,559)	$ 26,634,142	$ 561,210

A summary of the amortized cost and fair value of the Company's investments in available for sale fixed-maturity securities by contractual maturity as of September 30, 2012 and December 31, 2011 is shown below:

	September 30, 2012		December 31, 2011	
Remaining Time to Maturity	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(unaudited)			
Less than one year	$ 1,212,342	$ 1,179,180	$ 1,063,493	$ 1,079,924
One to five years	7,523,680	7,967,410	6,899,892	7,045,774
Five to ten years	11,909,521	12,760,814	12,547,046	12,680,441
More than 10 years	1,134,539	1,194,726	1,704,760	1,762,793
Total	$ 21,780,082	$ 23,102,130	$ 22,215,191	$ 22,568,932

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 September 30, 2012 and December 31, 2011 are summarized as follows:

	September 30, 2012					
	Cost or	Gross	Gross Unrealized Losses			Net Unrealized
Category	Amortized Cost	Unrealized Gains	Less than 12 Months	More than 12 Months	Fair Value	Gains/ (Losses)
			(unaudited)			
U.S. Treasury securities	$606,273	$185,828	$-	$-	$792,101	$185,828

	December 31, 2011					
	Cost or	Gross	Gross Unrealized Losses			Net Unrealized
Category	Amortized Cost	Unrealized Gains	Less than 12 Months	More than 12 Months	Fair Value	Gains/ (Losses)
U.S. Treasury securities	$606,234	$171,719	$-	$-	$777,953	$171,719

All held to maturity securities are held in trust pursuant to the New York State Department of Financial Services' 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 September 30, 2012	2011	Nine months ended September 30, 2012	2011
	(unaudited)		(unaudited)	
Income:				
Fixed-maturity securities	$ 249,315	$ 170,083	$ 710,585	$ 526,583
Equity securities	49,279	44,089	197,518	114,387
Cash and cash equivalents	25	2,552	84	4,775
Other	2	8	6	(3,307)
Total	298,621	216,732	908,193	642,438
Expenses:				
Investment expenses	56,462	44,693	168,638	132,265
Net investment income	$ 242,159	$ 172,039	$ 739,555	$ 510,173

Proceeds from the sale and maturity of fixed-maturity securities were $2,766,758 and $3,034,295 for the nine months ended September 30, 2012 and 2011, respectively.

Proceeds from the sale of equity securities were $1,001,247 and $1,362,700 for the nine months ended September 30, 2012 and 2011, respectively.

The Company’s net realized gains and losses on investments are summarized as follows:

	Three months ended September 30, 2012	2011	Nine months ended September 30, 2012	2011
	(unaudited)		(unaudited)	
Fixed-maturity securities:				
Gross realized gains	$60,349	$51,805	$153,695	$139,107
Gross realized losses	-	-	(52,600)	(1,983)
	60,349	51,805	101,095	137,124
Equity securities:				
Gross realized gains	7,735	11,558	40,019	147,375
Gross realized losses	(2,098)	-	(29,568)	(60,704)
	5,637	11,558	10,451	86,671
Cash and short term investments (1)	-	133,211	-	133,211
Net realized gains	$65,986	$196,574	$111,546	$357,006

(1) Realized gain on cash and short term investments is a partial recovery from the FDIC of an amount previously written off in 2009 due to the failure of Waterfield Bank.

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 investment ("OTTI") declines 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 13 securities at September 30, 2012 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 nine months ended September 30, 2012 and 2011. 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 September 30, 2012 and December 31, 2011 as follows:

	September 30, 2012							
	Less than 12 months			12 months or more			Total	
Category	Fair Value	Unrealized Losses	No. of Positions Held	Fair Value	Unrealized Losses	No. of Positions Held	Aggregate Fair Value	Unrealized Losses
				(unaudited)				
Fixed-Maturity Securities:								
Political subdivisions of States, Territories and Possessions	$-	$ -	-	$764,668	$ (40,055)	2	$764,668	$ (40,055)
Corporate and other bonds industrial and miscellaneous	877,005	(5,348)	3	370,758	(8,337)	2	1,247,763	(13,685)
Total fixed-maturity securities	$877,005	$ (5,348)	3	$1,135,426	$ (48,392)	4	$2,012,431	$ (53,740)
Equity Securities:								
Preferred stocks	$386,950	$ (8,977)	3	$-	$ -	-	$386,950	$ (8,977)
Common stocks	439,205	(26,389)	3	-	-	-	439,205	(26,389)
Total equity securities	$826,155	$ (35,366)	6	$-	$ -	-	$826,155	$ (35,366)

Total	$1,703,160	$ (40,714)	9	$1,135,426	$ (48,392)	4	$2,838,586	$ (89,106)

	December 31, 2011							
	Less than 12 months			12 months or more			Total	
Category	Fair Value	Unrealized Losses	No. of Positions Held	Fair Value	Unrealized Losses	No. of Positions Held	Aggregate Fair Value	Unrealized Losses
Fixed-Maturity Securities:								
Corporate and other bonds industrial and miscellaneous	$4,849,378	$(228,792)	26	$1,483,425	$(107,666)	7	$6,332,803	$(336,458)
Total fixed-maturity securities	$4,849,378	$(228,792)	26	$1,483,425	$(107,666)	7	$6,332,803	$(336,458)
Equity Securities:								
Preferred stocks	$368,350	$(76,969)	12	$189,364	$(4,893)	5	$557,714	$(81,862)
Common stocks	397,268	(21,969)	14	-	-	-	397,268	(21,969)
Total equity securities	$765,618	$(98,938)	26	$189,364	$(4,893)	5	$954,982	$(103,831)
Total	$5,614,996	$(327,730)	52	$1,672,789	$(112,559)	12	$7,287,785	$(440,289)

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 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.

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 September 30, 2012 and December 31, 2011 as follows:

	September 30, 2012 (unaudited)			
($ in thousands)	Level 1	Level 2	Level 3	Total
Fixed-maturity investments available for sale				
Political subdivisions of States, Territories and Possessions	-	5,819	-	5,819

Corporate and other bonds industrial and miscellaneous		8,334		8,949		-		17,283
Total fixed maturities		8,334		14,768		-		23,102
Equity investments		5,231		-		-		5,231
Total investments	$	13,565	$	14,768	$	-	$	28,333

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($ in thousands)	December 31, 2011 Level 1	Level 2	Level 3	Total
Fixed-maturity investments available for sale				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 550	$ -	$ -	$ 550
Political subdivisions of States, Territories and Possessions	-	6,171	-	6,171
Corporate and other bonds industrial and miscellaneous	8,465	7,383	-	15,848
Total fixed maturities	9,015	13,554	-	22,569
Equity investments	4,065	-	-	4,065
Total investments	$ 13,080	$ 13,554	$ -	$ 26,634

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 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 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:

	September 30, 2012		December 31, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(unaudited)			
Fixed-maturity investments held to maturity	$606,273	$792,101	$606,234	$777,953
Cash and cash equivalents	2,447,849	2,447,849	173,126	173,126
Premiums receivable	6,854,026	6,854,026	5,779,085	5,779,085
Receivables - reinsurance contracts	2,668,123	2,668,123	1,734,535	1,734,535
Reinsurance receivables	28,047,484	28,047,484	23,880,814	23,880,814
Notes receivable-sale of business	331,207	331,207	393,511	393,511
Real estate, net of accumulated depreciation	1,446,196	1,510,000	1,477,639	1,510,000
Reinsurance balances payable	3,164,848	3,164,848	2,761,828	2,761,828
Notes payable (including related parties)	1,097,000	1,097,000	1,047,000	1,047,000

Note 6 - Notes Receivable-Sale of Businesses

Pennsylvania Stores

Effective June 30, 2009, the Company sold all of the outstanding stock of the subsidiary that operated the three remaining Pennsylvania stores included in the former network of retail brokerage outlets (the "Pennsylvania Stock"). The purchase price for the Pennsylvania Stock was approximately $397,000 which is being paid for by the payment of a promissory note with interest at the rate of 8.63% per annum and is payable in equal monthly installments of $5,015.

