KINGSTONE COMPANIES, INC.
Form 10-K
March 31, 2011
United States Securities and Exchange Commission

Washington, D.C. 20549
FORM 10-K

(Mark One)
(x) ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

( ) 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 No.)

1154 Broadway, Hewlett, New York	11557
(Address of principal executive offices)	(Zip Code)

(516) 374-7600
(Registrant's telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Common Stock	NASDAQ

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes __ No X

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes __ No X

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 X 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. __

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 __	Accelerated filer __
Non-accelerated __ (Do not check if a smaller reporting company)	Smaller reporting company X

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

As of June 30, 2010, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $5,991,672 based on the closing sale price as reported on the NASDAQ Capital Market. As of March 30, 2011, there were 3,838,386 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None

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PART I

Forward-Looking Statements

This Annual 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 Annual 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," "pro "plan," "intend," "estimate," and "continue," and their opposites and similar expressions are intended to identif 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 this Annual Report 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.

ITEM 1. BUSINESS.

(a) Business Development

General

As used in this Annual Report on Form 10-K (the "Annual Report"), references to the "Company", "we", "us", or "our" refer
Kingstone Companies, Inc. ("Kingstone") and its subsidiaries.

On July 1, 2009, we completed the acquisition of 100% of the issued and outstanding common stock of Kingstone Insurance Company ("KICO") (formerly known as Commercial Mutual Insurance Company ("CMIC")) pursuant to the conversion of CMIC from an advance premium cooperative to a stock property and casualty insurance company. Pursuant to the plan of conversion, we acquired a 100% equity interest in KICO in consideration for the exchange of $3,750,000 principal amount of surplus notes of CMIC. In addition, we forgave all accrued and unpaid interest of approximately $2,246,000 on the surplus notes as of the date of conversion.

Effective July 1, 2009, we commenced offering property and casualty insurance products to small businesses and individuals in New York State through our subsidiary, KICO. The effect of the KICO acquisition is only included in our results of operations and cash flows for the period from July 1, 2009 (the KICO acquisition date) through December 31, 2010. Accordingly, discussions for the year ended December 31, 2010 will pertain for the entire period. For the year ended December 31, 2009, discussions pertaining to KICO will only include the six months ended December 31, 2009.

Until December 2008, our continuing operations primarily consisted of the ownership and operation of 19 insurance brokerage and agency storefronts, including 12 Barry Scott locations in New York State, three Atlantic Insurance locations in Pennsylvania, and four Accurate Agency locations in New York State. In December 2008, due to declining revenues and profits, we made a decision to restructure our network of retail offices (the "Retail Business"). The plan of restructuring called for the closing of seven of our least profitable locations during December 2008 and the sale of the remaining 19 Retail Business locations. On April 17, 2009, we sold substantially all of the assets, including the book of business, of the 16 remaining Retail Business locations that we owned in New York State (the "New York Sale"). Effective June 30, 2009, we sold all of the outstanding stock of the subsidiary that operated our three remaining Retail Business locations in Pennsylvania (the "Pennsylvania Sale"). As a result of the restructuring in December 2008, the New York Sale on April 17, 2009 and the Pennsylvania Sale effective June 30, 2009, our Retail Business has been presented as discontinued operations and prior periods have been restated. See "Recent Developments – Developments During 2009 – Sale of Businesses - New York Locations; and - Pennsylvania Locations."

Through April 30, 2009, we received fees from 33 franchised locations in connection with their use of the DCAP name. Effective May 1, 2009, we sold all of the outstanding stock of the subsidiaries that operated our DCAP franchise business. As a result of the sale, our franchise business has been presented as discontinued operations and prior periods have been restated. See "Recent Developments - Developments During 2009 - Sale of Businesses - Franchise Business."

Recent Developments

Developments During 2010

• Mandatorily Redeemable Preferred Stock Exchanged for Common Stock

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In accordance with accounting principles generally accepted in the United Sates of America ("GAAP") for accounting for certain financial instruments with characteristics of both liabilities and equity, our mandatorily redeemable preferred stock had been reported as a liability of $1,299,231 on December 31, 2009. Effective June 30, 2010, we issued 787,409 shares of Common Stock in exchange for 1,299 shares of our outstanding mandatorily redeemable Series E Preferred Stock. The value of the exchanged Series E Preferred Stock was approximately $1,299,231. The effective price for the exchange was $1.65 per share of Common Stock, which was approximately equal to the fair value of the common stock issued. For the years ended December 31, 2010 and 2009, the preferred dividends have been classified as interest expense of $74,706 and $127,158, respectively.

Notes Payable

From June 2009 through December 2009, we borrowed an aggregate of $1,050,000 (including $585,000 payable from related parties) 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 and are payable on July 10, 2011. The 2009 Notes are prepayable by us 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. Between January 2010 and March 26, 2010, we borrowed an additional $400,000 (including $200,000 from related parties) on the same terms as provided for in the 2009 Notes.

Developments During 2009

• Acquisition of Kingstone Insurance Company

Effective July 1, 2009, CMIC converted from an advance premium cooperative to a stock property and casualty insurance company. Upon the effectiveness of the conversion, CMIC's name was changed to Kingstone Insurance Company . Pursuant to the plan of conversion, we acquired a 100% equity interest in KICO in consideration of the exchange of our $3,750,000 principal amount of surplus notes of CMIC. In addition, we forgave all accrued and unpaid interest of $2,246,000 on the surplus notes as of the date of exchange. On July 1, 2009, we changed our name from DCAP Group, Inc. to Kingstone Companies, Inc. See Item 13 of this Annual Report for additional information pertaining to the acquisition of KICO.

• Sale of Businesses

New York Locations

On April 17, 2009, we sold substantially all of the assets, including the book of business, of the 16 Retail Business locations that we owned in New York State (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. In 2010, the repayment terms of the New York Notes were amended. All payments under the amended New York Notes have been paid in accordance with their terms. As of December 31, 2010, the New York Notes, as amended, are payable in monthly installments of varying payments that average approximately $28,000 each between January 31, 2011 and July 31, 2011, and provide for interest at the rate of 12.625% per annum. As additional consideration, we received through September 30, 2010 an amount equal to 60% of the net commissions derived from the book of business of six retail locations that we closed in 2008. See Item 7 of this Annual Report.

Pennsylvania Locations

Effective June 30, 2009, we sold all of the outstanding stock of the subsidiary that operated our 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 (the “Pennsylvania 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). As of December 31, 2010, all payments due under the Pennsylvania Notes were paid in accordance with their terms. See Item 7 of this Annual Report.

Franchise Business

Effective May 1, 2009, we sold all of the outstanding stock of the subsidiaries that operated our DCAP franchise business. The purchase price for the stock was $200,000 which was paid by delivery of a promissory note in such principal amount (the “Franchise Note”). The Franchise Note is payable in installments of $50,000 on May 15, 2009 (which was paid), $50,000 on May 1, 2010 (which was paid) and $100,000 on May 1, 2011 and provides for interest at the rate of 5.25% per annum. See Items 7 and 13 of this Annual Report.

• Redemption and Exchange of Debt

• Accurate Acquisition

On April 17, 2009, we paid the balance of the note payable incurred in connection with our purchase of the Accurate agency business.

• Notes Payable

In August 2008, the holders of $1,500,000 outstanding principal amount of notes payable (the “Notes Payable”) agreed to extend the maturity date of the debt from September 30, 2008 to the earlier of July 10, 2009 or 90 days following the conversion of CMIC to a stock property and casualty insurance company and the issuance to us of a controlling interest in CMIC (subject to acceleration under certain circumstances). In exchange for this extension, the holders were entitled to receive an aggregate incentive payment equal to $10,000 times the number of months (or partial months) the debt was outstanding after September 30, 2008 through the maturity date. The agreement provided that, if a prepayment of principal reduced the debt below $1,500,000, the incentive payment for all subsequent months would be reduced in proportion to any such reduction to the debt. The agreement also provided that the aggregate incentive payment was due upon full repayment of the debt.

