KINGSTONE COMPANIES, INC.
Form 10-K
March 30, 2012

United States Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

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

FOR THE TRANSITION PERIOD FROM__________TO__________

Commission File Number 0-1665

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

Delaware (State or other jurisdiction of incorporation or organization)	36-2476480 (I.R.S. Employer Identification No.)
1154 Broadway, Hewlett, New York (Address of principal executive offices)	11557 (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 o No þ

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 o No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the

Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

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

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. o

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

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

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

As of June 30, 2011, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $6,195,773 based on the closing sale price as reported on the NASDAQ Capital Market. As of March 30, 2012, there were 3,779,900 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,” “proje “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 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 to Kingstone Companies, Inc. (“Kingstone”) and its subsidiaries.

We offer property and casualty insurance products to small businesses and individuals in New York State through our wholly-owned subsidiary, Kingstone Insurance Company (“KICO”). KICO is a licensed property and casualty insurance company in the State of New York. In 2011, KICO obtained a license to write property and casualty insurance in Pennsylvania; however, KICO has not commenced writing business in Pennsylvania. Payments, Inc., our wholly-owned subsidiary, is a licensed premium finance company in the State of New York and receives fees for placing contracts with a third party licensed premium finance company.

Recent Developments

Developments During 2011

Debt Financing

From June 2009 through March 2010, we borrowed $1,450,000 (including $785,000 from related parties) and issued promissory notes in such aggregate principal amount (the “2009/2010 Notes”). During the quarter the ended June 30, 2011, we prepaid $703,000 (including $407,000 to related parties) of the principal amount of the 2009/2010 Notes. In June 2011, the remaining noteholders agreed to extend the maturity date of the 2009/2010 Notes for a period of three years from July 10, 2011 to July 10 2014, and, effective July 11, 2011, reduce the interest rate from 12.625% to 9.5% per annum. The remaining 2009/2010 Notes, as extended, can be prepaid without premium or penalty. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity” and “Certain Relationships and Related Transactions, and Director Independence – 2009/2010 Debt Financing” in Items 7 and 13, respectively, of this Annual Report.

Line of Credit

On December 27, 2011, we obtained a $500,000 line of credit. The line of credit bears interest at a floating rate based on the bank’s prime rate. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity” in Item 7 of this Annual Report.

Dividends Declared

In 2011, we declared our first quarterly dividends on our common stock. Dividends of $.03 per share were declared on each of August 11, 2011 and November 10, 2011 and were paid on September 15, 2011 and December 15, 2011, respectively.

A.M. Best Rating

In 2011, the A.M. Best rating for KICO was upgraded from B (Fair) to B+ (Good).

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Developments During 2010

Mandatorily Redeemable Preferred Stock Exchanged for Common Stock

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 year ended December 31, 2010, the preferred dividends have been classified as interest expense of $74,706.

(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.

The key measure of relative underwriting performance for an insurance company is the combined ratio. An insurance company's combined ratio under 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.

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General

Substantially all of our continuing operations consist of the underwriting of property and casualty insurance. KICO is a multi-line regional property and casualty insurance company writing business exclusively through independent agents and brokers ("producers"). We are licensed to write insurance in New York and Pennsylvania. KICO obtained authority to write business in Pennsylvania in February 2011; however, it has not commenced writing business in Pennsylvania. KICO provides direct markets to small and medium-sized producers located primarily in downstate New York, consisting of New York City, Long Island, and Westchester County. In 2011, KICO expanded its market to include parts of western New York, primarily Buffalo, Rochester and Syracuse.

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. Each year the PIA surveys its membership, asking them to rate the carriers with whom they do business. The survey covers 20 different performance categories such as claims, underwriting, agent support and technology. In 2010, 81 companies were rated along with KICO, including large national carriers.

We have developed online application raters and inquiry systems for many of our personal lines and commercial automobile products. Substantially all of our personal lines are underwritten using these tools. We plan to expand online capabilities to 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 profitably write personal lines business in all areas of New York City and Long Island.

Product Lines

Our product lines include the following:

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

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.

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 (livery vehicles up to four years old), silver cars (livery vehicles over four years old), yellow taxicabs and car service vehicles.

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 evaluate the results of each producer 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.

Each producer is 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, but we accommodate all other means of producer transmissions. 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. We constantly assess and project the market conditions and prices for our products, but we cannot fully know our profitability until all claims have been reported and settled.

We compete with large national carriers as well as regional and local carriers in the property and casualty insurance marketplace. Within 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 with the producer, and the fair and expedient handling of claims.

Competition with carriers offering lower premium rates could result in fewer applications for coverage. We are unable to predict the extent to which new, proposed or potential initiatives by our competitors 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. We establish these 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 losses incurred but not reported ("IBNR") 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. 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.

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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:

	Years ended December 31, 2011	Years ended December 31, 2010
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	8,297,998	6,095,528
Prior years	273,060	330,057
Total incurred	8,571,058	6,425,585
Paid related to:		
Current year	4,108,010	2,855,074
Prior years	3,220,851	2,291,134
Total paid	7,328,861	5,146,208
Net balance at end of period	8,522,689	7,280,492
Add reinsurance recoverables	9,958,028	10,431,415
Balance at end of period	$18,480,717	$17,711,907

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 table below shows the net loss development for business written each year from 2004 through 2011. We did not have accurate and reliable data for years 2002 and 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, 2011, 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,							
	2004	2005	2006	2007	2008	2009	2010	2011
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	8,520
Net reserve estimated as of One year later	5,122	3,627	4,844	5,430	6,119	6,235	7,483	
Two years later	5,698	4,315	5,591	5,867	6,609	6,393		
Three years later	6,356	5,101	5,792	6,433	6,729			
Four years later	6,985	5,094	6,260	6,569				
Five years later	7,049	5,540	6,343					
Six years later	7,476	5,616						
Seven years later	7,561							
Eight years later								
Nine years later								
Ten years later								
Net cumulative redundancy (deficiency)	(4,420)	(2,542)	(1,973)	(1,770)	(906)	(392)	(203)	

	As of and for the Year Ended December 31,							
	2004	2005	2006	2007	2008	2009	2010	2011
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	3,201	
Two years later	4,291	2,321	3,303	3,339	3,974	3,992		
Three years later	4,965	3,321	4,036	4,339	5,054			
Four years later	5,598	3,705	4,471	5,146				
Five years later	5,840	3,988	5,079					
Six years later	6,101	4,484						
Seven years later	6,557							
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	8,520
* Reinsurance Recoverable	7,610	7,283	6,523	6,693	9,766	10,512	10,432	9,960
* Gross reserves - December 31,	10,751	10,357	10,893	11,492	15,589	16,513	17,712	18,480
Net re-estimated reserve	7,561	5,616	6,343	6,569	6,729	6,393	7,483	
Re-estimated reinsurance recoverable	9,401	9,585	9,719	9,518	11,393	10,842	10,317	
Gross re-estimated reserve	16,962	15,201	16,062	16,087	18,122	17,235	17,800	
Gross cumulative redundancy (deficiency)	(6,211)	(4,844)	(5,169)	(4,595)	(2,533)	(722)	(88)	

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – 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 is structured to reflect our obligations and goals. Reinsurance via quota share allows for a carrier to write business without increasing its underwriting leverage above a management determined ratio. The business written under a reinsurance quota share obligates a reinsurer to assume the risks involved, and gives the reinsurer the profit (or loss) associated with such. Since KICO converted to a stock company in 2009, 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.

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Investments

Our investment portfolio, including cash and cash equivalents, and short term investments, as of December 31, 2011 and 2010, is summarized in the table below by type of investment.

	December 31, 2011		December 31, 2010	
	Fair Market Value	Percentage of Fair Market Value	Fair Market Value	Percentage of Fair Market Value
Less than one year	$ 1,079,924	4.8 %	$ 253,385	1.6 %
One to five years	7,045,774	31.2 %	6,997,694	42.8 %
Five to ten years	12,680,441	56.2 %	7,118,405	43.6 %
More than 10 years	1,762,793	7.8 %	1,969,617	12.1 %
Total	$ 22,568,932	100.0 %	$ 16,339,101	100.0 %

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

	December 31, 2011		December 31, 2010	
	Fair Market Value	Percentage of Fair Market Value	Fair Market Value	Percentage of Fair Market Value
Rating				
U.S. Treasury securities	$ 550,188	2.4 %	$ 1,042,657	6.4 %
AAA	3,041,576	13.5 %	4,229,483	25.9 %
AA	4,502,733	20.0 %	3,698,610	22.6 %
A	6,977,222	30.9 %	4,770,488	29.2 %
BBB	7,497,213	33.2 %	2,597,863	15.9 %
Total	$ 22,568,932	100.00 %	$ 16,339,101	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 generally 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. Our rating was upgraded to B+ (Good) in 2011. 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 could create additional demand from producers requiring a carrier to have an A.M. Best rating.

Premium Financing

Customers who purchase insurance policies are often unable to pay the premium in a lump sum or are unable to afford the payment plan offered 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 state of New York. 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 1.8% and 2.2% of our revenues from continuing operations during the years ended December 31, 2011 and 2010, respectively.

The regulatory framework under which our premium finance procedures are established is generally set forth in the premium finance statutes of the state 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" below.

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 Department of Financial Services (the "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 Department.

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

Change of Control

The insurance holding company laws of the state of New York require approval by the 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 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 in which KICO is licensed to transact business. In 2011 New York was the only state in which KICO transacted business. In February 2011, KICO 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.