Franchise Business

Effective May 1, 2009, the Company sold all of the outstanding stock of the subsidiaries that operated the Company's former 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"). The Franchise Note was paid in full during the quarter ended June 30, 2012.

Notes receivable arising from the sale of businesses as of September 30, 2012 and December 31, 2011 consists of:

	September 30, 2012			December 31, 2011		
	Total Note	Current Maturities	Long-Term	Total Note	Current Maturities	Long-Term
		(unaudited)				
Sale of Pennsylvania stores	$ 328,842	$ 33,094	$ 295,748	$ 351,861	$ 31,028	$ 320,833
Sale of Franchise business	-	-	-	37,797	37,797	-
	328,842	33,094	295,748	389,658	68,825	320,833
Accrued interest	2,365	2,365	-	3,853	3,853	-
Total	$ 331,207	$ 35,459	$ 295,748	$ 393,511	$ 72,678	$ 320,833

Note 7 – Property and Casualty Insurance Activity

Earned Premiums

Premiums written, ceded and earned are as follows:

	Direct	Assumed	Ceded	Net
Nine months ended September 30, 2012 (unaudited)				
Premiums written	$36,439,884	$21,553	$(21,699,102)	$14,762,335
Change in unearned premiums	(4,017,217)	(9,119)	2,682,809	(1,343,527)
Premiums earned	$32,422,667	$12,434	$(19,016,293)	$13,418,808
Nine months ended September 30, 2011 (unaudited)				
Premiums written	$30,502,800	$6,289	$(18,099,446)	$12,409,643
Change in unearned premiums	(3,823,593)	1,611	2,234,476	(1,587,506)
Premiums earned	$26,679,207	$7,900	$(15,864,970)	$10,822,137
Three months ended September 30, 2012 (unaudited)				
Premiums written	$12,765,358	$18,354	$(7,218,500)	$5,565,212
Change in unearned premiums	(1,363,818)	(13,031)	1,093,338	(283,511)
Premiums earned	$11,401,540	$5,323	$(6,125,162)	$5,281,701
Three months ended September 30, 2011 (unaudited)				
Premiums written	$10,382,641	$3,409	$(6,119,576)	$4,266,474
Change in unearned premiums	(909,125)	(41)	579,881	(329,285)
Premiums earned	$9,473,516	$3,368	$(5,539,695)	$3,937,189

Premium receipts in advance of the policy effective date are recorded as advance premiums. The balance of advance premiums was approximately $497,000 and $545,000 as of September 30, 2012 (unaudited) and December 31, 2011, 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"):

	Nine months ended September 30,	
	2012	2011
	(unaudited)	
Balance at beginning of period	$ 18,480,717	$ 17,711,907
Less reinsurance recoverables	(10,001,060)	(10,431,415)
Net balance, beginning of period	8,479,657	7,280,492
Incurred related to:		
Current year	6,554,087	6,742,201
Prior years	824,334	565,724
Total incurred	7,378,421	7,307,925
Paid related to:		
Current year	2,572,948	2,414,171
Prior years	2,681,698	2,608,709
Total paid	5,254,646	5,022,880
Net balance at end of period	10,603,432	9,565,537
Add reinsurance recoverables	11,679,713	11,808,025
Balance at end of period	$ 22,283,145	$ 21,373,562

Incurred losses and LAE are net of reinsurance recoveries under reinsurance contracts of $6,917,332 and $7,035,191 for the nine months ended September 30, 2012 and 2011, respectively.

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 (See Note 13 - Subsequent events).

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, 2012. The treaties, which are renewed annually, provide for the following material terms as of July 1, 2012:

Personal Lines

Personal Lines business, which includes homeowners, dwelling fire and canine legal liability insurance, is reinsured under a 75% quota share treaty which provides coverage with respect to losses of up to $1,000,000 per occurrence. An excess of loss contract provides 100% of coverage for the next $1,900,000 of losses for a total coverage with respect to losses of up to $2,900,000 per occurrence. See "Catastrophe Reinsurance" below.

Personal umbrella policies are reinsured under a 90% quota share treaty limiting the Company to a maximum of $100,000 per occurrence for the first $1,000,000 of coverage. The second $1,000,000 of coverage is 100% reinsured.

Commercial Lines

General liability commercial policies written by the Company, except for commercial auto policies, are reinsured under a 40% quota share treaty, which provides coverage with respect to losses of up to $500,000 per occurrence. Excess of loss contracts provide 100% of coverage for the next $2,400,000 of losses for a total coverage with respect to losses of up to $2,900,000 per occurrence.

Commercial Auto

Commercial auto policies are covered by an excess of loss reinsurance contract which provides $1,750,000 of coverage in excess of $250,000.

Catastrophe Reinsurance

The Company has catastrophe reinsurance coverage with regard to losses of up to $73,000,000. The initial $3,000,000 of losses in a catastrophe are subject to a 75% quota share treaty, such that the Company retains $750,000 per catastrophe occurrence With respect to any additional catastrophe losses of up to $70,000,000, the Company is 100% reinsured under its catastrophe reinsurance program.

The Company's reinsurance program is structured to enable 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 reinsurance program also provides income as a result of ceding commissions earned pursuant to the quota share reinsurance contracts. The Company's participation in reinsurance arrangements does not relieve the Company from its obligations to policyholders.

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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 increases when the estimated ultimate loss ratio decreases and, conversely, the commission rate and ceding commissions earned decreases when the estimated ultimate loss ratio increases.

As of September 30, 2012 and 2011, 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 provisional commissions (see Note 13 - Subsequent Events).

Ceding commission revenue consists of the following:

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
	(unaudited)		(unaudited)	
Provisional ceding commissions earned	$ 2,171,391	$ 1,763,930	$ 6,231,106	$ 5,048,609
Contingent ceding commissions earned	540,040	543,460	2,294,839	2,299,223
	$ 2,711,431	$ 2,307,390	$ 8,525,945	$ 7,347,832

Provisional ceding commissions are settled monthly. Balances due from reinsurers for contingent ceding commissions on quota share treaties are settled annually based on the loss ratio of each treaty year that ends on June 30. Ceding commissions due from reinsurers, which include contingent ceding commissions receivable, as of September 30, 2012 (unaudited) and December 31, 2011 were $2,668,123 and $1,734,535, respectively, and are included in "Receivables – reinsurance contracts" in the Consolidated Balance Sheets.