On May 12, 2009, three of the holders exchanged an aggregate of $519,231 of Notes Payable principal for Series E preferred shares having an aggregate redemption amount equal to such aggregate principal amount of notes (see discussion below). Concurrently, we paid $49,543 to the three holders, which amount represents all accrued and unpaid interest and incentive payments through the date of exchange. In addition, on May 12, 2009, we prepaid $686,539 in principal of the Notes Payable to the five remaining holders of the notes, together with $81,200, which amount represents accrued and unpaid interest and incentive payments on such prepayment.

On June 29, 2009, we prepaid the remaining $294,230 in principal of the Notes Payable, together with $19,400, which amount represents accrued and unpaid interest and incentive payments on such prepayment.

From June 2009 through December 2009, we borrowed an aggregate $1,050,000 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 and are payable on July 10, 2011. The 2009 Notes are prepayable by us 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. See Items 7 and 13 of this Annual Report.

• Exchange of Mandatorily Redeemable Preferred Stock

Effective May 12, 2009, the holder of our Series D preferred shares exchanged such shares for an equal number of shares of Series E preferred shares which were mandatorily redeemable on July 31, 2011 (as compared to July 31, 2009 for the Series D preferred shares). The Series E preferred shares provided for dividends at the rate of 11.5% per annum (as compared to 10% per annum for the Series D preferred shares) and a conversion price of $2.00 per share (as compared to $2.50 per share for the Series D preferred shares). Further, the two series differed in that our obligation to redeem the Series E preferred shares was not accelerated based upon a sale of substantially all of our assets or certain of our subsidiaries (as compared to the Series D preferred shares which provided for such acceleration) and our obligation to redeem the Series E preferred shares was not secured by the pledge of the outstanding stock of our subsidiary, AIA-DCAP Corp. (as compared to the Series D preferred shares which provided for such pledge). See Items 7 and 13 of this Annual Report.

(b) Business

Property and Casualty Insurance

Overview

Generally, property and casualty insurance companies write insurance policies in exchange for premiums paid by their customers (the "insured"). An insurance policy is a contract between the insurance company and the insured where the insurance company agrees to pay for losses suffered by the insured that are covered under the contract. Such contracts often are subject to subsequent legal interpretation by courts, legislative action and arbitration. Property insurance generally covers the financial consequences of accidental losses to the insured's property, such as a home and the personal property in it, or a business' building, inventory and equipment. Casualty insurance (often referred to as liability insurance) generally covers the financial consequences of a legal liability of an individual or an organization resulting from negligent acts and omissions causing bodily injury and/or property damage to a third party. Claims on property coverage generally are reported and settled in a relatively short period of time, whereas those on casualty coverage can take years, even decades, to settle.

KICO derives substantially all of its 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.

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.

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The key measure of relative underwriting performance for an insurance company is the combined ratio. An insurance company's combined ratio under accounting principles generally accepted in the United States ("GAAP") is calculated by adding the ratio of incurred loss and LAE to earned premiums (the "loss and LAE ratio") and the ratio of policy acquisition and other underwriting expenses to earned premiums (the "expense ratio"). A combined ratio under 100% indicates that an insurance company is generating an underwriting profit. However, when considering investment income and investment gains or losses, insurance companies operating at a combined ratio of greater than 100% can be profitable.

General

Effective July 1, 2009, with the acquisition of KICO, substantially all of our continuing operations consists of underwriting property and casualty insurance. KICO is a medium-sized multi-line regional property and casualty insurance company writing business exclusively through independent agents and brokers ("producers"). We are licensed to write insurance in the state of New York. In February 2011, KICO's application for an insurance license to write business in the state of Pennsylvania was approved, however, we have not commenced writing business in Pennsylvania. KICO provides direct markets to small to medium-sized producers located primarily in the New York City area, also known as Downstate New York.

KICO's competitive advantage in the marketplace is the service it provides to its producers, policyholders and claimants. Our insurance producers value their relationship with us since they receive excellent, consistent personal service coupled with competitive rates and commission levels. We believe there are many producers looking for an insurer like KICO, which offers the producer a potential for growth and good service. KICO consistently is rated above average in the important areas of underwriting, claims handling and service to producers. We believe that the excellent service we provide to our producers, policyholders and claimants provides a foundation for growth. In 2010, in a company performance survey conducted by the Professional Insurance Agents of New York and New Jersey ("PIA"), KICO was rated the top performer by PIA members in New York.

We have developed online application raters and inquiry systems for our personal lines and commercial automobile products. Substantially all of our personal lines are underwritten using this tool which has increased our productivity in customer service hours and data input as we have grown. We plan to expand a similar online capability for our other lines of business.

Underwriting and Claims Management Philosophy

Our underwriting philosophy is to be conservative in the approach to risks that we write. We monitor results on a regular basis and all of our producers are reviewed by management on a quarterly basis. In general, we try to avoid severity by writing at lower liability limits when possible.

We believe our rates are competitive with other carriers' rates in our markets. We believe that consistency and the reliable availability of our insurance products is important to our producers. We do not seek to grow by competing based solely upon price. We seek to develop long term relationships with our select producers who understand and appreciate the conservative consistent path we have chosen. We carefully underwrite all of our business utilizing the CLUE database, motor vehicle reports, credit reports, physical inspection of risks and other underwriting software. In the event that a material misrepresentation is discovered in the underwriting process, the policy is voided. If a material misrepresentation is discovered after a claim is presented, we deny the claim. We write homeowners and dwelling fire business in New York City and Long Island and are cognizant of our exposure to hurricanes. We have mitigated this risk by adding mandatory hurricane deductibles to all policies. Our claim and underwriting expertise enables us to write personal lines business in all areas of New York City and Long Island at a profit.

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Product Lines

Our product lines include the following:

Personal lines - Our principal line of business is personal lines consisting of homeowners, dwelling fire, 3-4 family dwelling package, condominium, renters, mechanical breakdown and personal umbrella policies.

Commercial automobile – Our commercial automobile policies consist primarily of vehicles weighing less than 50,000 pounds owned by small contractors and artisans.

For-hire vehicle physical damage only policies - These policies are designed for newer vehicles utilized as black cars (limousines under 2 years old), silver cars (limousines 2 to 4 years old), yellow taxicabs and car service vehicles. No vehicle older than 4 years is written in the program.

Private passenger physical damage - We are currently writing policies for private passenger physical damage coverage under a unique product called Basic Auto. We also write a standard physical damage only product (“PDO”). These products are designed to be companion products with a New York Automobile Insurance Plan liability policy that is sold to insureds who are unable to obtain automobile insurance coverage in the voluntary market.

General liability policies - We commenced writing business owners policies (“BOP”) in 2008. The BOP business consists primarily of small business retail risks without a cooking or residential exposure. In June 2009, we commenced writing artisan’s liability policies. In November 2010, we commenced writing Special Multi-Peril liability policies as an option for commercial properties ineligible for our BOP due to risks exceeding the BOP limits or risk classifications not covered under BOP.

Canine legal liability policies - We commenced writing this innovative program in September 2009. These policies cover bodily injury, property damage and medical payments for damages caused by the insured’s dog.

Distribution

We generate business through independent retail and wholesale agents and brokers whom we refer to collectively as producers. These producers sell policies for KICO as well as for other insurance companies. We carefully select our producers by evaluating several factors such as their need for our products, premium production potential, loss history with other insurance companies that they represent, product and market knowledge, and the size of the agency.

We manage the results of our producers through periodic reviews of volume and profitability. We continuously monitor the performance of our producers by assessing leading indicators and metrics that signal the need for corrective action. Corrective action may include increased frequency of producer meetings and more detailed business planning. Producers not attaining our standards are either terminated or asked to resign.