On July 21, 2010, the U.S. Congress enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”). Certain sections of the Dodd-Frank Act relate to the business of insurance. The Dodd-Frank Act creates the Federal Insurance Office (“FIO”). Initially, the FIO will have limited authority and will mainly gather information and report to Congress on the business of insurance. Many sections of the Dodd-Frank Act become effective over time, and certain provisions of the Dodd-Frank Act require the implementation of regulations that have not yet been drafted. We are unable to predict how or when these changes may be implemented, 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. The New York State Department of Financial Services commenced its examination of KICO during January 2012.

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, 2011.

Dividend Limitations

Our ability to receive dividends from KICO is restricted by the state laws and insurance regulations of New York. These restrictions are related to surplus and net investment income. Dividends are restricted to the lesser of 10% of surplus or 100% of investment income (on a statutory basis) for the trailing four quarters. As of December 31, 2011, the maximum distribution that KICO could pay without prior regulatory approval was approximately $792,000, which is based on investment income for the last four quarters.

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, 2011, as a result of its growth, KICO had two ratios outside the usual range due to reliance on quota share reinsurance and growth in surplus 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 in New York by the Department of Financial Services. The regulations, which generally are designed to protect the interests of policyholders who elect to finance their insurance premiums, involve the following:

- 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, 2011, we had 49 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, "Management's Discussion and Analysis of Financial Condition and Results of Operations – 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 $20,000. We own the building from which our insurance underwriting business operates, free of mortgage.

ITEM 3. LEGAL PROCEEDINGS.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

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

Market Information

Our common stock is quoted on The NASDAQ Capital Market under the symbol "KINS."

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

	High	Low
2011 Calendar Year		
First Quarter	$3.90	$3.02
Second Quarter	3.88	2.82
Third Quarter	3.68	2.47
Fourth Quarter	3.59	2.97

	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

Holders

As of March 21, 2012, there were approximately 500 record holders of our common stock.

Dividends

Holders of our common stock are entitled to dividends when, as and if declared by our Board of Directors out of funds legally available. During 2011, we paid quarterly dividends of $0.03 per share on September 15, 2011 and December 15, 2011. 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 future dividends of any kind will continue to be paid to holders of our common stock.

Our ability to pay dividends depends, in part, upon on the ability of KICO to pay dividends to us. KICO, as an insurance subsidiary is subject to significant regulatory restrictions limiting its ability to declare and pay dividends. See "Business – Government Regulation" and "Management's Discussion and Analysis of Financial Condition and Results of Operation – Liquidity" in Items 1 and 7, respectively, of this Annual Report.

We declared dividends on our common stock as follows:

	2011	2010
Common stock dividends declared	$230,303	$-

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

The following table set forth certain information with respect to purchases of common stock made by us or any "affiliated purchaser" during the quarter ended December 31, 2011:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Be Purchased Under the Plans or Programs
10/1/11 – 10/31/11	-	-	-	-
11/1/11 – 11/30/11	-	-	-	-
12/1/11 – 12/31/11	78,486	$3.02	-	-
Total	78,486	$3.02	-	-

ITEM 6. SELECTED FINANCIAL DATA.

Not applicable.

ITEM 7. 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 98% of our revenue from KICO, which includes revenues from earned premiums, ceding commissions from quota share reinsurance, net investment income generated from our portfolio, and net realized gains and losses on investment securities. 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. Policy acquisition costs include commissions paid to producers, premium taxes, and other expenses related to the underwriting process, including employees' compensation and benefits.

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

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.

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.

Income tax expense. We incur federal income tax expense 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 loss adjustment expenses ("LAE") incurred to net premiums earned.

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

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

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

Critical Accounting Policies 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 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 (Accounting Policies and Basis of Presentation) of the Notes to Consolidated Financial Statements following Item 15 of this Annual Report.

Consolidated Results of Operations

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

	Years ended December 31			
($ in thousands)	2011	2010	Change	Percent
Revenues				
Direct written premiums	$40,735	$33,249	$7,485	22.5 %
Net written premiums	16,296	13,735	2,561	18.6 %
Change in net unearned premiums	(1,427)	(2,599)	1,172	(45.1) %
Net premiums earned	14,869	11,136	3,733	33.5 %
Ceding commission revenue	10,625	8,583	2,042	23.8 %
Net investment income	754	617	137	22.2 %
Net realized gain on investments	524	349	175	50.1 %
Other income	921	911	10	1.1 %
Total revenues	27,693	21,596	6,097	28.2 %
Expenses				
Loss and loss adjustment expenses (1)				
Direct loss and loss adjustment expenses	15,644	13,613	2,031	14.9 %
Less: ceded loss and loss adjustment expenses	(7,073)	(7,188)	115	(1.6) %
Net loss and loss adjustment expenses	8,571	6,426	2,145	33.4 %
Commission expense	6,231	5,057	1,174	23.2 %
Other underwriting expenses	7,373	5,779	1,594	27.6 %
Other operating expenses	1,203	1,610	(407)	(25.3) %
Depreciation and amortization	603	615	(12)	(2.0) %
Interest expense	121	185	(64)	(34.6) %
Interest expense - mandatorily redeemable preferred stock	-	75	(75)	(100.0) %
Total expenses	24,102	19,747	4,355	22.1 %
Income from continuing operations before taxes	3,591	1,849	1,742	94.2 %
Provision for income tax	1,089	767	322	42.0 %
Income from continuing operations	2,502	1,082	1,420	131.2 %
Loss from discontinued operations, net of taxes	-	(99)	99	(100.0) %
Net income	$2,502	$983	$1,519	154.5 %
Percent of total revenues:				
Net premiums earned	53.7 %	51.6 %		
Ceding commission revenue	38.4 %	39.7 %		
Net investment income	2.7 %	2.9 %		
Net realized gains on investments	1.9 %	1.6 %		
Other income	3.3 %	4.2 %		
	100.0 %	100.0 %		
Net loss ratio excluding the effect of catastrophes	54.6 %	57.7 %		
Net catastrophe loss	3.0 %	0.0 %		
Net loss ratio	57.6 %	57.7 %		

(1) For the year ended December 31, 2011, includes direct catastrophe losses and loss adjustment expenses of $1,796,000, and net catastrophe losses and loss adjustment expenses of $449,000, incurred from August 27, 2011 to August 29, 2011 from Tropical Storm Irene. Catastrophe losses incurred from Tropical Storm Irene increased our ceded loss ratio which reduced our contingent ceding commission revenue by $200,000. We define a "catastrophe" as an event that involves multiple first party policyholders, or an event that produces a number of claims in excess of a preset, per-event threshold of average claims in a specific area, occurring within a certain amount of time constituting the event. Catastrophes are caused by various natural events including high winds, excessive rain, winter storms, tornadoes, hailstorms, wildfires, tropical storms, and hurricanes.

Direct written premiums during the year ended December 31, 2011 (“2011”) were $40,735,000 compared to $33,249,000 during the year ended December 31, 2010 (“2010”). The increase of $7,485,000, or 22.5%, was primarily due to an increase in policies in-force during 2011 as compared to 2010. We wrote more policies as a result of an increase in demand for the products in the markets that we serve. Policies in-force increased by 20.1% as of December 31, 2011 compared to December 31, 2010. In addition to the increase of policies in-force, we are also writing more policies which have higher premiums.

Net written premiums increased $2,561,000, or 18.6%, to $16,296,000 in 2011 from $13,735,000 in 2010. The increase in net written premiums resulted from an increase in direct written premiums in 2011 compared to direct written premiums in 2010. Net written premiums grew at a lower rate than direct written premiums (18.6% compared to 22.5%) 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 $3,733,000, or 33.5%, to $14,869,000 in 2011 from $11,136,000 in 2010. As premiums written earn ratably over a twelve month period, the increase was a result of higher net written premiums for the twelve months ended December 31, 2011 compared to the twelve months ended December 31, 2010.

Ceding commission revenue was $10,625,000 in 2011 compared to $8,583,000 in 2010. The increase of $2,042,000, or 23.8%, was due to the increase in the amount of premiums ceded and more favorable ceding commission rates, offset by the effects of Tropical Storm Irene on our ceded net loss ratio which reduced our contingent ceding commission revenue by $200,000. Our quota share reinsurance treaty, which expired June 30, 2011, contained a provision which limited the maximum contingent ceding commission that could be paid to us, with the unused benefit carried forward to the current treaty year which began July 1, 2011. The carryover amount was included in our computation of contingent ceding commission effective July 1, 2011, and resulted in an additional $264,000 to our contingent ceding commission revenue. Ceding commission revenue also increased as a result of favorable development on prior year’s quota share treaties.

Net investment income was $754,000 in 2011 compared to $617,000 in 2010. The increase of $137,000, or 22.2%, was due to an increase in average invested assets in 2011 as compared to 2010, offset by an increase in investment expenses, including an adjustment to amortization of bond premium in 2011. The increase in cash and invested assets resulted primarily from increased operating cash flows. The tax equivalent investment yield, excluding cash, was 5.43% and 5.74% at December 31, 2011 and 2010, respectively.

Net realized gains on investments were $524,000 in 2011 compared to $349,000 in 2010. The increase of $175,000, or 50.1%, was primarily due to a recovery of $133,000 from the FDIC received in 2011 relating to a failed bank which was included in other than temporary impaired losses in 2009.

Net loss and loss adjustment expenses were $8,571,000 in 2011 compared to $6,426,000 in 2010. The net loss ratio was 57.6% in 2011 compared to 57.7% in 2010. Net losses in 2011 included the effects of Tropical Storm Irene in August 2011, which we define as a catastrophe. As a result of Tropical Storm Irene, we incurred $449,000 of losses and loss adjustment expenses (net of reinsurance recoverable of $1,347,000), and added 3.0 percentage points to our net loss ratio.