Note 8 – Long-Term Debt

Long-term debt consists of:

	September 30, 2012			December 31, 2011		
	Total Debt	Less Current Maturities	Long-Term Debt	Total Debt	Less Current Maturities	Long-Term Debt
		(unaudited)				
Notes payable	$ 747,000	$ -	$ 747,000	$ 747,000	$ -	$ 747,000
Line of credit	350,000	350,000	-	300,000	300,000	-
	$ 1,097,000	$ 350,000	$ 747,000	$ 1,047,000	$ 300,000	$ 747,000

Notes Payable

From June 2009 through March 2010, the Company borrowed $1,450,000 (including $785,000 from related parties as disclosed below) and issued promissory notes in such aggregate principal amount (the “2009/2010 Notes”). The 2009/2010 Notes provided for interest at the rate of 12.625% per annum through the maturity date of July 10, 2011. During the quarter the ended June 30, 2011, the Company prepaid $703,000 (including $407,000 to related parties) of the principal amount of the 2009/2010 Notes. In June 2011, the remaining note holders agreed to extend the maturity date for a period of three years from July 10, 2011 to July 10, 2014, and, effective July 11, 2011, reduce the interest rate from 12.625% to 9.5% per annum. The remaining 2009/2010 Notes, as extended, can be prepaid without premium or penalty. The reduction in the interest rate and the extension of the maturity date did not significantly change the fair value of the 2009/2010 Notes.

Interest expense on the 2009/2010 Notes for the nine months ended September 30, 2012 and 2011 was approximately $53,000 and $108,000, respectively. Interest expense includes related party borrowings for the nine months ended September 30, 2012 and 2011 of approximately $27,000 and $57,000, respectively. Interest expense on the 2009/2010 Notes for the three months ended September 30, 2012 and 2011 was approximately $18,000 and $24,000, respectively. Interest expense includes related party borrowings for the three months ended September 30, 2012 and 2011 of approximately $9,000 and $12,000, respectively.

Related party balances as of September 30, 2012 and December 31, 2011 under the 2009/2010 Notes are as follows:

Barry Goldstein IRA (Mr. Goldstein is Chairman of the Board, President and Chief Executive Officer, and principal stockholder of the Company)	$	90,000
Jay Haft, a director of the Company		30,000
A member of the family of Michael Feinsod, a director of the Company		60,000
Sam Yedid, a director of KICO, and members of his family		156,000
A member of the family of Floyd Tupper, a director of KICO		42,000
Total related party balances	$	378,000

Line of credit

On December 27, 2011, Kingstone executed a Promissory Note pursuant to a line of credit (together, the “Trustco Agreement”) with Trustco Bank (“Lender”). Under the Trustco Agreement, Kingstone may receive advances from Lender not to exceed an unpaid principal balance of $500,000. Advances extended under the Trustco Agreement will bear interest at a floating rate based on the Lender’s prime rate.

Interest only payments are due monthly. The principal balance is payable on demand, and must be reduced to zero for a minimum of thirty consecutive days during each year of the term of the Trustco Agreement. The principal balance was reduced to zero for thirty consecutive days in accordance with terms of the Trustco Agreement within the three month period ended September 30, 2012. Lender may set off any depository accounts maintained by Kingstone that are held by Lender. Payment of amounts due pursuant to the Trustco Agreement is secured by all of Kingstone’s cash and deposit accounts, receivables, inventory and fixed assets, and is guaranteed by Kingstone’s subsidiary, Payments, Inc.

There were no closing costs or fees paid in connection with the Trustco Agreement. Kingstone received an initial advance of $300,000 on December 27, 2011. The line of credit is being used for general corporate purposes.

The interest rate on the amount outstanding as of September 30, 2012 was 3.75%. There are no other fees in connection with this credit line.

Note 9 – Stockholders' Equity

Dividend Declared

Dividends declared and paid on Common Stock was $380,046 and $115,153 for the nine months ended September 30, 2012 and 2011, respectively. Dividends declared and paid on Common Stock was $153,218 and $115,153 for the three months ended September 30, 2012 and 2011, respectively. The Company's Board of Directors approved a quarterly dividend on November 12, 2012 of $.04 per share payable in cash on December 14, 2012 to stockholders of record as of November 30, 2012.

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 nine months ended September 30, 2012 and 2011 include share-based stock option compensation expense totaling $39,000 and $86,000, respectively. The results of operations for the three months ended September 30, 2012 and 2011 include share-based stock option compensation expense totaling $9,000 and $21,000, respectively. Share-based compensation expense related to stock options is net of estimated forfeitures of 21% for the nine months and three months ended September 30, 2012 and 2011, respectively. Such amounts have been included in the Condensed Consolidated Statements of Comprehensive Income within other operating expenses.

Stock option compensation expense in 2012 and 2011 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. No stock options were granted during the nine months ended September 30, 2012 and 2011.

A summary of option activity under the Company's 1998 Stock Option Plan (terminated in November, 2008) and the 2005 Plan as of September 30, 2012, and changes during the nine 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, 2012	393,865	$2.32	2.28	$498,913
Granted	-	$-	-	$-
Exercised	(135,000)	$2.13	-	$319,925
Forfeited	-	$-	-	$-

Outstanding at September 30, 2012	258,865	$2.43	2.10	$689,510
Vested and Exercisable at September 30, 2012	199,148	$2.41	2.02	$533,043

The aggregate intrinsic value of options outstanding and options exercisable at September 30, 2012 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 $5.09 closing price of the Company's Common Stock on September 30, 2012. The total intrinsic value of options exercised in the nine months ended September 30, 2012 was $319,925, determined as of the date of exercise.

Participants in the 2005 Plan may exercise their outstanding vested options, in whole or in part, by having the Company reduce the number of shares otherwise issuable by a number of shares having a fair market value equal to the exercise price of the option being exercised ("Cashless Exercise"). The Company received cash proceeds of $47,074 from 22,500 options exercised in the nine months ended September 30, 2012. The remaining 112,500 options exercised in 2012 were Cashless Exercises. No stock options were exercised in the nine months ended September 30, 2011.

As of September 30, 2012, the fair value of unamortized compensation cost related to unvested stock option awards was approximately $16,000. Unamortized compensation cost as of September 30, 2012 is expected to be recognized over a remaining weighted-average vesting period of .58 years.