All producers are assigned an underwriter and the producer can call that underwriter directly on any matter. We believe that the close relationship with their underwriter is the principal reason producers place their business with us. Requests for quotes are responded to as promptly as possible. Our online application raters and inquiry systems have streamlined the process of placing business with KICO. Our producers have access to a website which contains all of our applications, rating software, policy forms and underwriting guidelines for all lines of business. We send out our publication “KICO Producer News” in order to inform our producers of updates at KICO. In addition we have an active Producer Council and have at least one annual meeting with all of our producers.

Competition

The insurance industry is highly competitive. Each year we attempt to assess and project the market conditions when we develop prices for our products, but we cannot fully know our profitability until all claims have been reported and settled.

We compete with both large national and regional carriers in the property and casualty insurance marketplace. Inside our selected producers’ offices, we compete with the other carriers available to that producer. Most of our competition is from carriers with far greater capital and brand recognition. We feel we can compete with any carrier based on service, stressing the development of our personal underwriting relationships for the producer, and the fair and expedient handling of claims to the insured.

Increased competition could result in fewer applications for coverage resulting from lower premium rates charged by our competitors and less favorable policy terms, which could adversely affect us. We are unable to predict the extent to which new, proposed or potential initiatives may affect the demand for our products or the risks that may be available for us to consider underwriting.

Loss and Loss Adjustment Expense Reserves

We are required to establish reserves for incurred losses that are unpaid, including reserves for claims and loss adjustment expenses (“LAE”), which represent the expenses of settling and adjusting those claims. These reserves are balance sheet liabilities representing estimates of future amounts required to pay losses and loss expenses for claims that have occurred at or before the balance sheet date, whether already known to us or not yet reported. Our policy is to establish these losses and loss reserves after considering all information known to us as of the date they are recorded.

Loss reserves fall into two categories: case reserves for reported losses and loss expenses associated with a specific reported insured claim, and reserves for incurred but not reported (“IBNR”) losses and LAE. We establish these two categories of loss reserves as follows:

Reserves for reported losses - When a claim is received, we establish a case reserve for the estimated amount of its ultimate settlement and its estimated loss expenses. We establish case reserves based upon the known facts about each claim at the time the claim is reported and may subsequently increase or reduce the case reserves as our claims department deems necessary based upon the development of additional facts about claims.

IBNR reserves - We also estimate and establish reserves for loss and LAE amounts incurred but not yet reported, including expected development of reported claims. IBNR reserves are calculated as ultimate losses and LAE less reported losses and LAE. Ultimate losses are projected by using generally accepted actuarial techniques.

The liability for loss and LAE represents our best estimate of the ultimate cost of all reported and unreported losses that are unpaid as of the balance sheet date. The liability for loss and LAE is estimated on an undiscounted basis, using individual case-basis valuations, statistical analyses and various actuarial procedures. The projection of future claim payment and reporting is based on an analysis of our historical experience, supplemented by analyses of industry loss data. We believe that the reserves for loss and LAE are adequate to cover the ultimate cost of losses and claims to date; however, because of the uncertainty from various sources, including changes in reporting patterns, claims settlement patterns, judicial decisions, legislation, and economic conditions, actual loss experience may not conform to the assumptions used in determining the estimated amounts for such liability at the balance sheet date. As adjustments to these estimates become necessary, such adjustments are reflected in expense for the period in which the estimates are changed. Because of the nature of the business historically written, we believe that we have limited exposure to environmental claim liabilities. We recognize recoveries from salvage and subrogation when received.

We engage an independent external actuarial specialist to opine on our recorded statutory reserves. Our actuary estimates a range of ultimate losses, along with the recommended IBNR and reserve amounts.

Reconciliation of Loss and Loss Adjustment Expenses

The table below shows the reconciliation of loss and LAE on a gross and net basis, reflecting changes in losses incurred and paid losses:

		Year ended December 31, 2010			Year ended December 31, 2009*	
Balance at beginning of period	$	16,513,318		$	16,431,191	
Less reinsurance recoverables		(10,512,303	)		(9,730,288	)
Net balance, beginning of period		6,001,015			6,700,903	
Incurred related to:						
Current year		6,095,528			1,864,515	
Prior years		330,057			170,956	
Total incurred		6,425,585			2,035,471	
Paid related to:						
Current year		2,855,074			975,376	
Prior years		2,291,034			1,759,983	
Total paid		5,146,108			2,735,359	
Net balance at end of period		7,280,492			6,001,015	
Add reinsurance recoverables		10,431,415			10,512,303	
Balance at end of period	$	17,711,907		$	16,513,318	

* Year ended December 31, 2009 includes only the period from July 1, 2009 (the KICO acquisition date) through December 31, 2009.

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Our claims reserving practices are designed to set reserves that in the aggregate are adequate to pay all claims at their ultimate settlement value.

Loss and Loss Adjustment Expenses Development

The following table shows the net loss development for business written each year from 2004 through 2010. We did not have accurate and reliable data for years 2001 through 2003, years which are to be included in the required ten year period. The table reflects the changes in our loss and loss adjustment expense reserves in subsequent years from the prior loss estimates based on experience as of the end of each succeeding year on a GAAP basis.

The next section of the table sets forth the re-estimates in later years of incurred losses, including payments, for the years indicated. The next section of the table shows, by year, the cumulative amounts of loss and loss adjustment expense payments, net of amounts recoverable from reinsurers, as of the end of each succeeding year. For example, with respect to the net loss reserves of $4,370,000 as of December 31, 2006, by December 31, 2008 (two years later), $3,303,000 had actually been paid in settlement of the claims that relate to liabilities as of December 31, 2006.

The "cumulative redundancy (deficiency)" represents, as of December 31, 2010, the difference between the latest re-estimated liability and the amounts as originally estimated. A redundancy means that the original estimate was higher than the current estimate. A deficiency means that the current estimate is higher than the original estimate.

	As of and for the Year Ended December 31,						
($ in thousands)	2004	2005	2006	2007	2008	2009	2010
Reserve for loss and loss adjustment expenses, net of reinsurance recoverables	3,141	3,074	4,370	4,799	5,823	6,001	7,280
Net reserve estimated as of							
One year later	5,122	3,627	4,844	5,430	6,119	6,235	
Two years later	5,698	4,315	5,591	5,867	6,609		
Three years later	6,356	5,101	5,792	6,433			
Four years later	6,985	5,094	6,260				
Five years later	7,049	5,540					
Six years later	7,476						
Seven years later							
Eight years later							
Nine years later							
Ten years later							
Net cumulative redundancy (deficiency)	(4,335)	(2,466)	(1,890)	(1,634)	(786)	(234)	

	As of and for the Year Ended December 31,						
($ in thousands)	2004	2005	2006	2007	2008	2009	2010
Cumulative amount of reserve paid, net of reinsurance recoverable through							
One year later	3,347	1,106	2,018	1,855	2,533	2,307	
Two years later	4,291	2,321	3,303	3,339	3,974		
Three years later	4,965	3,321	4,036	4,339			
Four years later	5,598	3,705	4,471				
Five years later	5,840	3,988					
Six years later	6,101						
Seven years later							
Eight years later							
Nine years later							
Ten years later							
Net reserve - December 31,	3,141	3,074	4,370	4,799	5,823	6,001	7,280
Reinsurance Recoverable	7,610	7,283	6,523	6,693	9,766	10,512	10,432
Gross reserves - December 31,	10,751	10,357	10,893	11,492	15,589	16,513	17,712
Net re-estimated reserve	7,476	5,540	6,260	6,433	6,609	6,235	
Re-estimated reinsurance recoverable	9,354	9,613	9,775	9,582	11,462	10,755	
Gross re-estimated reserve	16,830	15,153	16,035	16,015	18,071	16,990	
Gross cumulative redundancy (deficiency)	(6,079)	(4,796)	(5,142)	(4,523)	(2,482)	(477)	

See “Factors That May Affect Future Results and Financial Condition” in Item 7 of this Annual Report.

