

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

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

(Mark one)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2011
OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number 0-1665

KINGSTONE COMPANIES, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

(516) 374-7600

(Registrant's telephone number, including area code)

(Former Name, if Changed Since Last Report)

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

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

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

Accelerated filer

Non-accelerated filer

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Large accelerated
filer

(Do not check if a smaller reporting
company)

Smaller reporting
company

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

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

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, 2010 under "Factors That May Affect Future Results and Financial Condition".

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

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

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KINGSTONE COMPANIES, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets

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

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

* derived from audited financial information

See accompanying notes to condensed consolidated financial statements.

KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations and Comprehensive Income (Unaudited)

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

See accompanying notes to condensed consolidated financial statements.

KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

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

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

See accompanying notes to condensed consolidated financial statements.

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

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

Cash paid for interest	\$91,441	\$133,118
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See accompanying notes to condensed consolidated financial statements.

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

Note 1 - Basis of Presentation and Nature of Business

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

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

Note 2 – Accounting Policies and Basis of Presentation

Use of Estimates

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

Reclassification

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

Principles of Consolidation

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

Accounting Pronouncements

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

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

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

Note 3 - Investments

Available for Sale Securities

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

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

Total	\$19,102,067	\$517,592	\$(284,528)	\$(12,995)	\$19,322,136	\$220,069
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A summary of the amortized cost and fair value of the Company's available for sale investments in fixed-maturity securities by contractual maturity as of March 31, 2011 and December 31, 2010 is shown below:

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

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

Held to Maturity Securities

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

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

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

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

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

Investment Income

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

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

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

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

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

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

Impairment Review

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

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

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

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

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

Note 4 - Fair Value Measurements

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

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

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

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

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

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

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

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

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

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

Note 5 - Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

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

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

Note 6 - Notes Receivable-Sale of Businesses

Retail Business

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

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

Franchise Business

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

shareholders at the time.

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

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

Note 7 – Property and Casualty Activity

Earned Premiums

Premiums written, ceded and earned are as follows:

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

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

Loss and Loss Adjustment Expenses

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

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

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

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

Loss and loss adjustment expense reserves

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

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

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

Reinsurance

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

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

Ceding Commission Revenue

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

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

Ceding commission revenue consists of the following:

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

Note 8 – Notes Payable and Capital Lease Obligations

Notes payable and capital lease obligations consist of:

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

Notes Payable

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

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

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

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

Note 9 – Preferred Stock

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

Note 10 – Equity Stock Compensation

Other Equity Compensation

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

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

Stock Options

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

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

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

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

A summary of option activity under the Company's 1998 Stock Option Plan (terminated in November 2008) and the 2005 Plan as of March 31, 2011, and changes during the three months then ended is as follows:

Stock Options	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2011	393,865	\$ 2.32	3.28	\$ 463,465
Granted	-	\$ -	-	-
Forfeited	-	\$ -	-	-
Outstanding at March 31, 2011	393,865	\$ 2.32	3.03	\$ 301,980
Vested and Exercisable at March 31, 2011	251,932	\$ 2.25	2.62	\$ 211,340

The aggregate intrinsic value of options outstanding and options exercisable at March 31, 2011 is calculated as the difference between the exercise price of the underlying options and the market price of the Company's Common Stock for the options that had exercise prices that were lower than the \$3.09 closing price of the Company's Common Stock on March 31, 2011. No stock options were exercised in the three months ended March 31, 2011 and 2010.

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

Note 11 – Income Taxes

The Company files a consolidated U.S. Federal Income Tax return that includes all wholly-owned subsidiaries. State tax returns are filed on a consolidated or separate basis depending on applicable laws. The Company's effective tax rate from continuing operations for the three months ended March 31, 2011 and 2010 was 24.8% and 39.8%, respectively.

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

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

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

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

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

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

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

Note 12 - Net Income (Loss) Per Common Share

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

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

Note 13 - Commitments and Contingencies

Legal Proceedings

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

Note 14 - Discontinued Operations

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

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

Overview

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

We derive substantially all of our revenue from KICO, which includes revenues from earned premiums, ceding commissions from quota share reinsurance, investment income and net realized and unrealized gains and losses on investment securities. Earned premiums represent premiums received from insureds, which are recognized as revenue over the period of time that insurance coverage is provided (i.e., ratably over the life of the policy). A significant period of time normally elapses between the receipt of insurance premiums and the payment of insurance claims. During this time, KICO invests the premiums, earns investment income and generates net realized and unrealized investment gains and losses on investments.

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

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

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

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

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

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

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

Critical Accounting Policies

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

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

Consolidated Results of Operations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Insurance Underwriting Business on a Standalone Basis

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

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

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

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

Key Measures

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

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

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

Investments

Portfolio Summary

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

Available for Sale Securities

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

December 31, 2010

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

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

Held to Maturity Securities

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

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

Credit Rating of Fixed-Maturity Securities

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

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

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

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

Fair Value Consideration

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

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

The table below summarizes the gross unrealized losses of our fixed-maturity securities available for sale and equity securities by length of time the security has continuously been in an unrealized loss position as of March 31, 2011 and December 31, 2010:

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Category	March 31, 2011			12 months or more			Total	
	Less than 12 months		No. of Positions Held	Fair Value	Unrealized Losses	No. of Positions Held	Aggregate Fair Value	Unrealized Losses
	Fair Value	Unrealized Losses						
Fixed-Maturity Securities:								
Political subdivisions of States, Territories and Possessions								
	\$1,638,318	\$(46,262)	7	\$1,338,826	\$(32,472)	4	\$2,977,144	\$(78,734)
Corporate and other bonds industrial and miscellaneous								
	4,307,000	(113,932)	22	-	-	-	4,307,000	(113,932)
Total fixed-maturity securities	\$5,945,318							