Note 10 – 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 records adjustments related to prior years' taxes during the period when they are identified, generally when the tax returns are filed. The effect of these adjustments on the current and prior periods (during which the differences originated) is evaluated based upon quantitative and qualitative factors and are considered in relation to the financial statements taken as a whole for the respective periods. The Company has evaluated this year's amounts in relation to the current and prior reporting periods and determined that a restatement of those prior reporting periods is not appropriate. The Company's effective tax rate from continuing operations for the nine months and three months ended September 30, 2012 was 33.0% and 30.6%, respectively. The Company's effective tax rate from continuing operations for the nine months and three months ended September 30, 2011 was 24.1% and (46.4)%, respectively. A reconciliation of the Federal statutory rate to our effective rate from continuing operations is as follows:

	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2012		2011		2012		2011	
Computed expected tax expense	$447,491	34.0 %	$51,003	34.0 %	$1,136,779	34.0 %	$501,775	34.0 %
State taxes, net of Federal benefit	9,754	0.7	(10,225)	(6.8)	55,553	1.7	(24,976)	(1.7)
Permanent differences								
Dividends received deduction	(10,386)	(0.8)	(18,782)	(12.5)	(46,963)	(1.4)	(25,911)	(1.8)
Non-taxable investment income	(15,781)	(1.2)	(16,449)	(11.0)	(49,590)	(1.5)	(62,992)	(4.3)
Stock-based compensation expense	3,065	0.2	7,284	4.9	13,302	0.4	29,094	2.0
	6,287	0.5	(42,889)	(28.6)	18,568	0.6	(28,344)	(1.9)

Other permanent differences								
Prior year tax matters	(32,456)	(2.5)	(72,960)	(48.6)	(32,456)	(1.0)	(50,886)	(3.5)
Other	(5,812)	(0.4)	33,458	22.3	8,554	0.3	17,926	1.2
Total tax	$402,162	30.6 %	$(69,560)	(46.4) %	$1,103,747	33.0 %	$355,686	24.1 %

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

	September 30, 2012 (unaudited)	December 31, 2011
Deferred tax asset:		
Net operating loss carryovers (1)	$ 264,648	$ 276,312
Claims reserve discount	275,543	220,354
Unearned premium	735,723	647,596
Deferred ceding commission revenue	1,585,172	1,354,016
Other	13,721	4,583
Total deferred tax assets	2,874,807	2,502,861
Deferred tax liability:		
Investment in KICO (2)	1,169,000	1,169,000
Deferred acquisition costs	1,835,200	1,542,163
Intangibles	1,123,321	1,244,628
Depreciation and amortization	136,117	133,411
Reinsurance recoverable	20,400	20,400
Net unrealized appreciation of securities - available for sale	601,891	172,155
Investment income	-	10,543
Total deferred tax liabilities	4,885,929	4,292,300
Net deferred income tax liability	$ (2,011,122)	$ (1,789,439)

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

Type of NOL	September 30, 2012	December 31, 2011	Expiration
State only (A)	$ 364,633	$ 284,749	December 31, 2027
Valuation allowance	130,585	42,437	
State only, net of valuation allowance	234,048	242,312	
Amount subject to Annual Limitation, Federal only (B)	30,600	34,000	December 31, 2019
Total deferred tax asset from net operating loss carryovers	$ 264,648	$ 276,312	

(A) Kingstone generates operating losses for state purposes and has prior year net operating loss carryovers available. KICO, the Company's insurance underwriting subsidiary, is not subject to state income taxes. KICO's state tax obligations are paid through a gross premiums tax which is included in the Condensed Consolidated Statements of Comprehensive Income within other underwriting expenses. A valuation allowance has been recorded due to the uncertainty of generating enough state taxable income to utilize 100% of the available state net operating loss carryovers over their remaining lives which expire between 2022 and 2027.

(B) 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.

(2) Deferred tax liability - investment in KICO

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

The Company had no material unrecognized tax benefit and no adjustments to liabilities or operations were required. There were no interest or penalties related to income taxes that have been accrued or recognized as of and for nine months ended September 30, 2012 and 2011. If any had been recognized these would be reported in income tax expense.

IRS Tax Audit

The Company's Federal income tax return for the year ended December 31, 2009 has been examined by the Internal Revenue Service and was accepted as filed. The tax returns for years ended December 31, 2010 and 2011 are subject to examination, generally for three years after filing.

Note 11 - Net Income Per Common Share

Basic net earnings per common share is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding. Diluted earnings per share reflect, in periods in which they have a dilutive effect, the impact of common shares issuable upon exercise of vested stock options. The computation of diluted earnings per share excludes those options with an exercise price in excess of the average market price of the Company's common shares during the periods presented.

For the nine months and three months ended September 30, 2012 there were 199,148 vested options with an exercise price below the average market price of the Company's Common Stock during the period. For the nine months and three months ended September 30, 2011 there were 269,432 vested options with an exercise price below the average market price of the Company's Common Stock during the period.

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

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
	(unaudited)		(unaudited)	
Net income used in the calculation of basic earnings per share	$913,987	$219,569	$2,239,721	$1,120,124
Effect of dilutive securities, common share equivalents	455	1,117	39,434	-
Net income used for computing diluted earnings per share	$914,442	$220,686	$2,279,155	$1,120,124
Weighted average number of shares outstanding	3,824,461	3,838,386	3,794,979	3,838,386
Effect of dilutive securities, common share equivalents	111,706	74,650	89,193	-
Weighted average number of shares outstanding, used for computing diluted earnings per share	3,936,167	3,913,036	3,884,172	3,838,386

Note 12 - 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.

Employment Agreement

Effective January 1, 2012, Barry Goldstein, the Company's President, Chairman of the Board and Chief Executive Officer, assumed the positions of President and Chief Executive Officer of KICO. Effective April 16, 2012, the Company entered into an amendment to its employment agreement with Mr. Goldstein, pursuant to which, effective January 1, 2012 and continuing through the term of the agreement, Mr. Goldstein's annual base salary was increased to $450,000 from $375,000 in consideration for his additional responsibilities to KICO.

Note 13 – Subsequent Event

Dividends Declared and Paid

On November 12, 2012, the Company's board of directors approved a dividend of $.04 per share payable in cash on December 14, 2012 to stockholders of record as of November 30, 2012.

Superstorm Sandy

The New York City area, the primary location of KICO's insureds, was struck by Superstorm Sandy on October 29, 2012. KICO purchases quota share and catastrophe reinsurance in order to reduce its net liability on insurance risks and to protect against catastrophes. KICO's personal lines business, which includes homeowners insurance, is reinsured under a 75% quota share treaty and catastrophe insurance pursuant to which KICO's net liability is limited to 25% of the initial $3,000,000 of direct losses incurred from an occurrence, or $750,000. For catastrophe losses in excess of $3,000,000, KICO is 100% covered by catastrophe reinsurance with regard to the next $70,000,000 in losses. The Company estimates that its net losses incurred as a result of the storm will be $750,000 with respect to KICO's personal lines business, which is the limit of loss pursuant to its quota share and catastrophe reinsurance treaties. Additional losses will be incurred with respect to KICO's commercial auto and livery physical damage policies.

KICO receives ceding commissions from the reinsurers. The amount of the commissions includes contingent ceding commissions which are based upon the loss ratio experienced by the reinsurers during the treaty term (July 1 to June 30) from the ceded business over that period of time. During the three month period ended September 30, 2012 (which was the initial quarter of the 2012-2013 treaty year), the Company's revenue includes contingent ceding commission revenue of $755,000. Such contingent ceding commission revenue is subject to downward adjustment (to possibly less than zero) based upon the reinsurance losses expected to be incurred as a result of Superstorm Sandy. In addition, it is expected that there will be a significant decline in the ceding commission revenue earned during the 4th quarter of 2012 and the first two quarters of 2013 (i.e., the final nine months of the 2012-2013 treaty); however, the amount cannot yet be reasonably estimated due to the high volume of claims that KICO has already received and the anticipation of many more to follow. Further, KICO will be required to pay reinstatement premiums to catastrophe reinsurers to obtain coverage for future catastrophe events during the current reinsurance treaty period. Accordingly, the effects of the storm will be material to the Company's post-3rd quarter of 2012 results of operations; however, the Company expects that, based upon its results of operations for the three and nine months ended September 30, 2012, such effects will not have a material adverse impact on its financial condition.