Commission expense was $6,231,000 in 2011 or 14.7% of direct written premiums. Commission expense was $5,057,000 in 2010 or 15.2% of direct written premiums. The increase of $1,174,000, or 23.2%, is due to the 22.5% increase in direct written premiums in 2011 as compared to 2010.

Other underwriting expenses were $7,373,000 in 2011 compared to $5,779,000 in 2010. The $1,594,000, or 27.6%, increase in other underwriting expenses was primarily due to expenses directly related to the increase in direct written premiums and additional employment costs due to both the hiring of additional staff needed to service our growth in written premiums and increases in annual salaries. Underwriting expenses as a percentage of direct written premiums was 18.1% in 2011 as compared to 17.4% in 2010.

Other operating expenses, related to the corporate expenses of our holding company, were $1,203,000 in 2011 compared to $1,610,000 in 2010. The $407,000 decrease in 2011 was primarily due to decreases in professional fees, executive employment costs, and amortization of stock options. 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 share-based bonus compensation to our Chief Executive Officer in 2010, which was incurred pursuant to his amended employment agreement dated March 24, 2010. No such share-based bonus compensation was incurred in 2011. The reduction in amortization of stock options decreased as a result of more stock options being fully vested prior to 2011.

Interest expense was $121,000 in 2011 compared to $185,000 in 2010. The $64,000 decrease in interest expense was due to the partial redemption of $703,000 to our 2009/2010 Notes during the quarter ended June 30, 2011, and effective July 11, 2011, a reduction in the interest rate to 9.5% per annum from the previous 12.625% per annum.

Interest expense on mandatorily redeemable preferred stock was $-0- in 2011 compared to $75,000 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 $1,089,000, which resulted in an effective tax rate of 30.3%. Income tax expense in 2010 was $767,000, which resulted in an effective tax rate of 41.5%. The decrease in our effective tax rate resulted primarily from a net change in tax exempt permanent differences in 2011 and the true-up of our 2010 income tax liability in 2011, which resulted in a tax benefit compared to the true-up of 2009 income tax liability in 2010, which resulted in a tax expense.

Loss from discontinued operations was $-0- in 2011 compared to a loss of $99,000 in 2010. All discontinued operations ceased in 2010.

Net income was $2,502,000 in 2011 compared to $983,000 in 2010. The increase in net income of $1,519,000 was due to the circumstances that caused the increases in our net premiums earned and ceding commission revenue, increase in net realized gains and a decrease in other operating expenses, offset by increases in our other underwriting expenses, as described above.

Insurance Underwriting Business on a Standalone Basis

Our insurance underwriting business reported on a standalone basis for the years ended December 31, 2011 and 2010 follows:

	Years ended December 31, 2011	2010
Revenues		
Net premiums earned	$14,868,746	$11,135,635
Ceding commission revenue	10,624,714	8,583,146
Net investment income	754,630	617,119
Net realized gain on investments	523,894	349,415
Other income	430,034	363,468
Total revenues	27,202,018	21,048,783
Expenses		
Loss and loss adjustment expenses	8,571,058	6,425,585
Commission expense	6,230,564	5,057,409
Other underwriting expenses	7,372,877	5,778,845
Depreciation and amortization	597,943	611,855
Total expenses	22,772,442	17,873,694
Income from operations	4,429,576	3,175,089
Income tax expense	1,363,956	1,060,927
Net income	$3,065,620	$2,114,162
Key Measures:		
Net loss ratio	57.6 %	57.7 %
Net underwriting expense ratio	17.1 %	17.0 %
Net combined ratio	74.8 %	74.7 %
Reconciliation of net underwriting expense ratio:		
Acquisition costs and other underwriting expenses	$13,603,441	$10,836,254
Less: Ceding commission revenue	(10,624,714)	(8,583,146)
Less: Other income	(430,034)	(363,468)
	$2,548,693	$1,889,640
Net earned premium	$14,868,746	$11,135,635
Net Underwriting Expense Ratio	17.1 %	17.0 %

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
Year ended December 31, 2011				
Written premiums	$40,734,767	$10,990	$(24,449,655)	$16,296,102
Unearned premiums	(4,005,312)	(516)	2,578,472	(1,427,356)
Earned premiums	$36,729,455	$10,474	$(21,871,183)	$14,868,746
Loss and loss adjustment expenses exluding the effect of catastrophes	$13,830,599	$17,368	$(5,725,938)	$8,122,029
Catastrophe loss	1,796,117	-	(1,347,088)	449,029
Loss and loss adjustment expenses	$15,626,716	$17,368	$(7,073,026)	$8,571,058
Loss ratio excluding the effect of catastrophes	37.7%	165.8%	26.2%	54.6%
Catastrophe loss	4.9%	0.0%	6.2%	3.0%
Loss ratio	42.5%	165.8%	32.3%	57.6%
Year ended December 31, 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 exluding the effect of catastrophes	$13,597,785	$15,336	$(7,187,536)	$6,425,585
Catastrophe loss	-	-	-	-
Loss and loss adjustment expenses	$13,597,785	$15,336	$(7,187,536)	$6,425,585
Loss ratio excluding the effect of catastrophes	45.2%	141.9%	38.0%	57.7%
Catastrophe loss	0.0%	0.0%	0.0%	0.0%
Loss ratio	45.2%	141.9%	38.0%	57.7%

The key measures for our insurance underwriting business for the years ended December 31, 2011 and 2010 are as follows:

	Years ended December 31, 2011		2010	
Net premiums earned	$14,868,746		$11,135,635	
Ceding commission revenue (1)	10,624,714		8,583,146	
Other income	430,034		363,468	
Loss and loss adjustment expenses (2)	8,571,058		6,425,585	
Acquistion costs and other underwriting expenses:				
Commission expense	6,230,564		5,057,409	
Other underwriting expenses	7,372,877		5,778,845	
Total acquistion costs and other underwriting expenses	13,603,441		10,836,254	
Underwriting income	$3,748,995		$2,820,410	
Key Measures:				
Net loss ratio excluding the effect of catastrophes	54.6	%	57.7	%
Effect of catastrophe loss on loss ratio (2)	3.0	%	0.0	%
Net loss ratio	57.6	%	57.7	%
Net underwriting expense ratio excluding the effect of catastrophes	13.8	%	17.0	%
Effect of catastrophe loss on net underwriting expense ratio (1) (2)	3.3	%	0.0	%
Net underwriting expense ratio	17.1	%	17.0	%
Net combined ratio excluding the effect of catastrophes	68.5	%	74.7	%
Effect of catastrophe loss on net combined ratio (1) (2)	6.3	%	0.0	%
Net combined ratio	74.8	%	74.7	%
Reconciliation of net underwriting expense ratio:				
Acquisition costs and other underwriting expenses	$13,603,441		$10,836,254	
Less: Ceding commission revenue (1)	(10,624,714)		(8,583,146)	
Less: Other income	(430,034)		(363,468)	
	$2,548,693		$1,889,640	
Net earned premium	$14,868,746		$11,135,635	

(1) The effect of catastrophes reduced contingent ceding commission revenue by $200,516 for the year ended December 31, 2011. A provision in our quota share reinsurance treaty, which expired June 30, 2011, limited the maximum contingent ceding commission that could be paid to us, with the unused benefit carried forward to the

current treaty year which began July 1, 2011. The carry forward of the unused benefit resulted in additional contingent ceding commission revenue of approximately $264,000 for the year ended December 31, 2011.

(2) Includes direct and net catastrophe losses, and loss adjustment expenses $1,796,117 and $449,029, respectively for the year ended December 31, 2011.

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 December 31, 2011 and 2010:

Available for Sale Securities

	December 31, 2011					
	Cost or	Gross	Gross Unrealized Losses		Aggregate	% of
			Less than	More than		
	Amortized	Unrealized	12	12	Fair	Fair
Category	Cost	Gains	Months	Months	Value	Value
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$499,832	$50,356	$-	$-	$550,188	2.1 %
Political subdivisions of States, Territories and Possessions	5,868,743	301,559	-	-	6,170,302	23.2 %
Corporate and other bonds Industrial and miscellaneous	15,846,616	338,284	(228,792)	(107,666)	15,848,442	59.5 %
Total fixed-maturity securities	22,215,191	690,199	(228,792)	(107,666)	22,568,932	84.7 %
Equity Securities	3,857,741	311,300	(98,938)	(4,893)	4,065,210	15.3 %
Total	$26,072,932	$1,001,499	$(327,730)	$(112,559)	$26,634,142	100.0 %

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	December 31, 2011					
	Cost or	Gross	Gross Unrealized Losses		Aggregate	% of
Category	Amortized Cost	Unrealized Gains	Less than 12 Months	More than 12 Months	Fair Value	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

	December 31, 2011					
			Gross Unrealized Losses			
Category	Cost or Amortized Cost	Gross Unrealized Gains	Less than 12 Months	More than 12 Months	Fair Value	% of Fair Value
U.S. Treasury securities	$ 606,234	$ 171,719	$ -	$ -	$ 777,953	100.0 %

	December 31, 2010					
			Gross Unrealized Losses			
Category	Cost or Amortized Cost	Gross Unrealized Gains	Less than 12 Months	More than 12 Months	Fair Value	% of 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 as of December 31, 2011 and 2010 as rated by Standard and Poor's:

	December 31, 2011		December 31, 2010	
	Fair Market Value	Percentage of Fair Market Value	Fair Market Value	Percentage of Fair Market Value
Rating				
U.S. Treasury securities	$550,188	2.4 %	$1,042,657	6.4 %
AAA	3,041,576	13.5 %	4,229,483	25.9 %
AA	4,502,733	20.0 %	3,698,610	22.6 %
A	6,977,222	30.9 %	4,770,488	29.2 %
BBB	7,497,213	33.2 %	2,597,863	15.9 %
Total	$22,568,932	100.00 %	$16,339,101	100.0 %

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

	December 31, 2011		December 31, 2010	
Category	Average Yield %	Weighted Average Duration in Years	Average Yield %	Weighted Average Duration in Years
U.S. Treasury securities and obligations of U.S. government corporations and agencies	2.75 %	17.8	3.27 %	14.1
Political subdivisions of States, Territories and Possessions	3.86 %	5.2	4.24 %	6.9
Corporate and other bonds Industrial and miscellaneous	4.98 %	7.1	5.20 %	7.6

Fair Value Consideration

As disclosed in Note 5 to the 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 December 31, 2011 and December 31, 2010, 49% and 43%, respectively, of the investment portfolio recorded at fair value was priced based upon quoted market prices. As of December 31, 2011 and December 31, 2010, 50% and 56%, respectively, of the investment portfolio recorded at fair value was priced based upon observable inputs other than quoted 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 December 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 December 31, 2011 and December 31, 2010:

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

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

There were 64 securities at December 31, 2011 that accounted for the gross unrealized loss, none of which were deemed by us to be other than temporarily impaired. There were 60 securities at December 31, 2010 that accounted for the gross unrealized loss, none of which were deemed by us to be other than temporarily impaired. Significant factors influencing our determination that unrealized losses were temporary included the magnitude of the unrealized losses in relation to each security's cost, the nature of the investment and management's intent not to sell these securities and it being not more likely than not that we will be required to sell these investments before anticipated recovery of fair value to our cost basis.

Liquidity and Capital Resources

Cash Flows

The primary sources of cash flow is from our insurance underwriting subsidiary, KICO, which are direct premiums written, ceding commissions from our quota share reinsurers, loss payments by our reinsurers, investment income and proceeds from the sale or maturity of investments. Funds are used by KICO for ceded premium payments to reinsurers, which are paid on a net basis after subtracting losses paid on reinsured claims and reinsurance commissions. KICO also uses funds for loss payments and loss adjustment expenses on our net business, commissions to producers, salaries and other underwriting expenses as well as to purchase investments and fixed assets.

On July 1, 2009, we completed the acquisition of 100% of the issued and outstanding common stock of KICO (formerly known as Commercial Mutual Insurance Company ("CMIC")) pursuant to the conversion of CMIC from an advance premium cooperative to a stock property and casualty insurance company. Pursuant to the plan of conversion, we acquired a 100% equity interest in KICO. In connection with the plan of conversion of CMIC, we agreed with the Department of Financial Services (formerly known as the Insurance Department) (the "Department") that, for a period of two years following the effective date of conversion of July 1, 2009, no dividend could be paid by KICO to us without the approval of the Department ("Dividend Restriction Period"). No such request was made by us to the Department. For the year ended December 31, 2011, KICO paid dividends of $350,000 to us after the expiration of the Dividend Restriction Period. On February 23, 2012, KICO's board of directors approved a cash dividend of $175,000 to us which was paid on February 24, 2012. We also agreed with the Department that certain intercompany transactions between KICO and us must be filed with the Department 30 days prior to implementation and not disapproved by the Department.

The primary sources of cash flow for our holding company operations are in connection with the fee income we receive from the premium finance loans and collection of principal and interest income from the notes received by us upon the sale of businesses that were included in our discontinued operations. Effective July 1, 2011, as discussed above, we may also receive cash dividends from KICO, subject to statutory restrictions. As of December 31, 2011, the maximum distribution that KICO could pay without prior regulatory approval was approximately $617,000.

In December 2011, we entered into an agreement with a bank for a $500,000 line of credit to be used for general corporate needs. The principal balance is payable on demand, and must be reduced to zero for a minimum of 30 consecutive days during each year of the term of the credit line. The outstanding balance was $300,000 as of December 31, 2011. If the aforementioned is insufficient to cover our holding company cash requirements, we will seek to obtain additional financing. See "Business – Government Regulation" in Item 1 of this Annual Report.

We prepaid $703,000 of our notes payable during the year ended December 31, 2011. As of December 31, 2011, the outstanding principal balance of our notes payable was $747,000; such notes bear interest at the rate of 9.5% per annum and mature on July 10, 2014. We believe that our present cash flows as described above will be sufficient on a short-term basis and over the next 12 months to fund our company-wide working capital requirements.

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

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

Years Ended December 31,	2011	2010
Cash flows provided by (used in):		
Operating activities	$7,253,489	$3,721,328
Investing activities	(6,525,524)	(4,395,388)
Financing activities	(881,459)	375,360
Net decrease in cash and cash equivalents	(153,494)	(298,700)
Cash and cash equivalents, beginning of period	326,620	625,320
Cash and cash equivalents, end of period	$173,126	$326,620

Net cash provided by operating activities was $7,253,000 in 2011 as compared to $3,721,000 provided in 2010. The $3,532,000 increase in cash flows provided by operating activities in 2011 was primarily a result of the fluctuations in assets and liabilities relating to operating activities of KICO as affected by the growth in its operations which are described above.

Net cash used by investing activities was $6,526,000 in 2011 compared to $4,395,000 used in 2010. The $2,131,000 increase in cash flows used in investing activities is a result of the increase in net investments in fixed-maturity securities and equity securities, resulting from positive cash flow from operations.

Net cash used by financing activities was $881,000 in 2011 compared to $375,000 provided in 2010. The $1,256,000 decrease in cash flows from financing activities is a result of the $714,000 prepayment of notes payable in 2011, compared to $375,000 of net borrowings in 2010, purchase of treasury stock in 2011 only, and dividend payments of $230,000 in 2011 compared to no such payments in 2010. The 2011 uses of cash were offset by the $300,000 proceeds from our credit line that was opened in 2011.

Reinsurance

The following table summarizes each reinsurer that accounted for more than 10% of our reinsurance recoverables on paid and unpaid losses and loss adjustment expenses as of December 31, 2011:

($ in thousands)	A.M. Best Rating	Amount Recoverable as of December 31, 2011	%	
Maiden Reinsurace Company	A-	$ 4,048	34.97	%
SCOR Reinsurance Company	A	2,318	20.02	%
Motors Insurance Corporation	B++	1,958	16.91	%
		8,324	71.90	%
Others		3,253	28.10	%
Total		$ 11,577	100.00	%

Reinsurance recoverable from Maiden Reinsurance Company and Motors Insurance Corporation are secured pursuant to collateralized trust agreements. Assets held in the two trusts are not included in our invested assets and investment income earned on these assets is credited to the two reinsurers respectively.

Our reinsurance treaties covering our Personal Lines business, which primarily consists of homeowners policies, and Commercial Lines business, other than commercial auto, were renewed as of July 1, 2011. The treaties, which are renewed annually, provide for the following terms:

Personal Lines

Personal Lines business, which includes homeowners, dwelling fire and canine legal liability insurance, is reinsured under a 75% quota share treaty which provides coverage up to $700,000 per occurrence. An excess of loss contract provides $1,500,000 of coverage in excess of the $700,000 included under the 75% quota share treaty for a total coverage up to $2,200,000 per occurrence. Personal umbrella policies are reinsured under a 90% quota share treaty limiting KICO to a maximum of $100,000 per occurrence for the first $1,000,000 of coverage. The second $1,000,000 of coverage is 100% reinsured.

Commercial Lines

General liability commercial policies written by KICO, except for commercial auto policies, are reinsured under a 60% quota share treaty, which provides coverage up to $700,000 per occurrence. An excess of loss contract provides $1,500,000 of coverage in excess of the $700,000 included under the 60% quota share treaty for a total coverage up to $2,200,000 per occurrence.

Commercial Auto

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

Catastrophe Reinsurance

A total of $54,000,000 of catastrophe reinsurance coverage has been obtained, whereby KICO retains $500,000 per occurrence.

Our reinsurance program is structured to enable us 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 us to significantly grow our premium volume while maintaining regulatory capital and other financial ratios generally within or below the expected ranges used for regulatory oversight purposes. Our participation in reinsurance arrangements does not relieve us from our obligations to policyholders.

Our reinsurance program is structured to reflect our obligations and goals. 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 KICO's conversion to a stock company in 2009, we have 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 do not relieve us of our obligations to policyholders.

Inflation

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

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

Off-Balance Sheet Arrangements

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

Factors That May Affect Future Results and Financial Condition

Based upon the following factors, as well as other factors affecting our operating results and financial condition, past financial performance should not be considered to be a reliable indicator of future performance, and investors should not use historical trends to anticipate results or trends in future periods. In addition, such factors, among others, may affect the accuracy of certain forward-looking statements contained in this Annual Report.

As a holding company, we are dependent on the results of operations of our subsidiaries, Kingstone Insurance Company ("KICO") and Payments, Inc.; there are restrictions on the payment of dividends by KICO.

We are a holding company and a legal entity separate and distinct from our operating subsidiaries, KICO and Payments, Inc. As a holding company with limited operations of our own, the principal sources of our funds are dividends and other payments from KICO and Payments, Inc. Consequently, we must rely on KICO and Payments, Inc. for our ability to repay debts, pay expenses and pay cash dividends to our shareholders

Our ability to receive dividends from KICO is restricted by the state laws and insurance regulations of New York. These restrictions are related to surplus and net investment income. Dividends are restricted to the lesser of 10% of surplus or 100% of investment income (on a statutory accounting basis) for the trailing four quarters. As of December 31, 2011, the maximum distribution that KICO could pay without prior regulatory approval was approximately $792,000, which is based on investment income for the last four quarters.