Reinsurance

We purchase reinsurance to reduce our net liability on individual risks, to protect against possible catastrophes, to achieve a target ratio of net premiums written to policyholders’ surplus and to expand our underwriting capacity. Our reinsurance program was structured while we were an advance premium cooperative and reflected our management’s obligations and goals while a policyholder owned company. Reinsurance via quota share allows for a carrier to write business without increasing its leverage above a management determined ratio. The additional business written allows a reinsurer to assume the risks involved, but gives the reinsurer the profit (or loss) associated with such. Since the conversion to a stock company, we determined it to be in the best interests of our shareholders to prudently reduce our reliance on quota share reinsurance. This will result in higher earned premiums and a reduction in ceding commission revenue in future years. Our participation in reinsurance arrangements does not relieve us from our obligations to policyholders.

Investments

Our investment portfolio, including cash and cash equivalents, and short term investments, as of December 31, 2010 and 2009, is summarized in the table below by type of investment.

Category		December 31, 2010 Carrying Value	% of Portfolio			December 31, 2009 Carrying Value	% of Portfolio	
Cash and cash equivalents	$	326,620	1.6	%	$	625,320	4.0	%
Short term investments		-	0.0	%		225,336	1.4	%
Held to maturity U.S. Treasury securities and		605,424	3.0	%		-	0.0	%
Available for sale U.S. Treasury securities and obligations of U.S. government corporations and agencies		1,042,657	5.1	%		3,564,477	22.5	%
Political subdivisions of states, territories and possessions		7,259,225	35.8	%		5,822,103	36.8	%
Corporate and other bonds Industrial and miscellaneous		8,037,219	39.7	%		3,404,500	21.5	%
Preferred stocks		848,170	4.2	%		745,000	4.7	%
Common stocks		2,134,865	10.5	%		1,441,926	9.1	%
Total	$	20,254,180	100.0	%		15,828,662	100.0	%

The table below summarizes the credit quality of our fixed-maturity securities available for sale as of December 31, 2010 and 2009 as rated by Standard and Poor's.

Rating	December 31, 2010 Fair Market Value	Percentage of Fair Market Value		December 31, 2009 Fair Market Value	Percentage of Fair Market Value	
U.S. Treasury securities	$1,042,657	6.4	%	$3,564,477	27.9	%
AAA	4,229,483	25.9	%	3,404,461	26.6	%
AA	3,698,610	22.6	%	2,564,302	20.0	%
A	4,770,488	29.2	%	2,808,145	22.0	%
BBB	2,597,863	15.9	%	449,695	3.5	%
Total	$16,339,101	100.0	%	$12,791,080	100.0	%

Additional financial information regarding our investments is presented under the subheading "Investments" in Item 7 of this Annual Report.

Ratings

We currently have a Demotech rating of A (Excellent) which qualifies our policies for banks and finance companies. Many insurance buyers, agents and brokers use the ratings assigned by A.M. Best and other agencies to assist them in assessing the financial strength and overall quality of the companies from which they are considering purchasing insurance. In 2009, KICO applied for its initial A.M. Best rating, and was assigned a letter rating of "B" (Fair) by A.M. Best in 2010. KICO is in the process of undergoing its annual review from A.M. Best, which may result in a change to its rating. A. M. Best ratings are derived from an in-depth evaluation of an insurance company's balance sheet strengths, operating performances and business profiles. A.M. Best evaluates, among other factors, the company's capitalization, underwriting leverage, financial leverage, asset leverage, capital structure, quality and appropriateness of reinsurance, adequacy of reserves, quality and diversification of assets, liquidity, profitability, spread of risk, revenue composition, market position, management, market risk and event risk. A.M. Best ratings are intended to provide an independent opinion of an insurer's ability to meet its obligations to policyholders and are not an evaluation directed at investors. An A.M. Best rating allows us to expand our writings by adding producers who were not previously available to us.

Premium Financing

Customers who purchase insurance policies are often unable to pay the premium in a lump sum and, therefore, require extended payment terms. Premium finance involves making a loan to the customer that is secured by the unearned portion of the insurance premiums being financed and held by the insurance carrier. Our wholly-owned subsidiary, Payments Inc., ("Payments") is licensed as a premium finance agency in the state of New York.

Prior to February 1, 2008, Payments Inc. provided premium financing in connection with the obtaining of insurance policies. Effective February 1, 2008, Payments Inc. sold its outstanding premium finance loan portfolio. The purchaser of the portfolio has agreed that, during the five year period following the closing (subject to automatic renewal for successive two year terms under certain circumstances), it will purchase, assume and service all eligible premium finance contracts originated by Payments in the states of New York and Pennsylvania. In connection with such purchases, Payments will be entitled to receive a fee generally equal to a percentage of the amount financed. Our premium financing business currently consists of the placement fees that Payments will earn from placing contracts. Placement fees earned from placing contracts constituted approximately 2.2% and 4.9% of our revenues from continuing operations during the years ended December 31, 2010 and 2009, respectively.

The regulatory framework under which our premium finance procedures are established is generally set forth in the premium finance statutes of the states in which we operate. Among other restrictions, the interest rate that may be charged to the insured for financing their premiums is limited by these state statutes. See "Government Regulation."

Government Regulation

Holding Company Regulation

We, as the parent of KICO, are subject to the insurance holding company laws of the state of New York. These laws generally require an insurance company to register with the New York State Insurance Department (the "Insurance Department") and to furnish annually financial and other information about the operations of companies within our holding company system. Generally under these laws, all material transactions among companies in the holding company system to which KICO is a party must be fair and reasonable and, if material or of a specified category, require prior notice and approval or non-disapproval by the Insurance Department.

In addition, in connection with the plan of conversion of CMIC, we have agreed with the Insurance Department that, until July 1, 2011, no dividend may be paid by KICO to us without the approval of the Insurance Department.

Change of Control

The insurance holding company laws of the state of New York require approval by the Insurance Department of any change of control of an insurer. “Control” is generally defined as the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of the company, whether through the ownership of voting securities, by contract or otherwise. Control is generally presumed to exist through the direct or indirect ownership of 10% or more of the voting securities of a domestic insurance company or any entity that controls a domestic insurance company. Any future transactions that would constitute a change of control of KICO, including a change of control of Kingstone Companies, Inc., would generally require the party acquiring control to obtain the approval of the New York Insurance Department (and in any other state in which KICO may operate). Obtaining these approvals may result in the material delay of, or deter, any such transaction. These laws may discourage potential acquisition proposals and may delay, deter or prevent a change of control of Kingstone Companies, Inc., including through transactions, and in particular unsolicited transactions, that some or all of our stockholders might consider to be desirable.

State Insurance Regulation

Insurance companies are subject to regulation and supervision by the department of insurance in the state in which they are domiciled and, to a lesser extent, other states in which they conduct business. The primary purpose of such regulatory powers is to protect individual policyholders. State insurance authorities have broad regulatory, supervisory and administrative powers, including, among other things, the power to grant and revoke licenses to transact business, set the standards of solvency to be met and maintained, determine the nature of, and limitations on, investments and dividends, approve policy forms and rates in some instances and regulate unfair trade and claims practices.

KICO is required to file detailed financial statements and other reports with the Insurance Departments in the states that KICO is licensed to transact business in. In 2010 New York was the only state in which KICO is licensed to transact business. In February 2011, KICO was obtained an insurance license to transact business in Pennsylvania. These financial statements are subject to periodic examination by the Insurance Departments.

In addition, many states have laws and regulations that limit an insurer’s ability to withdraw from a particular market. For example, states may limit an insurer’s ability to cancel or not renew policies. Furthermore, certain states prohibit an insurer from withdrawing from one or more lines of business written in the state, except pursuant to a plan that is approved by the state insurance department. The state insurance department may disapprove a plan that may lead to market disruption. Laws and regulations, including those in New York, that limit cancellation and non-renewal and that subject program withdrawals to prior approval requirements may restrict the ability of KICO to exit unprofitable markets.