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"). KICO's insureds are located primarily in downstate New York, consisting of New York City, Long Island and Westchester County.

We derive 99% of our revenue from KICO, which includes revenues from earned premiums, ceding commissions from quota share reinsurance, net investment income generated from our portfolio, and net realized gains and losses on investment securities. All of our policies are for a one year period. Earned premiums represent premiums received from insureds, which are recognized as revenue over the period of time that insurance coverage is provided (i.e., ratably over the one year life of the policy). A significant period of time 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. Policy acquisition costs include commissions paid to producers, premium taxes, and other expenses related to the underwriting process, including employees' compensation and benefits.

Other operating expenses include the corporate expenses of our holding company, Kingstone Companies, Inc. These expenses include legal and auditing fees, occupancy costs related to our corporate office, executive employment costs, 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 loss adjustment expenses ("LAE") incurred to net premiums earned.

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

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

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

Critical Accounting Policies

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 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 ceding commission revenue, 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 Condensed Consolidated Financial Statements - “Accounting Policies and Basis of Presentation” for information related to updated accounting policies.

Consolidated Results of Operations

Nine Months Ended September 30, 2012 Compared to Nine Months Ended September 30, 2011

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

	Nine months ended September 30,			
($ in thousands)	2012	2011	Change	Percent
Revenues				
Direct and assumed written premiums	$ 36,461	$ 30,509	$ 5,952	19.5 %
Net written premiums	14,762	12,410	2,352	19.0 %
Change in net unearned premiums	(1,344)	(1,588)	244	(15.4)%
Net premiums earned	13,418	10,822	2,596	24.0 %
Ceding commission revenue (1)	8,526	7,348	1,178	16.0 %
Net investment income	740	510	230	45.1 %
Net realized gain on investments	112	357	(245)	(68.6)%
Other income	680	693	(13)	(1.9)%
Total revenues	23,476	19,730	3,746	19.0 %
Expenses				
Loss and loss adjustment expenses (1)				
Direct loss and loss adjustment expenses	14,295	14,343	(48)	(0.3 %
Less: ceded loss and loss adjustment expenses	(6,917)	(7,035)	118	(1.7)%
Net loss and loss adjustment expenses	7,378	7,308	70	1.0 %
Commission expense	5,430	4,473	957	21.4 %
Other underwriting expenses	5,986	5,045	941	18.7 %
Other operating expenses	830	863	(33)	(3.8)%
Depreciation and amortization	447	457	(10)	(2.2)%
Interest expense	61	108	(47)	(43.5)%
Total expenses	20,132	18,254	1,878	10.3 %
Income from operations before taxes	3,344	1,476	1,868	126.6 %
Provision for income tax	1,104	356	748	210.1 %
Net income	$ 2,240	$ 1,120	$ 1,120	100.0 %
Percent of total revenues:				
Net premiums earned	57.2 %	54.9 %		
Ceding commission revenue	36.3 %	37.2 %		
Net investment income	3.2 %	2.6 %		
Net realized gains on investments	0.5 %	1.8 %		
Other income	2.9 %	3.5 %		
	100.0 %	100.0 %		
Net loss ratio excluding the effect of catastrophes	55.0 %	63.6 %		
Net catastrophe loss	0.0 %	3.9 %		
Net loss ratio	55.0 %	67.5 %		

(1) Includes net catastrophe losses and net loss adjustment expenses for the nine months ended September 30, 2011of $422,000 incurred from August 27, 2011 to August 29, 2011 from Tropical Storm Irene. During the quarter that a catastrophe occurs, it is not possible to estimate the full amount of losses and loss adjustment expenses incurred. Accordingly, additional net catastrophe losses and net loss adjustment expenses from Tropical Storm Irene were recorded subsequent to September 30, 2011. Catastrophe losses incurred from Tropical Storm Irene decreased our ceded loss ratio which reduced our contingent ceding commission revenue by $493,000. For the nine months ended September 30, 2012, we did not incur any catastrophe losses and loss adjustment expenses. We define a "catastrophe" as an event that involves multiple first party policyholders, or an event that produces a number of claims in excess of a preset, per-event threshold of average claims in a specific area, occurring within a certain amount of time constituting the event. Catastrophes are caused by various natural events including high winds, excessive rain, winter storms, tornadoes, hailstorms, wildfires, tropical storms, and hurricanes. See Note 13 to the Consolidated Financial Statements – "Subsequent Events" for information relating to the effects of Superstorm Sandy that occurred in October 2012.

Direct and assumed written premiums during the nine months ended September 30, 2012 (“2012”) were $36,461,000 compared to $30,509,000 during the nine months ended September 30, 2011 (“2011”). The increase of $5,952,000, or 19.5%, was primarily due to an increase in policies in-force during 2012 as compared to 2011. We wrote more policies as a result of an increase in demand for the products in the markets that we serve. Policies in-force increased by 18.9% as of September 30, 2012 compared to September 30, 2011. In addition to the increase of policies in-force, we are also writing more policies which have higher premiums.

Net written premiums increased $2,352,000, or 19.0%, to $14,762,000 in 2012 from $12,410,000 in 2011. The increase in net written premiums resulted from: (1) an increase in direct written premiums in 2012 compared to direct written premiums in 2011, and (2) effective July 1, 2012, a decrease in quota share percentage in our commercial lines from 60% to 40%. A decrease in the quota share percentage results in us retaining a greater amount of direct written premiums. Net written premiums grew at a lower rate than direct written premiums (19.0% compared to 19.5%) due to increases in policies written in lines of business that are subject to quota share reinsurance treaties, primarily personal lines and commercial lines, in excess of the decrease in policies written in lines of business without quota share reinsurance treaties, primarily commercial auto lines.

Net premiums earned increased $2,596,000, or 24.0%, to $13,418,000 in 2012 from $10,822,000 in 2011. As premiums written earn ratably over a twelve month period, the increase was a result of higher net written premiums for the twelve months ended September 30, 2012 compared to the twelve months ended September 30, 2011.

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

	Nine months ended September 30,			
($ in thousands)	2012	2011	Change	Percent
Provisional ceding commissions earned	$ 6,231	$ 5,049	$ 1,182	23.4 %
Contingent ceding commissions earned	2,295	2,299	(4)	(0.2)%
Total ceding commission revenue	$ 8,526	$ 7,348	$ 1,178	16.0 %

Ceding commission revenue was $8,526,000 in 2012 compared to $7,348,000 in 2011. The increase of $1,178,000, or 16.0%, was due a $1,182,000 increase in provisional ceding commissions earned offset by a $4,000 decrease in contingent ceding commissions earned. The $1,182,000 increase in provisional ceding commissions earned is due to a net increase in the amount of premiums ceded.

Net investment income was $740,000 in 2012 compared to $510,000 in 2011. The increase of $230,000, or 45.1%, was due to an increase in average invested assets in 2012 as compared to 2011. The increase in cash and invested assets resulted primarily from increased operating cash flows and by an adjustment to amortization of bond premium in 2011. The tax equivalent investment yield, excluding cash, was 4.99% and 5.07% at September 30, 2012 and 2011, respectively.