As a property and casualty insurer, we may face significant losses from catastrophes and severe weather events.

Because of the exposure of our property and casualty business to catastrophic events, our operating results and financial condition may vary significantly from one period to the next. Catastrophes can be caused by various natural and man-made disasters, including earthquakes, wildfires, tornadoes, hurricanes, storms and certain types of terrorism. We may incur catastrophe losses in excess of: (1) those that we project would be incurred, (2) those that external modeling firms estimate would be incurred, (3) the average expected level used in pricing or (4) our current reinsurance coverage limits. Despite our catastrophe management programs, we are exposed to catastrophes that could have a material adverse effect on our operating results and financial condition. Our liquidity could be constrained by a catastrophe, or multiple catastrophes, which may result in extraordinary losses or a downgrade of our financial strength ratings.

In addition, we are subject to claims arising from weather events such as hurricanes, tropical storms, winter storms, rain, hail and high winds. The incidence and severity of weather conditions are largely unpredictable. There is generally an increase in the frequency and severity of claims when severe weather conditions occur.

Unanticipated increases in the severity or frequency of claims may adversely affect our operating results and financial condition.

Changes in the severity or frequency of claims may affect our profitability. Changes in homeowners claim severity are driven by inflation in the construction industry, in building materials and in home furnishings, and by other economic and environmental factors, including increased demand for services and supplies in areas affected by catastrophes. Changes in bodily injury claim severity are driven primarily by inflation in the medical sector of the economy and litigation. Changes in auto physical damage claim severity are driven primarily by inflation in auto repair costs, auto parts prices and used car prices. However, changes in the level of the severity of claims are not limited to the effects of inflation and demand surge in these various sectors of the economy. Increases in claim severity can arise from unexpected events that are inherently difficult to predict, such as a change in the law. Although we pursue various loss management initiatives to mitigate future increases in claim severity, there can be no assurances that these initiatives will successfully identify or reduce the effect of future increases in claim severity, and a significant increase in claim frequency could have an adverse effect on our operating results and financial condition.

The inability to obtain an upgrade to our financial strength rating from A.M. Best, or a downgrade in our rating, may have a material adverse effect on our competitive position, the marketability of our product offerings, and our liquidity, operating results and financial condition.

Financial strength ratings are important factors in establishing the competitive position of insurance companies and generally have an effect on an insurance company's business. Many insurance buyers, agents, brokers and secured lenders 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 or in determining the financial strength of the company that provides insurance with respect to the collateral they hold. 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. Our rating was upgraded to B+ (Good) in 2011. KICO is in the process of undergoing its annual review by 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. On an ongoing basis, rating agencies such as A.M. Best review the financial performance and condition of insurers and can downgrade or change the outlook on an insurer's ratings due to, for example, a change in an insurer's statutory capital, a reduced confidence in management or a host of other considerations that may or may not be under the insurer's control. We currently have a Demotech rating of A (Excellent), which generally permits lenders to accept our policies. All ratings are subject to continuous review; therefore, the retention of these ratings cannot be assured. A downgrade in any of these ratings could have a material adverse effect on our competitiveness, the marketability of our product offerings and our ability to grow in the marketplace.

Adverse capital and credit market conditions may significantly affect our ability to meet liquidity needs or our ability to obtain credit on acceptable terms.

The capital and credit markets have been experiencing extreme volatility and disruption. In some cases, the markets have exerted downward pressure on the availability of liquidity and credit capacity. In the event that we need access to additional capital to pay our operating expenses, make payments on our indebtedness, pay for capital expenditures or increase the amount of insurance that we seek to underwrite, our ability to obtain such capital may be limited and the cost of any such capital may be significant. Our access to additional financing will depend on a variety of factors, such as market conditions, the general availability of credit, the overall availability of credit to our industry, our credit ratings and credit capacity as well as lenders' perception of our long or short-term financial prospects. Similarly, our access to funds may be impaired if regulatory authorities or rating agencies take negative actions against us. If a combination of these factors occurs, our internal sources of liquidity may prove to be insufficient and, in such case, we may not be able to successfully obtain additional financing on favorable terms.

We are exposed to significant financial and capital markets risk which may adversely affect our results of operations, financial condition and liquidity, and our net investment income can vary from period to period.

We are exposed to significant financial and capital markets risk, including changes in interest rates, equity prices, market volatility, the performance of the economy in general, the performance of the specific obligors included in our portfolio and other factors outside our control. Our exposure to interest rate risk relates primarily to the market price and cash flow variability associated with changes in interest rates. Our investment portfolio contains interest rate sensitive instruments, such as fixed income securities, which may be adversely affected by changes in interest rates from governmental monetary policies, domestic and international economic and political conditions and other factors beyond our control. A rise in interest rates would increase the net unrealized loss position of our investment portfolio, which would be offset by our ability to earn higher rates of return on funds reinvested. Conversely, a decline in interest rates would decrease the net unrealized loss position of our investment portfolio, which would be offset by lower rates of return on funds reinvested.

In addition, market volatility can make it difficult to value certain of our securities if trading becomes less frequent. As such, valuations may include assumptions or estimates that may have significant period to period changes which could have a material adverse effect on our consolidated results of operations or financial condition. If significant, continued volatility, changes in interest rates, changes in defaults, a lack of pricing transparency, market liquidity and declines in equity prices, individually or in tandem, could have a material adverse effect on our results of operations, financial condition or cash flows through realized losses, impairments, and changes in unrealized positions.

Reinsurance may be unavailable at current levels and prices, which may limit our ability to write new business.

Our personal lines catastrophe reinsurance program was designed, utilizing our risk management methodology, to address our exposure to catastrophes. Market conditions beyond our control impact the availability and cost of the reinsurance we purchase. No assurances can be given that reinsurance will remain continuously available to us to the same extent and on the same terms and rates as is currently available. For example, our ability to afford reinsurance to reduce our catastrophe risk may be dependent upon our ability to adjust premium rates for its cost, and there are no assurances that the terms and rates for our current reinsurance program will continue to be available in the future. If we are unable to maintain our current level of reinsurance or purchase new reinsurance protection in amounts that we consider sufficient and at prices that we consider acceptable, we will have to either accept an increase in our exposure risk, reduce our insurance writings or develop or seek other alternatives.

Reinsurance subjects us to the credit risk of our reinsurers, which may have a material adverse effect on our operating results and financial condition.

The collectability of reinsurance recoverables is subject to uncertainty arising from a number of factors, including changes in market conditions, whether insured losses meet the qualifying conditions of the reinsurance contract and whether reinsurers, or their affiliates, have the financial capacity and willingness to make payments under the terms of a reinsurance treaty or contract. Since we are primarily liable to an insured for the full amount of insurance coverage, our inability to collect a material recovery from a reinsurer could have a material adverse effect on our operating results and financial condition.

Applicable insurance laws regarding the change of control of our company may impede potential acquisitions that our stockholders might consider to be desirable.

We are subject to statutes and regulations of the state of New York , which generally require that any person or entity desiring to acquire direct or indirect control of KICO, our insurance company subsidiary, obtain prior regulatory approval. In addition, a change of control of Kingstone Companies, Inc. would require such approval. These laws may discourage potential acquisition proposals and may delay, deter or prevent a change of control of our company, including through transactions, and in particular unsolicited transactions, that some of our stockholders might consider to be desirable. Similar regulations may apply in other states in which we may operate.

The insurance industry is subject to extensive restrictive regulation that may affect our operating costs and limit the growth of our business, and changes within this regulatory environment may, too, adversely affect our operating costs and limit the growth of our business.

We are subject to extensive laws and regulations. State insurance regulators are charged with protecting policyholders and have broad regulatory, supervisory and administrative powers over our business practices, including, among other things, the power to grant and revoke licenses to transact business and the power to regulate and approve underwriting practices and rate changes, which may delay the implementation of premium rate changes or prevent us from making changes we believe are necessary to match rate to risk. In addition, many states have laws and regulations that limit an insurer’s ability to cancel or not renew policies and that 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. Laws and regulations that limit cancellation and non-renewal and that subject program withdrawals to prior approval requirements may restrict our ability to exit unprofitable markets.

Because the laws and regulations under which we operate are administered and enforced by a number of different governmental authorities, including state insurance regulators, state securities administrators and the SEC, each of which exercises a degree of interpretive latitude, we are subject to the risk that compliance with any particular regulator's or enforcement authority's interpretation of a legal issue may not result in compliance with another's interpretation of the same issue, particularly when compliance is judged in hindsight. In addition, there is risk that any particular regulator's or enforcement authority's interpretation of a legal issue may change over time to our detriment, or that changes in the overall legal and regulatory environment may, even absent any particular regulator's or enforcement authority's interpretation of a legal issue changing, cause us to change our views regarding the actions we need to take from a legal risk management perspective, thereby necessitating changes to our practices that may, in some cases, limit our ability to grow and improve the profitability of our business.

While the United States federal government does not directly regulate the insurance industry, federal legislation and administrative policies can affect us. Congress and various federal agencies periodically discuss proposals that would provide for a federal charter for insurance companies. We cannot predict whether any such laws will be enacted or the effect that such laws would have on our business. Moreover, there can be no assurance that changes will not be made to current laws, rules and regulations, or that any other laws, rules or regulations will not be adopted in the future, that could adversely affect our business and financial condition.