Federal and State Legislative and Regulatory Changes

From time to time, various regulatory and legislative changes have been proposed in the insurance industry. Among the proposals that have in the past been or are at present being considered are the possible introduction of Federal regulation in addition to, or in lieu of, the current system of state regulation of insurers, and proposals in various state legislatures (some of which proposals have been enacted) to conform portions of their insurance laws and regulations to various model acts adopted by the National Association of Insurance Commissioners (the “NAIC”).

In December 2010, the NAIC adopted amendments to the Model Insurance Holding Company System Regulation Act and Regulation (the "Amended Model Act and Regulation") to introduce the concept of "enterprise" risk within an insurance company holding system. If and when adopted by a particular state, the Amended Model Act and Regulation would impose more extensive informational requirements on us in order to protect the licensed insurance companies from enterprise risk, including requiring us to prepare an annual enterprise risk report that identifies the material risks within the insurance company holding system that could pose enterprise risk to the licensed insurer. The Amended Model Act and Regulation must be adopted by the individual states, and specifically states in which we are licensed, for the new requirements to apply to us. It is not clear if and when such states will adopt these changes; however, if is anticipated that the NAIC will seek to make the amendments part of its accreditation standards for state solvency regulation, which would most likely motivate the states to adopt the amendments promptly.

The recent turmoil in the financial markets has increased the likelihood of changes in the way the financial services industry is regulated. For example, the U.S. federal government has increased its scrutiny of the insurance regulatory framework in recent years and, since January 2009, the U.S. Treasury Department, as part of its broad proposal to reform regulation of the financial services industry, has proposed legislation that would impact the insurance industry. We are unable to predict whether any of these laws and regulations will be adopted, the form in which any such laws and regulations would be adopted, or the effect, if any, these developments would have on our operations and financial condition.

State Insurance Department Examinations

As part of their regulatory oversight process, state insurance departments conduct periodic detailed examinations of the financial reporting of insurance companies domiciled in their states, generally once every three to five years. Examinations are generally carried out in cooperation with the insurance departments of other states under guidelines promulgated by the NAIC. An examination of the financial condition of KICO was made by the New York Insurance Department prior to its acquisition by us.

Risk-Based Capital Regulations

State insurance departments impose risk-based capital ("RBC") requirements on insurance enterprises. The RBC Model serves as a benchmark for the regulation of insurance companies by state insurance regulators. RBC provides for targeted surplus levels based on formulas, which specify various weighting factors that are applied to financial balances or various levels of activity based on the perceived degree of risk, and are set forth in the RBC requirements. Such formulas focus on four general types of risk: (a) the risk with respect to the company's assets (asset or default risk); (b) the risk of default on amounts due from reinsurers, policyholders, or other creditors (credit risk); (c) the risk of underestimating liabilities from business already written or inadequately pricing business to be written in the coming year (underwriting risk); and (d) the risk associated with items such as excessive premium growth, contingent liabilities, and other items not reflected on the balance sheet (off-balance sheet risk). The amount determined under such formulas is called the authorized control level RBC ("ACLC").

The RBC guidelines define specific capital levels based on a company's ACLC that are determined by the ratio of the company's total adjusted capital ("TAC") to its ACLC. TAC is equal to statutory capital, plus or minus certain other specified adjustments. KICO was in compliance with New York's RBC requirements as of December 31, 2010.

Insurance Regulatory Information System Ratios

The Insurance Regulatory Information System, or IRIS, was developed by the NAIC and is intended primarily to assist state insurance departments in executing their statutory mandates to oversee the financial condition of insurance companies operating in their respective states. IRIS identifies thirteen industry ratios and specifies "usual values" for each ratio. Departure from the usual values on four or more of the ratios can lead to inquiries from individual state

insurance commissioners as to certain aspects of an insurer's business.

As of December 31, 2010, KICO had two ratios outside the usual range due to reliance on quota share reinsurance and growth in written premiums as a percentage in excess of the allowable average.

Accounting Principles

Statutory accounting principles ("SAP") are a basis of accounting developed to assist insurance regulators in monitoring and regulating the solvency of insurance companies. SAP is primarily concerned with measuring an insurer's surplus to policyholders. Accordingly, statutory accounting focuses on valuing assets and liabilities of insurers at financial reporting dates in accordance with appropriate insurance law and regulatory provisions applicable in each insurer's domiciliary state.

Generally accepted accounting principles ("GAAP") is concerned with a company's solvency, but is also concerned with other financial measurements, principally income and cash flows. Accordingly, GAAP gives more consideration to appropriate matching of revenue and expenses and accounting for management's stewardship of assets than does SAP. As a direct result, different assets and liabilities and different amounts of assets and liabilities will be reflected in financial statements prepared in accordance with GAAP as compared to SAP.

Statutory accounting practices established by the NAIC and adopted in part by the New York insurance regulators, determine, among other things, the amount of statutory surplus and statutory net income of KICO and thus determine, in part, the amount of funds that are available to pay dividends to Kingstone Companies, Inc.

Premium Financing

Our premium finance subsidiary, Payments Inc., is regulated by governmental agencies in the states in which it conducts business. The regulations, which generally are designed to protect the interests of policyholders who elect to finance their insurance premiums, vary by jurisdiction, but usually, among other matters, involve:

- regulating the interest rates, fees and service charges that may be charged;
- imposing minimum capital requirements for our premium finance subsidiary or requiring surety bonds in addition to or as an alternative to such capital requirements;
- governing the form and content of our financing agreements;
- prescribing minimum notice and cure periods before we may cancel a customer's policy for non-payment under the terms of the financing agreement;
- prescribing timing and notice procedures for collecting unearned premium from the insurance company, applying the unearned premium to our customer's premium finance account, and, if applicable, returning any refund due to our customer;

- requiring our premium finance company to qualify for and obtain a license and to renew the license each year;
- conducting periodic financial and market conduct examinations and investigations of our premium finance company and its operations;
- requiring prior notice to the regulating agency of any change of control of our premium finance company.

Legal Structure

We were incorporated in 1961 and assumed the name DCAP Group, Inc. in 1999. On July 1, 2009, we changed our name to Kingstone Companies, Inc.

Offices

Our principal executive offices are located at 1154 Broadway, Hewlett, New York 11557, and our telephone number at that location is (516) 374-7600. Our insurance underwriting business is located at 15 Joys Lane, Kingston, New York 12401. Our website is www.kingstonecompanies.com. Our internet website and the information contained therein or connected thereto are not intended to be incorporated by reference into this Annual Report.

Employees

As of December 31, 2010, we had 43 employees all of whom are located in New York. None of our employees are covered by a collective bargaining agreement. We believe that our relationship with our employees is good.

ITEM 1A. RISK FACTORS.

Not applicable. See, however, “Factors That May Affect Future Results and Financial Condition” in Item 7 of this Annual Report.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not applicable.

ITEM 2. PROPERTIES.

Our principal executive offices are located at 1154 Broadway, Hewlett, New York. Our insurance underwriting business is located at 15 Joys Lane, Kingston, New York.

The current yearly aggregate base rental for our executive offices is approximately $39,000. We own the building from which our insurance underwriting business operates, free of mortgage.

ITEM 3. LEGAL PROCEEDINGS.

None.

ITEM 4. RESERVED.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market Information

Our common shares are quoted on The NASDAQ Capital Market under the symbol "KINS."

Set forth below are the high and low sales prices for our common shares for the periods indicated, as reported on The NASDAQ Capital Market.

	High	Low
2010 Calendar Year		
First Quarter	$ 3.82	$ 2.34
Second Quarter	3.63	2.51
Third Quarter	2.89	2.25
Fourth Quarter	3.90	2.30

	High	Low
2009 Calendar Year		
First Quarter	$ .85	$ .04
Second Quarter	2.41	.39
Third Quarter	2.50	1.90
Fourth Quarter	2.50	1.70

Holders

As of March 21, 2011, there were 514 record holders of our common shares.