Net realized gains on investments were $112,000 in 2012 compared to $357,000 in 2011. The decrease of $245,000, or 68.6%, was due to an FDIC recovery of $133,000 in 2011 from a failed bank which was included in other than temporary impaired losses in 2009.

Net loss and loss adjustment expenses were $7,378,000 in 2012 compared to $7,308,000 in 2011. The net loss ratio was 55.0% in 2012 compared to 67.5% in 2011. The decrease of 12.5 percentage points in our net loss ratio for 2012 as compared to 2011 is primarily due to a decrease in the loss ratios in our personal lines and commercial lines of business. As a result of Tropical Storm Irene in 2011, which we define as a catastrophe, we incurred $422,000 of losses and loss adjustment expenses (net of reinsurance recoverable of $1,266,000), and added 3.9 percentage points to our 2011 net loss ratio.

Commission expense was $5,430,000 in 2012 or 14.9% of direct written premiums. Commission expense was $4,473,000 in 2011 or 14.7% of direct written premiums. The increase of $957,000 is due to the increase in direct written premiums in 2012 as compared to 2011.

Other underwriting expenses were $5,986,000 in 2012 compared to $5,045,000 in 2011. The $941,000, or 18.7%, increase in other underwriting expenses was primarily due to expenses directly related to the increase in direct written premiums, increase in occupancy costs and additional employment costs due to both the hiring of additional staff needed to service our growth in written premiums and increases in annual salaries. Underwriting expenses as a percentage of direct written premiums was 16.4% in 2012 and 16.5% in 2011. Our other underwriting expenses increased at a lower rate than the growth in our direct written premiums.

Other operating expenses, related to the corporate expenses of our holding company, were $830,000 in 2012 compared to $863,000 in 2011. The $33,000 decrease in 2012 was primarily due to a decrease in occupancy costs and amortization of stock options as a result of more stock options being fully vested prior to September 30, 2012, offset by increase in professional fees.

Interest expense was $61,000 in 2012 compared to $108,000 in 2011. The $47,000 decrease in interest expense was due to the partial redemption of $703,000 to our 2009/2010 Notes during the quarter ended September 30, 2011, and effective July 11, 2011, a reduction in the interest rate to 9.5% per annum from the previous 12.625% per annum.

Income tax expense in 2012 was $1,104,000, which resulted in an effective tax rate of 33.0%. Income tax expense in 2011 was $356,000, which resulted in an effective tax rate of 24.1%. Income before taxes was $3,344,000 in 2012 compared to $1,476,000 in 2011. The increase in the effective tax rate by 8.9% in 2012 is a result of: (A) permanent differences from non taxable investment income and the dividends received deduction having a lesser impact on the effective tax rate in 2012 due to a greater amount of book income in 2012 compared to 2011, and (B) recording a valuation allowance in 2012 against our state net operating loss carryovers compared to no such allowance in 2011. Kingstone Companies, Inc. generates operating losses for state purposes and has prior year net operating loss carryovers available. KICO, our insurance underwriting subsidiary, is not subject to state income taxes. A valuation allowance of $42,000 was recorded by us in December 2011 and an additional valuation allowance of $88,000 was recorded in 2012. The valuation allowance was established due to the uncertainty of generating enough state taxable income to utilize 100% of our available state net operating loss carryovers over their remaining lives which expire between 2022 and 2027.

Net income was $2,240,000 in 2012 compared to $1,120,000 in 2011. The increase in net income of $1,120,000 was due to the circumstances described above that caused the increases in our net premiums earned and ceding commission revenue, and a decrease in our net loss ratio, offset by increases in our other commission expense and underwriting expenses related to premium growth.

Three Months Ended September 30, 2012 Compared to Three Months Ended September 30, 2011

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

	Three months ended September 30,			
($ in thousands)	2012	2011	Change	Percent
Revenues				
Direct and assumed written premiums	$ 12,783	$ 10,386	$ 2,397	23.1 %
Net written premiums	5,565	4,267	1,298	30.4 %
Change in net unearned premiums	(283)	(330)	47	(14.2)%
Net premiums earned	5,282	3,937	1,345	34.2 %
Ceding commission revenue (1)	2,711	2,307	404	17.5 %
Net investment income	242	172	70	40.7 %
Net realized gain on investments	66	197	(131)	(66.5)%
Other income	219	229	(10)	(3.9)%
Total revenues	8,520	6,842	1,678	24.5 %
Expenses				
Loss and loss adjustment expenses (1)				
Direct and assumed loss and loss adjustment expenses	4,981	6,555	(1,574)	(24.0)%
Less: ceded loss and loss adjustment expenses	(2,290)	(3,621)	1,331	(36.8)%
Net loss and loss adjustment expenses	2,691	2,934	(243)	(8.3)%
Commission expense	1,953	1,596	357	22.4 %
Other underwriting expenses	2,134	1,734	400	23.1 %
Other operating expenses	256	260	(4)	(1.5)%
Depreciation and amortization	150	144	6	4.2 %
Interest expense	20	24	(4)	(16.7)%
Total expenses	7,204	6,692	512	7.7 %
Income from operations before taxes	1,316	150	1,166	777.3 %
Provision for (benefit from) income tax	402	(70)	472	(674.3)%
Net income	$ 914	$ 220	$ 694	315.5 %
Percent of total revenues:				
Net premiums earned	62.0 %	57.5 %		
Ceding commission revenue	31.8 %	33.7 %		
Net investment income	2.8 %	2.5 %		
Net realized gains on investments	0.8 %	2.9 %		
Other income	2.6 %	3.3 %		
	100.0 %	100.0 %		
Net loss ratio excluding the effect of catastrophes	51.0 %	63.8 %		
Net catastrophe loss	0.0 %	10.7 %		
Net loss ratio	51.0 %	74.5 %		

(1) Includes net catastrophe losses and net loss adjustment expenses for the three months ended September 30, 2011of $422,000 incurred from August 27, 2011 to August 29, 2011 from Tropical Storm Irene. During the quarter that a catastrophe occurs, it is not possible to estimate the full amount of losses and loss adjustment expenses incurred. Accordingly, additional net catastrophe losses and net loss adjustment expenses from Tropical Storm Irene were recorded subsequent to September 30, 2011. Catastrophe losses incurred from Tropical Storm Irene decreased our ceded loss ratio which reduced our contingent ceding commission revenue by $493,000. For the three months ended September 30, 2012, we did not incur any catastrophe losses and loss adjustment expenses. We define a “catastrophe” as an event that involves multiple first party policyholders, or an event that produces a number of claims in excess of a preset, per-event threshold of average claims in a specific area, occurring within a certain amount of time constituting the event. Catastrophes are caused by various natural events including high winds, excessive rain, winter storms, tornadoes, hailstorms, wildfires, tropical storms, and hurricanes. See Note 13 to the Consolidated Financial Statements – “Subsequent Events” for information relating to the effects of Superstorm Sandy that occurred in October 2012.

Direct and assumed written premiums during the three months ended September 30, 2012 (“Q3 2012”) were $12,783,000 compared to $10,386,000 during the three months ended September 30, 2011 (“Q3 2011”). The increase of $2,397,000, or 23.1%, was primarily due to an increase in policies in-force during Q3 2012 as compared to Q3 2011. We wrote more policies as a result of an increase in demand for the products in the markets that we serve. Policies in-force increased by 18.9% as of September 30, 2012 compared to September 30, 2011. In addition to the increase of policies in-force, we are also writing more policies which have higher premiums.