We may not be able to maintain the requisite amount of risk-based capital, which may adversely affect our profitability and our ability to compete in the property and casualty insurance markets.

The New York State Department of Financial Services imposes risk-based capital requirements on insurance companies to ensure that insurance companies maintain appropriate levels of surplus to support their overall business operations and to protect customers against adverse developments, after taking into account default, credit, underwriting and off-balance sheet risks. If the amount of our capital falls below this minimum, we may face restrictions with respect to soliciting new business and/or keeping existing business. Similar regulations will apply in other states in which we may operate.

Changing climate conditions may adversely affect our financial condition, profitability or cash flows.

We recognize the scientific view that the world is getting warmer. Climate change, to the extent it produces rising temperatures and changes in weather patterns, could impact the frequency or severity of weather events and wildfires and the affordability and availability of homeowners insurance.

Our operating results and financial condition may be adversely affected by the cyclical nature of the property and casualty business.

The property and casualty market is cyclical and has experienced periods characterized by relatively high levels of price competition, less restrictive underwriting standards and relatively low premium rates, followed by periods of relatively lower levels of competition, more selective underwriting standards and relatively high premium rates. A downturn in the profitability cycle of the property and casualty business could have a material adverse effect on our operating results and financial condition.

Because our operations are currently derived from sources located in New York, our business may be adversely affected by conditions in such state.

All of our revenue is currently derived from sources located in the state of New York and, accordingly, is affected by the prevailing regulatory, economic, demographic, competitive and other conditions in such state. Changes in any of these conditions could make it more costly or difficult for us to conduct our business. Adverse regulatory developments in New York, which could include fundamental changes to the design or implementation of the insurance regulatory framework, could have a material adverse effect on our results of operations and financial condition.

Actual claims incurred may exceed current reserves established for claims, which may adversely affect our operating results and financial condition.

Recorded claim reserves in our business are based on our best estimates of losses after considering known facts and interpretations of circumstances. Internal and external factors are considered. Internal factors include, but are not limited to, actual claims paid, pending levels of unpaid claims, product mix and contractual terms. External factors include, but are not limited to, changes in the law, court decisions, changes in regulatory requirements and economic conditions. Because reserves are estimates of the unpaid portion of losses that have occurred, the establishment of appropriate reserves, including reserves for catastrophes, is an inherently uncertain and complex process. The ultimate cost of losses may vary materially from recorded reserves, and such variance may adversely affect our operating results and financial condition.

Our future results may be adversely affected by claims made against an underwriting pool in which KICO was a participant but over which it has no control.

KICO was a member of the New York Mutual Underwriters Pool (the "NYMU") and is responsible for its proportionate share of losses with respect to accident dates through October 31, 1997. During 2006 and 2007, the NYMU received a disproportionately large number of lead paint claims (approximately 50) for accident dates prior to October 31, 1997. KICO's liability for each claim is $50,000 (assuming full reinsurance recovery). Since 2007, far fewer lead paint claims have been filed against the NYMU. We believe that, as of December 31, 2011, KICO is fully reserved for all reported claims and that its provision for IBNR for future claims is adequate (in each case giving effect to the collectability of reinsurance); however, we do not have any control over the claims made against the NYMU. Accordingly, future results may be adversely affected from losses over which we have no control.

Regulations requiring us to underwrite business and participate in loss sharing arrangements may adversely affect our operating results and financial condition.

The state of New York has enacted laws that require a property liability insurer conducting business in such state to participate in assigned risk plans, reinsurance facilities and joint underwriting associations or require the insurer to offer coverage to all consumers, often restricting an insurer's ability to charge the price it might otherwise charge. In these markets, we may be compelled to underwrite significant amounts of business at lower than desired rates, possibly leading to an unacceptable return on equity, which may adversely affect our operating results and financial condition.

Our future results are dependent in part on our ability to successfully operate in an insurance industry that is highly competitive.

The insurance industry is highly competitive. Many of our competitors have well-established national reputations, substantially more capital and significantly greater marketing and management resources. Because of the competitive nature of the insurance industry, including competition for customers, agents and brokers, there can be no assurance that we will continue to effectively compete with our industry rivals, or that competitive pressures will not have a material adverse effect on our business, operating results or financial condition.

If we lose key personnel or are unable to recruit qualified personnel, our ability to implement our business strategies could be delayed or hindered; KICO's Chief Executive Officer transitioned his duties and responsibilities effective January 1, 2012.

Our future success will depend, in part, upon the efforts of Barry Goldstein, our President and Chief Executive Officer, and John Reiersen, Executive Vice President of KICO and, until January 1, 2012, President and Chief Executive Officer of KICO. The loss of Messrs. Goldstein and/or Reiersen or other key personnel could prevent us from fully implementing our business strategies and could materially and adversely affect our business, financial condition and results of operations. As we continue to grow, we will need to recruit and retain additional qualified management personnel, but we may not be able to do so. Our ability to recruit and retain such personnel will depend upon a number of factors, such as our results of operations and prospects and the level of competition then prevailing in the market for qualified personnel. Effective January 1, 2012, Mr. Reiersen became Executive Vice President of KICO and provides, in a part-time capacity, advice and assistance to the President and Chief Executive Officer of KICO, and other management personnel, with regard to the management and operation of KICO. Mr. Goldstein assumed the duties and responsibilities of President and Chief Executive Officer of KICO effective January 1, 2012. Although Mr. Goldstein has served as our President and Chief Executive Officer since 2001, as KICO's Chairman of the Board and Chairman of the Executive Committee since 2006 and as KICO's Chief Investment Officer since 2008, prior to January 1, 2012, he had never served as President and Chief Executive Officer of an insurance company.

Difficult conditions in the economy generally could adversely affect our business and operating results.

Some economists continue to project significant negative macroeconomic trends, including relatively high and sustained unemployment, reduced consumer spending, lower home prices, and substantial increases in delinquencies on consumer debt, including defaults on home mortgages. Moreover, recent disruptions in the financial markets, particularly the reduced availability of credit and tightened lending requirements, have impacted the ability of borrowers to refinance loans at more affordable rates. As with most businesses, we believe difficult conditions in the economy could have an adverse effect on our business and operating results. General economic conditions also could adversely affect us in the form of consumer behavior, which may include decreased demand for our products. As consumers become more cost conscious, they may choose lower levels of insurance.

Changes in accounting standards issued by the Financial Accounting Standards Board or other standard-setting bodies may adversely affect our results of operations and financial condition.

Our financial statements are subject to the application of generally accepted accounting principles, which are periodically revised, interpreted and/or expanded. Accordingly, we are required to adopt new guidance or interpretations, which may have a material adverse effect on our results of operations and financial condition that is either unexpected or has a greater impact than expected.

We rely on our information technology and telecommunication systems, and the failure of these systems could materially and adversely affect our business.

Our business is highly dependent upon the successful and uninterrupted functioning of our information technology and telecommunications systems. We rely on these systems to support our operations. The failure of these systems could interrupt our operations and result in a material adverse effect on our business.

We have incurred, and will continue to incur, increased costs as a result of being an SEC reporting company.

The Sarbanes-Oxley Act of 2002, as well as a variety of related rules implemented by the SEC, have required changes in corporate governance practices and generally increased the disclosure requirements of public companies. As a reporting company, we incur significant legal, accounting and other expenses in connection with our public disclosure and other obligations. Based upon SEC regulations currently in effect, we are required to establish, evaluate and report on our internal control over financial reporting. We believe that compliance with the myriad of rules and regulations applicable to reporting companies and related compliance issues will require a significant amount of time and attention from our management.

The enactment of tort reform could adversely affect our business.

Legislation concerning tort reform is from time to time considered in the United States Congress. Among the provisions considered for inclusion in such legislation are limitations on damage awards, including punitive damages. Enactment of these or similar provisions by Congress or by the states in which we operate could result in a reduction in the demand for liability insurance policies or a decrease in the limits of such policies, thereby reducing our revenues. We cannot predict whether any such legislation will be enacted or, if enacted, the form such legislation will take, nor can we predict the effect, if any, such legislation would have on our business or results of operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The financial statements required by this Item 8 are included in this Annual Report following Item 15 hereof. As a smaller reporting company, we are not required to provide supplementary financial information.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

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

As required by Exchange Act Rule 13a-15(b), as of the end of the period covered by this Annual Report, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2011.

This Annual Report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to rules of the SEC that permit us to provide only management's report in this Annual Report.

Internal Control over Financial Reporting

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. Internal control over financial reporting is a process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer, and effected by the board of directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with US GAAP including those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with US GAAP and that receipts and expenditures are being made only in accordance with authorizations of our management and directors, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

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

Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2011.

Changes in Internal Control Over Financial Reporting

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

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Executive Officers and Directors

The following table sets forth the positions and offices presently held by each of our current directors and executive officers and their ages:

Name	Age	Positions and Offices Held
Barry B. Goldstein	59	President, Chairman of the Board, Chief Executive Officer, Treasurer and Director
Victor J. Brodsky	54	Chief Financial Officer and Secretary
John D. Reiersen	69	Executive Vice President, Kingstone Insurance Company
Michael R. Feinsod	41	Director
Jay M. Haft	76	Director
David A. Lyons	62	Director
Jack D. Seibald	51	Director

Barry B. Goldstein

Mr. Goldstein was elected our President, Chief Executive Officer, Chairman of the Board, and a director in March 2001 and our Treasurer in May 2001. He served as our Chief Financial Officer from March 2001 to November 2007. Since January 2006, Mr. Goldstein has served as Chairman of the Board of Kingstone Insurance Company ("KICO") (formerly known as Commercial Mutual Insurance Company), a New York property and casualty insurer, as well as Chairman of its Executive Committee. Mr. Goldstein has served as Chief Investment Officer of KICO since August 2008 and as its President and Chief Executive Officer since January 2012. He was Treasurer of KICO from March 2010 through September 2010. Effective July 1, 2009, we acquired a 100% equity interest in KICO. From April 1997 to December 2004, Mr. Goldstein served as President of AIA Acquisition Corp., which operated insurance agencies in Pennsylvania and which sold substantially all of its assets to us in May 2003. Mr. Goldstein received his B.A. and M.B.A. from State University of New York at Buffalo. We believe that Mr. Goldstein's extensive experience in the insurance industry, including his service as Chairman of the Board of KICO since 2006 and as its Chief Investment Officer since 2008, give him the qualifications and skills to serve as one of our directors.