Dividends

Holders of our common shares are entitled to dividends when, as and if declared by our Board of Directors out of funds legally available.

We have not declared or paid any dividends in the past to the holders of our common shares and do not currently anticipate declaring or paying any dividends in the foreseeable future. We intend to retain earnings, if any, to finance the development and expansion of our business. Future dividend policy will be subject to the discretion of our Board of Directors and will be contingent upon future earnings, if any, our financial condition, capital requirements, general business conditions, and other factors. Therefore, we can give no assurance that any dividends of any kind will ever be paid to holders of our common shares.

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

None.

ITEM 6. SELECTED FINANCIAL DATA.

Not applicable.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Overview

On July 1, 2009, we completed the acquisition of 100% of the issued and outstanding common stock of Kingstone Insurance Company ("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 (see Note 3 to the Consolidated Financial Statements - "Acquisition of Kingstone Insurance Company"). Pursuant to the plan of conversion, we 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, we forgave all accrued and unpaid interest of approximately $2,246,000 on the surplus notes as of the date of conversion.

Effective July 1, 2009, we commenced offering property and casualty insurance products to small businesses and individuals in New York State through our subsidiary, KICO. The effect of the KICO acquisition is only included in our results of operations and cash flows for the period from July 1, 2009 (the KICO acquisition date) through December 31, 2010. Accordingly, discussions for the year ended December 31, 2010 will pertain for the entire period. For the year ended December 31, 2009, discussions pertaining to KICO will only include the six months ended December 31, 2009.

Until December 2008, our continuing operations primarily consisted of the ownership and operation of 19 insurance brokerage and agency storefronts, including 12 Barry Scott locations in New York State, three Atlantic Insurance locations in Pennsylvania, and four Accurate Agency locations in New York State. In December 2008, due to declining revenues and profits, we made a decision to restructure our network of retail offices (the "Retail Business"). The plan of restructuring called for the closing of seven of our least profitable locations during December 2008 and the sale of the remaining 19 Retail Business locations. On April 17, 2009, we sold substantially all of the assets, including the book of business, of the 16 remaining Retail Business locations that we owned in New York State (the "New York Sale"). Effective June 30, 2009, we sold all of the outstanding stock of the subsidiary that operated our three remaining Retail Business locations in Pennsylvania (the "Pennsylvania Sale"). As a result of the restructuring in December 2008, the New York Sale on April 17, 2009 and the Pennsylvania Sale effective June 30, 2009, our Retail Business has been presented as discontinued operations and prior periods have been restated.

Through April 30, 2009, we received fees from 33 franchised locations in connection with their use of the DCAP name. Effective May 1, 2009, we sold all of the outstanding stock of the subsidiaries that operated our DCAP franchise business. As a result of the sale, our franchise business has been presented as discontinued operations and prior periods have been restated.

In our Retail Business discontinued operations, the insurance storefronts served as insurance agents or brokers and placed various types of insurance on behalf of customers. Our Retail Business focused on automobile, motorcycle and homeowner's insurance and our customer base was primarily individuals rather than businesses.

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The stores also offered automobile club services for roadside assistance and some of our franchise locations offered income tax preparation services.

The stores from our Retail Business discontinued operations received commissions from insurance companies for their services. Prior to July 1, 2009, neither we nor the stores served as an insurance company and therefore we did not assume underwriting risks.

Principal Revenue and Expense Items

Net premiums earned. Net premiums earned is the earned portion of our written premiums, less that portion of premium that is ceded to third party reinsurers under reinsurance agreements. The amount ceded under these reinsurance agreements is based on a contractual formula contained in the individual reinsurance agreement. Insurance premiums are earned on a pro rata basis over the term of the policy. At the end of each reporting period, premiums written that are not earned are classified as unearned premiums and are earned in subsequent periods over the remaining term of the policy. Our insurance policies typically have a term of one year. Accordingly, for a one-year policy written on July 1, 2010, we would earn half of the premiums in 2010 and the other half in 2011.

Ceding commission revenue. Commissions on reinsurance premiums ceded are earned in a manner consistent with the recognition of the direct acquisition costs of the underlying insurance policies, generally on a pro-rata basis over the terms of the policies reinsured.

Net investment income and net realized gains (losses) on investments. We invest our statutory surplus funds and the funds supporting our insurance liabilities primarily in cash and cash equivalents, short term investments, fixed maturity and equity securities. Our net investment income includes interest and dividends earned on our invested assets, less investment expenses. Net realized gains and losses on our investments are reported separately from our net investment income. Net realized gains occur when our investment securities are sold for more than their costs or amortized costs, as applicable. Net realized losses occur when our investment securities are sold for less than their costs or amortized costs, as applicable, or are written down as a result of other-than-temporary impairment. We classify equity securities and our fixed maturity securities as available-for-sale. Net unrealized gains (losses) on those securities classified as available-for-sale are reported separately within accumulated other comprehensive income on our balance sheet.

Other income. We recognize installment fee income and fees charged to reinstate a policy after it has been cancelled for non-payment. We also recognize premium finance fee income on loans financed by a third party finance company.

Loss and loss adjustment expenses incurred. Loss and loss adjustment expenses (“LAE”) incurred represent our largest expense item and, for any given reporting period, include estimates of future claim payments, changes in those estimates from prior reporting periods and costs associated with investigating, defending and servicing claims. These expenses fluctuate based on the amount and types of risks we insure. We record loss and LAE related to estimates of future claim payments based on case-by-case valuations and statistical analyses. We seek to establish all reserves at the most likely ultimate exposure based on our historical claims experience. It is typical for certain claims to take several years to settle and we revise our estimates as we receive additional information from the claimants. Our ability to estimate loss and LAE accurately at the time of pricing our insurance policies is a critical factor in our profitability.

Commission expenses and other underwriting expenses. Other underwriting expenses include acquisition costs and other underwriting expenses. Acquisition costs represent the costs of writing business that vary with, and are primarily related to, the production of insurance business (principally commissions, premium taxes and certain underwriting salaries). Policy acquisition costs are deferred and recognized as expense as the related premiums are earned. Other underwriting expenses represent general and administrative expenses. General and administrative expenses are comprised of other costs associated with our insurance activities such as regulatory fees, telecommunication and technology costs, occupancy costs, employment costs, and legal and auditing fees.

Other operating expenses. 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.

Non-cash equity compensation. Non-cash equity compensation includes the fair value of stock grants issued to our directors and Chief Executive Officer and amortization of stock options issued to our employees.

Acquisition transaction costs. Acquisition transaction costs are the costs we incurred directly related to the acquisition of KICO. Theses costs consist of fees for legal, accounting and appraisal services.

Depreciation and amortization. Depreciation and amortization includes the amortization of intangibles related to the acquisition of KICO, depreciation of the office building used in KICO's operations, as well as depreciation of office equipment and furniture.

Interest expense. Interest expense represents amounts we incur on our outstanding indebtedness at the then-applicable interest rates.

Interest expense – mandatorily redeemable preferred stock. Interest expense on mandatorily redeemable preferred stock represents amounts we incurred on our previously outstanding preferred stock at the then-applicable dividend rates.

Gain on acquisition of Kingstone Insurance Company. Gain on acquisition represents the excess of the fair market value of the net assets acquired compared to the acquisition cost.

Interest income – CMIC note receivable. We accrued interest income and accreted the discount on the surplus notes of CMIC before the acquisition of KICO on July 1, 2009.

Income tax expense (benefit). We incur federal income tax expense (benefit) on our consolidated operations as well as state income tax expense for our non-insurance underwriting subsidiaries

Key Measures

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

Net underwriting expense ratio. The net underwriting expense ratio is a measure of an insurance company's operational efficiency in administering its business. Expressed as a percentage, this is the ratio of the sum of acquisition costs 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 (expenses are net of ceding commissions and other income) 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 and Estimates

Our 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").