Net written premiums increased $1,298,000, or 30.4%, to $5,565,000 in Q3 2012 from $4,267,000 in 2011. The increase in net written premiums resulted from: (1) an increase in direct written premiums in Q3 2012 compared to direct written premiums in Q3 2011, and (2) effective July 1, 2012, a decrease in quota share percentage in our commercial lines from 60% to 40%. A decrease in the quota share percentage results in us retaining a greater amount of direct written premiums. Net written premiums grew at a greater rate than direct written premiums (30.4% compared to 23.1%) due to an increase in retained premiums as result of the change in quota share percentage in our commercial lines from 60% to 40% on July 1, 2012.

Net premiums earned increased $1,345,000, or 34.2%, to $5,282,000 in Q3 2012 from $3,937,000 in Q3 2011. As premiums written earn ratably over a twelve month period, the increase was a result of higher net written premiums for the twelve months ended September 30, 2012 compared to the twelve months ended September 30, 2011.

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

	Three months ended September 30,			
($ in thousands)	2012	2011	Change	Percent
Provisional ceding commissions earned	$ 2,171	$ 1,764	$ 407	23.1 %
Contingent ceding commissions earned	540	543	(3)	(0.7)%
Total ceding commission revenue	$ 2,711	$ 2,307	$ 404	17.5 %

Ceding commission revenue was $2,711,000 in Q3 2012 compared to $2,307,000 in Q3 2011. The increase of $403,000, or 17.5%, was due to a $407,000 increase in provisional ceding commissions earned offset by a $3,000 decrease in contingent ceding commissions earned. The $407,000 increase in provisional ceding commissions earned is due to a net increase in the amount of premiums ceded.

Net investment income was $242,000 in Q3 2012 compared to $172,000 in Q3 2011. The increase of $70,000, or 40.7%, was due to an increase in average invested assets in Q3 2012 as compared to Q3 2011. The increase in cash and invested assets resulted primarily from increased operating cash flows.. The tax equivalent investment yield, excluding cash, was 4.99% and 5.07% at September 30, 2012 and 2011, respectively.

Net realized gains on investments were $66,000 in Q3 2012 compared to $197,000 in Q3 2011. The decrease of $131,000, or 66.5%, was due to an FDIC recovery of $133,000 in Q3 2011 from a failed bank which was included in other than temporary impaired losses in 2009.

Net loss and loss adjustment expenses were $2,691,000 in Q3 2012 compared to $2,934,000 in 2011. The net loss ratio was 51.0% in Q3 2012 compared to 74.5% in Q3 2011. The decrease of 23.5 percentage points in our net loss ratio for Q3 2012 as compared to Q3 2011 is primarily due to a decrease in the loss ratios in our personal lines and commercial lines of business. As a result of Tropical Storm Irene in 2011, which we define as a catastrophe, we incurred $422,000 of losses and loss adjustment expenses (net of reinsurance recoverable of $1,266,000), and added

10.7 percentage points to our Q3 2011 net loss ratio.

Commission expense was $1,953,000 in Q3 2012 or 15.3% of direct written premiums. Commission expense was $1,596,000 in Q3 2011 or 15.4% of direct written premiums. The increase of $357,000 is due to the increase in direct written premiums in Q3 2012 as compared to Q3 2011.

Other underwriting expenses were $2,134,000 in Q3 2012 compared to $1,734,000 in Q3 2011. The $400,000, or 23.1%, increase in other underwriting expenses was primarily due to expenses directly related to the increase in direct written premiums and an increase in occupancy costs. Underwriting expenses as a percentage of direct written premiums was 16.7% in both Q3 2012 and Q3 2011. Our other underwriting expenses increased at the same rate as the growth in our direct written premiums.

Other operating expenses, related to the corporate expenses of our holding company, were $256,000 in Q3 2012 compared to $260,000 in Q3 2011. The $4,000 decrease in Q3 2012 was due nominal net decreases in various overhead expenses.

Interest expense was $20,000 in Q3 2012 compared to $24,000 in Q3 2011. The $4,000 decrease in interest expense was due to the partial redemption of $703,000 to our 2009/2010 Notes during the quarter ended June 30, 2011, and effective July 11, 2011, a reduction in the interest rate to 9.5% per annum from the previous 12.625% per annum.

Income tax expense in Q3 2012 was $402,000, which resulted in an effective tax rate of 30.6%. Income tax benefit in Q3 2011 was $70,000, which resulted in an effective tax rate of (46.4)%. Income before taxes was $1,316,000 in Q3 2012 compared to $150,000 in Q3 2011. The increase in the effective tax rate in Q3 2012 is a result of non-taxable permanent differences in Q3 2011 having a greater effect on income tax due the minimal amount of book taxable income in Q3 2011. In addition, we recorded a valuation allowance in Q3 2012 against our state net operating loss carryovers compared to no such allowance in Q3 2011. Kingstone Companies, Inc. generates operating losses for state purposes and has prior year net operating loss carryovers available. KICO, our insurance underwriting subsidiary, is not subject to state income taxes. Valuation allowances totaling of $98,000 were recorded by us in December 2011 and for the first six months of 2012. An additional valuation allowance of $26,000 was recorded in Q3 2012. The valuation allowance was established due to the uncertainty of generating enough state taxable income to utilize 100% of our available state net operating loss carryovers over their remaining lives which expire between 2022 and 2027.

Net income was $914,000 in Q3 2012 compared to $220,000 in Q3 2011. The increase in net income of $694,000 was due to the circumstances described above that caused the increases in our net premiums earned and ceding commission revenue, and a decrease in our net loss ratio, offset by increases in our other commission expense and underwriting expenses related to premium growth.

Insurance Underwriting Business on a Standalone Basis

Our insurance underwriting business reported on a standalone basis for the periods indicated is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Revenues				
Net premiums earned	$ 5,281,701	$ 3,937,189	$ 13,418,808	$ 10,822,137
Ceding commission revenue	2,711,431	2,307,390	8,525,945	7,347,832
Net investment income	242,159	172,039	739,555	510,173
Net realized gain on investments	65,986	196,574	111,546	357,006
Other income	129,788	109,452	369,085	307,511
Total revenues	8,431,065	6,722,644	23,164,939	19,344,659
Expenses				
Loss and loss adjustment expenses	2,691,402	2,933,531	7,378,421	7,307,925
Commission expense	1,952,583	1,596,281	5,430,000	4,472,924
Other underwriting expenses	2,134,106	1,734,137	5,986,427	5,045,051
Depreciation and amortization	150,061	144,122	446,503	452,503
Total expenses	6,928,152	6,408,071	19,241,351	17,278,403
Income from operations	1,502,913	314,573	3,923,588	2,066,256
Income tax expense	492,080	30,295	1,262,677	601,939
Net income	$ 1,010,833	$ 284,278	$ 2,660,911	$ 1,464,317