Victor J. Brodsky

Mr. Brodsky has served as our Chief Financial Officer since August 2009 and as our Secretary since December 2008. He served as our Chief Accounting Officer from August 2007 through July 2009 and as our Principal Financial Officer for Securities and Exchange Commission ("SEC") reporting purposes from November 2007 through July 2009. In addition, Mr. Brodsky has served as a director of KICO since February 2008, as Chief Financial Officer of KICO since September 2010 and as Senior Vice President of KICO since January 2012. He also served as Treasurer of KICO from September 2010 through December 2011. Mr. Brodsky served from May 2008 through March 15, 2010 as Vice President of Financial Reporting and Principal Financial Officer for SEC reporting purposes of Vertical Branding Inc. Mr. Brodsky served as Chief Financial Officer of Vertical Branding from March 1998 through May 2008 and as a director of Vertical Branding from May 2002 through November 2005. He served as its Secretary from November 2005 through May 2008 and from April 2009 to March 15, 2010. A receiver was appointed for the business of Vertical Branding in February 2010. Prior to joining Vertical Branding, Mr. Brodsky spent 16 years at the CPA firm of Michael & Adest in New York. Mr. Brodsky earned a Bachelor of Business Administration degree from

Hofstra University, with a major in accounting, and is a licensed CPA in New York.

John D. Reiersen

Mr. Reiersen served as President of KICO from 1999 to 2011 and as its Chief Executive Officer from 2001 to 2011. Since January 2012, Mr. Reiersen has served as Executive Vice President of KICO. Mr. Reiersen served for 25 years with the New York State Insurance Department ending his tenure there as Chief Examiner in the Property and Casualty Insurance Bureau. At the Insurance Department, he was instrumental in the enactment of numerous statutes and regulations, including the automobile no-fault program, the photo inspection law, the Insurance Information and Enforcement System program and many other cost-containment measures. Mr. Reiersen was also instrumental in the enactment of many rules in the New York Automobile Insurance Plan. He served as President of the Eagle Insurance Group from 1990 to 2000. Mr. Reiersen served as Chairman of the New York Insurance Association has served and continues to serve on many insurance industry association boards and committees. He holds the professional designations of Chartered Property and Casualty Underwriter, Certified Financial Examiner and Certified Insurance Examiner. Mr. Reiersen is a graduate of Brooklyn College and holds a Bachelor of Science Degree in Accounting.

Michael R. Feinsod

Mr. Feinsod is the Chairman, Chief Executive Officer and President of Ameritrans Capital Corporation, a business development company. Mr. Feinsod has been an officer of Ameritrans Capital since 2006. He serves as Chairman, Chief Executive Officer and President of Elk Associates Funding Corporation, a Small Business Investment Company and a subsidiary of Ameritrans Capital, and has served as a director of Ameritrans Capital and Elk Associates Funding Corporation since December 2005. Since January 1999, Mr. Feinsod has been Managing Member of Infinity Capital, LLC, an investment management company. He served as an investment analyst and portfolio manager at Mark Boyar & Company, Inc., a broker-dealer. He is admitted to practice law in New York and served as an associate in the Corporate Law Department of Paul, Hastings, Janofsky & Walker LLP. Mr. Feinsod holds a J.D. from Fordham University School of Law and a B.A. from George Washington University. He has served as one of our directors since October 2008. We believe that Mr. Feinsod's corporate finance, legal and executive-level experience, as well as his service on the Board of KICO since July 2009, give him the qualifications and skills to serve as one of our directors.

Jay M. Haft

Mr. Haft is currently a personal advisor to Victor Vekselberg, a Russian entrepreneur with considerable interests in oil, aluminum, utilities and other industries. Mr. Haft is also a partner at Columbus Nova, the U.S.-based investment and operating arm of Mr. Vekselberg's Renova Group of companies. Mr. Haft is also a strategic and financial consultant for growth stage companies. He is active in international corporate finance and mergers and acquisitions as well as in the representation of emerging growth companies. Mr. Haft has extensive experience in the Russian market, where he has worked on growth strategies for companies looking to internationalize their business assets and enter international capital markets. He has been a founder, consultant and/or director of numerous public and private corporations, and currently serves as Chairman of the Board of Dusa Pharmaceuticals, Inc., whose securities are traded on Nasdaq. Mr. Haft also serves on the Board of Ballantyne Cashmere, SpA, the United States-Russian Business Counsel and The Link of Times Foundation and is an advisor to Montezemolo & Partners. He has been instrumental in strategic planning and fundraising for a variety of Internet and high-tech, leading edge medical technology and marketing companies over the years. Mr. Haft is counsel to Reed Smith, an international law firm, as well as several other law and accounting firms. Mr. Haft is a past member of the Florida Commission for Government Accountability to the People, a past national trustee and Treasurer of the Miami City Ballet, and a past Board member of the Concert Association of Florida. He is also a past trustee of Florida International University Foundation and previously served on the advisory board of the Wolfsonian Museum and Florida International University Law School. Mr. Haft served as our Vice Chairman of the Board from February 1999 until March 2001. From October 1989 to February 1999, he served as our Chairman of the Board and he has served as one of our directors since 1989. Mr.

Haft received B.A. and LL.B. degrees from Yale University. We believe that Mr. Haft's corporate finance, business consultation, legal and executive-level experience, as well as his service on the Board of KICO since July 2009, give him the qualifications and skills to serve as one of our directors.

David A. Lyons

Mr. Lyons is currently CEO of NextStep Technology Solutions, LLC, a telecommunications marketing company that is the exclusive master distributor for Samsung Telecommunications America, LLC in the sale of its VoIP product portfolio into the telecommunications network carrier market. He has served since 2004 as a principal of Den Ventures, LLC, a consulting firm focused on business, financing, and merger and acquisition strategies for public and private companies. From 2002 until 2004, Mr. Lyons served as a managing partner of the Nacio Investment Group, and President of Nacio Systems, Inc., a managed hosting company that provides outsourced infrastructure and communication services for mid-size businesses. Prior to forming the Nacio Investment Group, Mr. Lyons served as Vice President of Acquisitions for Expanets, Inc., a national provider of converged communications solutions. Previously, he was Chief Executive Officer of Amnex, Inc. and held various executive management positions at Walker Telephone Systems, Inc. and Inter-tel, Inc. Mr. Lyons has served as one of our directors since July 2005. We believe that Mr. Lyons' executive-level experience, as well as his experience in the areas of business consultation, corporate finance and mergers and acquisitions, and his service on the Board of KICO since July 2009, give him the qualifications and skills to serve as one of our directors.

Jack D. Seibald

Mr. Seibald is a Senior Managing Director of Concept Capital Markets, LLC ("Concept Capital") and serves Concept Capital in a variety of areas, including business and client development and legal and compliance matters. Mr. Seibald also serves as a member of the Board of Managers of Concept Capital Holdings, LLC, the parent of Concept Capital, of Concept Capital Administration, LLC, which provides administrative services to Concept Capital and its affiliates, and of ConceptONE, LLC, which provides fund administration and risk management services to investment managers. Mr. Seibald has been affiliated with Concept Capital and its predecessors since 1995 and has extensive experience in equity research, investment management, and prime brokerage services dating back to 1983. From 1997 to 2005, Mr. Seibald was also a Managing Member of Whiteford Advisors, LLC, an investment management firm, where as co-founder he co-managed several pools of funds. He began his career at Oppenheimer & Co. as an equity analyst covering the retailing industry and has also been affiliated with Salomon Brothers and Morgan Stanley & Co in similar positions. Mr. Seibald also operated The Seibald Report, Inc., an independent research firm specializing in the retailing sector. He holds an M.B.A. from Hofstra University and a B.A. from George Washington University. Mr. Seibald has served as one of our directors since 2004. In January 2008, the Financial Industry Regulatory Authority ("FINRA") imposed a $100,000 fine and 20-day suspension on Mr. Seibald in connection with the settlement of a FINRA action against Sanders Morris Harris Inc. and Mr. Seibald, among others. FINRA had found that Mr. Seibald had improperly received compensation from a profit pool derived, in part, from commissions on trading by a hedge fund for which he served as a manager. We believe that Mr. Seibald's corporate finance and executive-level experience, as well as his service on the Board of KICO since 2006 (including his service as Chairman of its Investments Committee), give him the qualifications and skills to serve as one of our directors.

Family Relationships

There are no family relationships among any of our executive officers and directors.

Term of Office

Each director will hold office until the next annual meeting of stockholders and until his successor is elected and qualified or until his earlier resignation or removal. Each executive officer will hold office until the initial meeting of the Board of Directors following the next annual meeting of stockholders and until his successor is elected and qualified or until his earlier resignation or removal.

Audit Committee

The Audit Committee of the Board of Directors is responsible for overseeing our accounting and financial reporting processes and the audits of our financial statements. The members of the Audit Committee are Messrs. Lyons, Haft and Seibald.