Consolidated Results of Operations

We completed the acquisition of KICO on July 1, 2009. Accordingly, our consolidated revenues and expenses reflect significant changes as a result of this acquisition particularly through the addition of our insurance underwriting business that now includes all of the operations of KICO.

We have changed the presentation of our business results prior to July 1, 2009 by reclassifying our previously reported continuing operations based on reporting standards for insurance underwriters. The prior period disclosures have been restated to conform to the current presentation. General corporate overhead not incurred by our underwriting business is allocated to other operating expenses.

Due to the acquisition of KICO and the commencement of our insurance underwriting business on July 1, 2009, and the discontinuance of all business operations previously in place before the acquisition date, the comparability of information between quarters and years is less meaningful. A separate discussion has been provided to compare the results of operations from KICO for the six months ended December 31, 2010 to the six months ended December 31,

2009.

In December 2008, due to declining revenues and profits, we made a decision to restructure our network of retail offices (the "Retail Business"). The plan of restructuring called for the closing of seven of our least profitable locations during December 2008 and the sale of the remaining 19 Retail Business locations. On April 17, 2009, we sold substantially all of the assets, including the book of business, of the 16 remaining Retail Business locations that we owned in New York State (the "New York Sale"). Effective June 30, 2009, we sold all of the outstanding stock of the subsidiary that operated our three remaining Retail Business locations in Pennsylvania (the "Pennsylvania Sale"). As a result of the restructuring in December 2008, the New York Sale on April 17, 2009 and the Pennsylvania Sale effective June 30, 2009, our Retail Business has been presented as discontinued operations and prior periods have been restated.

Effective May 1, 2009, we sold all of the outstanding stock of the subsidiaries that operated our DCAP franchise business. As a result of the sale, our franchise business has been presented as discontinued operations and prior periods have been restated.

Separate discussions follow for results of continuing operations and discontinued operations.

Consolidated Results of Operations

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

($ in thousands)	2010	2009(A)	Change	Percent
	Years ended December 31,			
Revenues				
Premiums earned				
Gross premiums earned	$ 30,071	$ 13,372	$ 16,699	(B)
Less: ceded premiums earned	(18,935)	(8,846)	(10,089)	(B)
Net premiums earned	11,136	4,526	6,610	(B)
Ceding commission revenue	8,583	2,940	5,643	(B)
Net investment income	617	226	391	(B)
Net realized gain (loss) on investments	349	(31)	380	(B)
Other income	911	730	181	(B)
Total revenues	21,596	8,391	13,205	157.4 %
Expenses				
Loss and loss adjustment expenses				
Gross loss and loss adjustment expenses	13,613	5,163	8,450	(B)
Less: ceded loss and loss adjustment expenses	(7,188)	(3,127)	(4,060)	(B)
Net loss and loss adjustment expenses	6,426	2,035	4,390	(B)
Commission expense	5,057	2,233	2,824	(B)
Other underwriting expenses	5,779	2,368	3,411	(B)
Other operating expenses	1,262	1,093	169	15.5 %
Non-cash equity compensation	348	89	259	291.0 %
Acquisition transaction costs	-	210	(210)	(100.0) %
Depreciation and amortization	615	269	346	(B)
Interest expense	185	184	1	0.5 %
Interest expense - mandatorily redeemable preferred stock	75	127	(52)	(40.9) %
Adjustment for rounding	-	2	(2)	(100.0) %
Total expenses	19,747	8,610	11,136	129.3 %
Income (loss) from operations	1,849	(219)	2,069	942.7 %
Gain on acquisition of Kingstone Insurance Company	-	5,178	(5,178)	(100.0) %
Interest income-CMIC note receivable	-	61	(61)	(100.0) %
Income from continuing operations before taxes	1,849	5,020	(3,170)	(63.2) %
Provision for (benefit from) income tax	767	(67)	834	1,244.8 %
Income from continuing operations	1,082	5,087	(4,004)	(78.7) %
Income (loss) from discontinued operations, net of taxes	(99)	(266)	167	62.8 %
Net income	$ 983	$ 4,821	$ (3,837)	(79.6) %
Percent of total revenues:				
Net premiums earned	51.6 %	53.9 %		
Ceding commission revenue	39.7 %	35.0 %		
Net investment income	2.9 %	2.7 %		
Net realized gains on investments	1.6 %	-0.4 %		

Other income	4.2	%	8.7	%
	100.0	%	100.0	%
Ceded premiums as a percent of gross premiums:				
Written	58.7	%	67.6	%
Earned	63.0	%	66.2	%
Ceded loss and loss adjustment expenses as a percent of gross loss and loss and loss adjustment expenses	52.9	%	60.7	%

(A) Year ended December 31, 2009 includes only the period from July 1, 2009 (the KICO acquisition date) through December 31, 2009.

(B) Not applicable due to the acquisition of KICO on July 1, 2009, see separate discussion of the results of KICO for the six months ended December 31, 2010 compared to six months ended December 31, 2009.

Continuing Operations

During the year ended December 31, 2010 (“2010”), revenues from continuing operations were $21,596,000, as compared to $8,390,000 for the year ended December 31, 2009 (“2009”). The increase in total revenues was due to the increases in all sources of revenue stemming from the acquisition of KICO that occurred on July 1, 2009.

The positive cash flow and increase in invested assets from operations was the result of the KICO acquisition. The tax equivalent investment yield, excluding cash, was 5.74% and 4.94% at December 31, 2010 and 2009, respectively. Realized capital gains (losses) from securities acquired in the KICO acquisition had a cost basis equal to their fair market value as of the acquisition date on July 1, 2009.

Total expenses in 2010 were $19,747,000, as compared to $8,610,000 in 2009. The increase in total expenses in both periods was due to the increases in all categories of expenses stemming from the acquisition of KICO that occurred on July 1, 2009, offset by a decrease in acquisition costs and interest expense on mandatorily redeemable preferred stock. Acquisition costs were eliminated in 2010 as they were related to the acquisition of KICO in 2009. The reduction in interest expense on mandatorily redeemable preferred stock 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. Other operating expenses not related to KICO were $1,262,000 in 2010 compared to $1,093,000 in 2009. The $169,000 increase in 2010 was primarily due to our Chief Executive Officer’s bonus compensation and increase in his base compensation, which are pursuant to his amended employment agreement dated March 24, 2010. The $259,000 increase in non-cash compensation from $89,000 in 2009 to $348,000 in 2010 is due to stock and option grants to our Chief Executive Officer pursuant to his amended employment agreement dated March 24, 2010.

Gain on acquisition of Kingstone Insurance Company of $5,178,000 in 2009 is attributable to the bargain purchase which was a result of the excess of net assets acquired from KICO compared to the acquisition cost.

Interest income from CMIC notes receivable in 2010 was $-0-, as compared to $61,000 in 2009. The decrease in 2010 was due to the forgiveness of the notes receivable in exchange for our 100% equity interest of KICO on July 1, 2009.

The provision for income taxes (including state taxes) was $767,000 in 2010, as compared to a tax benefit of $67,000 in 2009. The increase in 2010 was due to the inclusion of KICO earnings for the full year in 2010 compared to only six months in 2009. The gain on acquisition of KICO in 2009 is being treated as a permanent difference for income tax purposes. The tax provision/benefit on income from continuing operations in both periods include the current tax provision/benefit resulting from discontinued operations.