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

	Direct	Assumed	Ceded	Net
Nine months ended September 30, 2012				
Written premiums	$36,439,884	$21,553	$(21,699,102)	$14,762,335
Unearned premiums	(4,017,217)	(9,119)	2,682,809	(1,343,527)
Earned premiums	$32,422,667	$12,434	$(19,016,293)	$13,418,808
Loss and loss adjustment expenses exluding the effect of catastrophes	$14,268,577	$27,176	$(6,917,332)	$7,378,421
Catastrophe loss	-	-	-	-
Loss and loss adjustment expenses	$14,268,577	$27,176	$(6,917,332)	$7,378,421
Loss ratio excluding the effect of catastrophes	44.0%	218.6%	36.4%	55.0%
Catastrophe loss	0.0%	0.0%	0.0%	0.0%
Loss ratio	44.0%	218.6%	36.4%	55.0%
Nine months ended September 30, 2011				
Written premiums	$30,502,800	$6,289	$(18,099,446)	$12,409,643
Unearned premiums	(3,823,593)	1,611	2,234,476	(1,587,506)
Earned premiums	$26,679,207	$7,900	$(15,864,970)	$10,822,137
Loss and loss adjustment expenses exluding the effect of catastrophes	$12,639,123	$15,704	$(5,768,974)	$6,885,853
Catastrophe loss	1,688,289	-	(1,266,217)	422,072
Loss and loss adjustment expenses	$14,327,412	$15,704	$(7,035,191)	$7,307,925
Loss ratio excluding the effect of catastrophes	47.4%	198.8%	36.4%	63.6%
Catastrophe loss	6.3%	0.0%	8.0%	3.9%
Loss ratio	53.7%	198.8%	44.3%	67.5%
Three months ended September 30, 2012				
Written premiums	$12,765,358	$18,354	$(7,218,500)	$5,565,212
Unearned premiums	(1,363,818)	(13,031)	1,093,338	(283,511)
Earned premiums	$11,401,540	$5,323	$(6,125,162)	$5,281,701
Loss and loss adjustment expenses exluding the effect of catastrophes	$4,969,890	$12,269	$(2,290,757)	$2,691,402
Catastrophe loss	-	-	-	-
Loss and loss adjustment expenses	$4,969,890	$12,269	$(2,290,757)	$2,691,402
Loss ratio excluding the effect of catastrophes	43.6%	230.5%	37.4%	51.0%
Catastrophe loss	0.0%	0.0%	0.0%	0.0%
Loss ratio	43.6%	230.5%	37.4%	51.0%
Three months ended September 30, 2011				
Written premiums	$10,382,641	$3,409	$(6,119,576)	$4,266,474

Unearned premiums	(909,125)	(41)	579,881	(329,285)
Earned premiums	$9,473,516	$3,368	$(5,539,695)	$3,937,189
Loss and loss adjustment expenses exluding				
the effect of catastrophes	$4,857,144	$9,649	$(2,355,334)	$2,511,459
Catastrophe loss	1,688,289	-	(1,266,217)	422,072
Loss and loss adjustment expenses	$6,545,433	$9,649	$(3,621,551)	$2,933,531
Loss ratio excluding the effect of catastrophes	51.3 %	286.5 %	42.5 %	63.8 %
Catastrophe loss	17.8 %	0.0 %	22.9 %	10.7 %
Loss ratio	69.1 %	286.5 %	65.4 %	74.5 %

Key Measures

The key measures for our insurance underwriting business for the periods indicated are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Net premiums earned	$5,281,701	$3,937,189	$13,418,808	$10,822,137
Ceding commission revenue (1)	2,711,431	2,307,390	8,525,945	7,347,832
Other income	129,788	109,452	369,085	307,511
Loss and loss adjustment expenses (2)	2,691,402	2,933,531	7,378,421	7,307,925
Acquistion costs and other underwriting expenses:				
Commission expense	1,952,583	1,596,281	5,430,000	4,472,924
Other underwriting expenses	2,134,105	1,734,137	5,986,427	5,045,051
Total acquistion costs and other underwriting expenses	4,086,688	3,330,418	11,416,427	9,517,975
Underwriting income	$1,344,830	$90,082	$3,518,990	$1,651,580
Key Measures:				
Net loss ratio excluding the effect of catastrophes	51.0 %	63.8 %	55.0 %	63.6 %
Effect of catastrophe loss on loss ratio (2)	0.0 %	10.7 %	0.0 %	3.9 %
Net loss ratio	51.0 %	74.5 %	55.0 %	67.5 %
Net underwriting expense ratio excluding the effect of catastrophes	23.6 %	10.7 %	18.8 %	12.7 %
Effect of catastrophe loss on net underwriting expense ratio (1) (2)	0.0 %	12.5 %	0.0 %	4.6 %
Net underwriting expense ratio	23.6 %	23.2 %	18.8 %	17.2 %
Net combined ratio excluding the effect of catastrophes	74.5 %	74.5 %	73.8 %	76.3 %
Effect of catastrophe loss on net combined ratio (1) (2)	0.0 %	23.2 %	0.0 %	8.5 %
Net combined ratio	74.5 %	97.7 %	73.8 %	84.7 %
Reconciliation of net underwriting expense ratio:				
Acquisition costs and other underwriting expenses	$4,086,688	$3,330,418	$11,416,427	$9,517,975
Less: Ceding commission revenue (1)	(2,711,431)	(2,307,390)	(8,525,945)	(7,347,832)
Less: Other income	(129,788)	(109,452)	(369,085)	(307,511)
	$1,245,469	$913,576	$2,521,397	$1,862,632
Net earned premium	$5,281,701	$3,937,189	$13,418,808	$10,822,137

(1) The effect of catastrophes reduced contingent ceding commission revenue by $492,870 for the three months and nine months ended September 30, 2011. A provision in our quota share reinsurance treaty, which expired June 30, 2011, limited the maximum contingent ceding commission that could be paid to us, with the unused benefit carried forward to the following treaty year which began July 1, 2011. The carry forward of the unused benefit resulted in additional contingent ceding commission revenue of approximately $136,000 for the three months and nine months ended September 30, 2011.

(2) Includes net catastrophe losses and net loss adjustment expenses for the three months and nine months ended September 30, 2011of $422,072.

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 September 30, 2012 and December 31, 2011:

Available for Sale Securities

	September 30, 2012					
	Cost or	Gross	Gross Unrealized Losses		Aggregate	% of
			Less than	More than		
	Amortized	Unrealized	12	12	Fair	Fair
Category	Cost	Gains	Months	Months	Value	Value
			(unaudited)			
Political subdivisions of States, Territories and Possessions	$5,568,774	$290,672	$-	$(40,055)	$5,819,391	20.5 %
Corporate and other bonds Industrial and miscellaneous	16,211,308	1,085,116	(5,348)	(8,337)	17,282,739	61.0 %
Total fixed-maturity securities	21,780,082	1,375,788	(5,348)	(48,392)	23,102,130	81.5 %
Equity Securities	4,716,098	550,161	(35,366)	-	5,230,893	18.5 %
Total	$26,496,180	$1,925,949	$(40,714)	$(48,392)	$28,333,023	100.0 %

	December 31, 2011					
	Cost or	Gross	Gross Unrealized Losses		Aggregate	% of
			Less than	More than		
	Amortized	Unrealized	12	than 12	Fair	Fair
Category	Cost	Gains	Months	Months	Value	Value
U.S. Treasury securities and obligations of U.S. government						