Discontinued Operations

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

($ in thousands)	Years ended December 31, 2010	2009	Change	Percent
Total revenue	$ -	$ 1,243	$ (1,243)	(100) %
Operating Expenses:				
General and administrative expenses	-	1,406	(1,406)	(100) %
Depreciation and amortization	-	62	(62)	(100) %
Interest expense	-	12	(12)	(100) %
Impairment of intangibles	-	49	(49)	(100) %
Total operating expenses	-	1,529	(1,529)	(100) %
Loss from operations	-	(286)	286	100 %
Gain (loss) on sale of business, net of additional consideration received	38	(57)	95	167 %
Income (loss) before benefit from income taxes	38	(343)	381	111 %
Provision for (benefit from) income taxes	137	(77)	214	n/a
Income (loss) from discontinued operations	$ (99)	$ (266)	$ 167	63 %

The decrease in revenue and expenses in our discontinued operations in 2010 as compared to 2009 was attributable to: (i) the cessation of operations in our Retail Business of the 16 remaining stores located in New York as a result of the sale of their assets on April 17, 2009, and the sale of our Pennsylvania stores on June 30, 2009, and (ii) in our discontinued Franchise Business, the sale on May 1, 2009 of all of the outstanding stock of the subsidiaries that operated our DCAP franchise business. In 2010 we received $38,000, which represents the balance of contingent consideration due to us from the New York Sale.

The provision for income taxes in 2010 and 2009 are due to deferred tax adjustments related to the disposition of the businesses and entities that were sold in 2009.

Net income

Net income was $983,000 for 2010, compared to $4,821,000 in 2009. The decrease in net income of $3,837,000 was due to the $5,178,000 gain on acquisition of KICO in 2009, offset by the inclusion of KICO earnings for the entire period during 2010 compared to only six months in 2009 and the cessation of our discontinued operations in 2009.

Results of Operations for Insurance Underwriting Business on a Standalone Basis

Due to the acquisition of KICO and the commencement of our insurance underwriting business on July 1, 2009, the comparability of information between years is less meaningful. The results of operations for the years ended December 31, 2010 and 2009 include KICO for the entire year in 2010 and only for six months in 2009; as a result we have decided to include the following discussion comparing KICO’s results of operations for six month period ended December 31, 2010 to the six month period ended December 31, 2009.

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	Six months ended (unaudited)			
	December 31, 2010	December 31, 2009	Change $	Change %
Revenues				
Gross written premium	$ 16,656	$ 13,573	3,083	22.7 %
Net written premium	6,652	4,400	2,252	51.2 %
Change in unearned	(356)	126	(482)	-382.4 %
Net premiums earned	6,296	4,526	1,769	39.1 %
Ceding commission revenue	4,401	2,939	1,462	49.7 %
Net investment income	336	226	110	48.8 %
Net realized gains (losses) on investments	205	(31)	235	-768.2 %
Other income	201	130	71	54.5 %
Total revenues	11,438	7,791	3,648	46.8 %
Expenses				
Loss and loss adjustment expenses	3,815	2,035	1,780	87.4 %
Commission expense	2,697	2,233	464	20.8 %
Other underwriting expenses	3,247	2,368	879	37.1 %
Acquisition transaction costs	-	92	(92)	-100.0 %
Depreciation and amortization	305	253	52	20.6 %
Total expenses	10,065	6,981	3,083	44.2 %
Income before income taxes	1,374	810	564	69.7 %
Income tax expense	450	293	157	53.7 %
Net income	$ 923	$ 517	$ 407	78.7 %
Key Measures:				
Net loss ratio	60.6 %	45.0 %		
Net underwriting expense ratio	21.3 %	33.8 %		
Net combined ratio	81.9 %	78.8 %		
Reconciliation of net underwriting expense ratio:				
Acquisition costs and other underwriting expenses	5,944	4,601		
Less: Ceding commission revenue	(4,401)	(2,939)		
Less: Other income	(201)	(130)		
	1,342	1,532		
Net earned premium	6,296	4,526		
Net Underwriting Expense Ratio	21.3 %	33.8 %		

Gross premiums written during the six months ended December 31, 2010 (“2010”) were $16,656,000 compared to $13,573,000 during the six months ended December 31, 2009 (“2009”).The increase of $3,083,000 or 22.7% was due to an increase in policies in-force during 2010 as compared to 2009. Policies in-force increased by 17.3% as of December 31, 2010 compared to December 31, 2009.

Net written premium increased $2,252,000, or 51.2%, to $6,652,000 in 2010 from $4,400,000 in 2009. The increase in net written premium resulted from an increase of gross written premium in 2010 compared to gross written premium in 2009. Net written premiums grew at a greater rate than gross written premiums (51.2 % compared to 22.7%) due to the elimination of our commercial auto quota share treaty effective January 1, 2010 and a reduction of our ceding percentage in the other commercial lines quota share treaty from 85% to 75% effective July 1, 2010.

Net earned premium increased $1,769,000, or 31.2%, to $6,296,000 in 2010 from $4,526,000 in 2009. 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 December 31, 2010 compared to the twelve months ended December 31, 2009.

Ceding commission revenue was $4,401,000 in 2010 compared to $2,939,000 in 2009. The increase of $1,769,000 or 39.1% 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 $336,000 in 2010 compared to $226,000 in 2009. The increase of $110,000 or 48.8% was due to an increase in average invested assets in 2010 as compared to 2009. The increase in cash and invested assets resulted primarily from increased operating cash flows.

Net loss and loss adjustment expenses were $3,815,000 in 2010 compared to $2,035,000 in 2009. The net loss ratio was 60.6% in 2010 compared to 45.0% in 2009. The increase of 15.6 percentage points in our net loss ratio for 2010 as compared to 2009 is primarily due to an increase in losses incurred and a decrease in ceded losses as a percent of total losses. Our net loss incurred resulting from two fires in 2010 added 3.1 percentage points to our net loss ratio in 2010.

Commission expense was $2,697,000 in 2010 or 16.2% of gross premiums written. Commission expense was $2,233,000 in 2009 or 16.5% of gross premiums written. The increase of $464,000 or 20.8% is due to the 22.7% increase in gross premiums written in 2010 as compared to 2009.

Other underwriting expenses were $3,247,000 in 2010 compared to $2,368,000 in 2009. The $464,000 increase in other underwriting expenses was primarily due expenses directly related to the increase in gross premiums written, additional employment costs due to the hiring of additional staff needed to service our growth in written premiums and an increase in professional fees due to increased compliance costs. The gross underwriting expense ratio was 3.4% in 2010 as compared to 11.5% in 2009. The net underwriting expense ratio was 8.7% in 2010 as compared to 33.8% in 2009.

Income tax expense in 2010 was $450,000, which resulted in an effective tax rate of 32.8%. Income tax expense in 2009 was $293,000, which resulted in an effective tax rate of 36.2%. The decrease in our effective rate resulted, primarily, from an increase in tax exempt interest.

Insurance Underwriting Business on a Standalone Basis

Our insurance underwriting business reported on a standalone basis for the year ended December 31, 2010 ("2010") and for the period from July 1, 2009 (date of KICO acquisition) through December 31, 2009 ("2009") follows:

	2010	2009
Revenues		
Net premiums earned	$ 11,135,635	$ 4,526,341
Ceding commission revenue	8,583,146	2,939,143
Net investment income	617,119	225,676
Net realized gain on investments	349,415	(30,628)
Other income	363,468	130,270
Total revenues	21,048,783	7,790,802
Expenses		
Loss and loss adjustment expenses	6,425,585	2,035,471
Commission expense	5,057,409	2,233,399
Other underwriting expenses	5,778,845	2,367,535
Acquistion transaction costs	-	91,635
Depreciation and amortization	611,855	253,162
Total expenses	17,873,694	6,981,202
Income from operations	3,175,089	809,600
Income tax expense	1,060,927	292,904
Net income	$ 2,114,161	$ 516,696

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
2010				
Written premiums	$33,249,331	$10,699	$(19,525,208)	$13,734,822
Unearned premiums	(3,189,250)	105	589,958	(2,599,187)
Earned premiums	$30,060,081	$10,804	$(18,935,250)	$11,135,635
Loss and loss adjustment expenses	$13,597,785	$15,336	$(7,187,536)	$6,425,585
Loss ratio	45.2 %	141.9 %	38.0 %	57.7 %
2009				