Audit Committee Financial Expert

Our Board of Directors has determined that Mr. Lyons is an “audit committee financial expert,” as that is defined in Item 407(d)(5) of Regulation S-K Mr. Lyons is an “independent director” based on the definition of independence in Listing Rule 5605(a)(2) of The Nasdaq Stock Market.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16 of the Exchange Act requires that reports of beneficial ownership of common shares and changes in such ownership be filed with the Securities and Exchange Commission by Section 16 “reporting persons,” including directors, certain officers, holders of more than 10% of the outstanding common shares and certain trusts of which reporting persons are trustees. We are required to disclose in this Annual Report each reporting person whom we know to have failed to file any required reports under Section 16 on a timely basis during the fiscal year ended December 31, 2011. To our knowledge, based solely on a review of copies of Forms 3, 4 and 5 filed with the Securities and Exchange Commission and written representations that no other reports were required, during the fiscal year ended December 31, 2011, our officers, directors and 10% stockholders complied with all Section 16(a) filing requirements applicable to them, except that Mr. Goldstein filed two Forms 4 late (one reporting one transaction by his retirement trust for the purchase of 500 shares and one reporting two transactions by his retirement trust for the purchase of an aggregate of 2,800 shares).

Code of Ethics for Senior Financial Officers

Our Board of Directors has adopted a Code of Ethics for our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. A copy of the Code of Ethics is posted on our website, www.kingstonecompanies.com. We intend to satisfy the disclosure requirement under Item 5.05(c) of Form 8-K regarding an amendment to, or a waiver from, our Code of Ethics by posting such information on our website, www.kingstonecompanies.com.

ITEM 11. EXECUTIVE COMPENSATION.

Summary Compensation Table

The following table sets forth certain information concerning the compensation for the fiscal years ended December 31, 2011 and 2010 for certain executive officers, including our Chief Executive Officer:

Name and Principal Position	Year	Salary	Bonus	Stock Awards	Option Awards(1)	Non-Equity Incentive Plan Compensation	All Other Compensation	Total
Barry B. Goldstein Chief Executive	2011	$ 375,000	-	-	-	$ 216,327 (2)	$ 29,832	$ 621,159
Officer	2010	$ 375,000	-	$ 93,325	$ 384,340	$ 163,203 (3)	$ 25,415	$ 1,041,283
Victor J. Brodsky Chief Financial	2011	$ 220,000	$ 10,000	-	-	$ 26,893 (4)	$ 9,800	$ 266,693
Officer	2010	$ 205,615	-	-	-	$ 4,670 (5)	$ 5,738	$ 216,023
John D. Reiersen President, Kingstone	2011	$ 339,524	-	-	-	$ 76,091 (4)	$ 14,949	$ 430,564
Insurance Company	2010	$ 294,664	-	-	-	$ 38,723 (5)	$ 11,800	$ 345,187

(1) The amount reported in this column represent the grant date fair value of the option award granted during the year ended December 31, 2010, calculated in accordance with FASB ASC Topic 718. For a more detailed discussion of the assumptions used in estimating fair value, see Note 14 (Stockholders' Equity) of the Notes to Consolidated Financial Statements following Item 15 of this Annual Report.

(2) Represents bonus compensation of $167,358 accrued pursuant to Mr. Goldstein's employment agreement and paid in 2012, and $48,968 accrued pursuant to the KICO employee profit sharing plan and paid in 2012.

(3) Represents bonus compensation of $142,000 accrued pursuant to Mr. Goldstein's employment agreement and paid in 2011, and $21,203 accrued pursuant to the KICO employee profit sharing plan and paid in 2011.

(4) Represents amounts accrued pursuant to the KICO employee profit sharing plan and paid in 2012.

(5) Represents amounts accrued pursuant to the KICO employee profit sharing plan and paid in 2011.

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Employment Contracts

Mr. Goldstein is employed as our President, Chairman of the Board and Chief Executive Officer pursuant to an employment agreement, dated October 16, 2007, as amended (the “Goldstein Employment Agreement”), that expires on December 31, 2014. Pursuant to the Goldstein Employment Agreement, effective January 1, 2010, Mr. Goldstein is entitled to receive an annual base salary of $375,000 (“Base Salary”) and annual bonuses based on our net income (which bonus may not be less than $10,000 per annum). Mr. Goldstein’s annual base salary had been $350,000 from January 1, 2004 through December 31, 2009. Pursuant to an amendment entered into with Mr. Goldstein as of March 24, 2010 (the “2010 Amendment”), in addition to the increase in his Base Salary to $375,000 and minimum $10,000 annual bonus, as noted above, the expiration date of the agreement was extended from June 30, 2010 to December 31, 2014, we issued to Mr. Goldstein 50,000 shares of common stock and we granted to him a five year option for the purchase of 188,865 shares of common stock at an exercise price of $2.50 per share, exercisable to the extent of 25% on the date of grant and each of the initial three anniversary dates of the grant. In connection with the stock option grant, we increased the number of shares authorized to be issued pursuant to our 2005 Equity Participation Plan from 300,000 to 550,000, subject to shareholder approval, which was obtained in June 2010. Pursuant to the 2010 Amendment, we also agreed that, under certain circumstances following a change of control of Kingstone Companies, Inc. and the termination of his employment, all of Mr. Goldstein’s outstanding options would become exercisable and would remain exercisable until the first anniversary of the termination date. A portion of the Base Salary amount payable to Mr. Goldstein is contractually shared with KICO. Since August 2008, Mr. Goldstein has served as Chief Investment Officer of KICO. Since January 2012, he has also served as President and Chief Executive Officer of KICO.

Mr. Reiersen is employed as Executive Vice President of KICO pursuant to an employment agreement, dated September 13, 2006, as amended (the “Reiersen Employment Agreement”). Pursuant to the Reiersen Employment Agreement, during 2011, Mr. Reiersen was entitled to receive an annual base salary of approximately $269,000 in his then capacity as President and Chief Executive Officer of KICO. Effective February 28, 2011, pursuant to an amendment to the Reiersen Employment Agreement, the term was extended from December 31, 2011 to December 31, 2014 and, effective January 1, 2012, Mr. Reiersen is serving as Executive Vice President of KICO. Pursuant to the amendment, in the capacity of Executive Vice President, Mr. Reiersen reports to the President and Chief Executive Officer of KICO and provides advice and assistance to the President and Chief Executive Officer of KICO, as well as other officers and management personnel of KICO, with regard to the management and operation of KICO. Pursuant to the amendment, effective January 1, 2012, it is anticipated that Mr. Reiersen will provide approximately 500 hours of services per year on behalf of KICO and his minimum annual salary will be $100,000.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

	Option Awards				
Name	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable		Option Exercise Price	Option Expiration Date
Barry B. Goldstein	130,000	-		$ 2.06	10/16/12
	94,432	94,433	(1)	$ 2.50	03/24/15
Victor J. Brodsky	15,000	5,000	(2)	$ 2.35	07/30/14
John D. Reiersen	10,000	10,000	(3)	$ 2.35	07/30/14

(1) Such options are exercisable to the extent of 47,216 shares effective as of March 24, 2012 and 47,217 shares effective as of March 24, 2013.

(2) Such options are exercisable on July 30, 2012.

(3) Such options are exercisable to the extent of 5,000 shares effective as of each of July 30, 2012 and July 30, 2013.

Termination of Employment and Change-in-Control Arrangements

Pursuant to the Goldstein Employment Agreement and as provided for in his prior employment agreement which expired on April 1, 2007, Mr. Goldstein would be entitled, under certain circumstances, to a payment equal to one and one-half times his then annual salary in the event of the termination of his employment following a change of control of Kingstone Companies, Inc. Under such circumstances, Mr. Goldstein's outstanding options would become exercisable and would remain exercisable until the first anniversary of the termination date. In addition, in the event Mr. Goldstein's employment is terminated by Kingstone Companies, Inc. without cause or he resigns with good reason (each as defined in the Goldstein Employment Agreement), Mr. Goldstein would be entitled to receive his base salary and bonuses from Kingstone Companies, Inc. for the remainder of the term, and his outstanding options would become exercisable and would remain exercisable until the first anniversary of the termination date. In addition, in the event Mr. Goldstein's employment with KICO is terminated by KICO with or without cause, he would be entitled to receive a lump sum payment from KICO equal to six months base salary.

Pursuant to the Reiersen Employment Agreement, in the event of the termination of Mr. Reiersen's employment with KICO, he would be entitled to severance in an amount equal to the lesser of $50,000 or the remaining salary payable to him through the term of his agreement.

Compensation of Directors

The following table sets forth certain information concerning the compensation of our directors for the fiscal year ended December 31, 2011:

DIRECTOR COMPENSATION

Name	Fees Earned or Paid in Cash	Stock Awards	Option Awards	Total
Michael R. Feinsod	$26,800	-	-	$26,800
Jay M. Haft	$26,550	-	-	$26,550
David A. Lyons	$27,100	-	-	$27,100
Jack D. Seibald	$27,100	-	-	$27,100

Our non-employee directors are entitled to receive compensation for their services as directors as follows:

$20,000 per annum (including $5,000 per annum for service as a director of KICO)
up to an additional $5,000 per annum for committee chair (and $1,500 per annum for KICO committee chair)
$350 per Board meeting attended ($175 if telephonic)
$200 per committee meeting attended ($100 if telephonic)

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

Security Ownership

The following table sets forth certain information as of March 15, 2012 regarding the beneficial ownership of our shares of common stock by (i) each person who we believe to be the beneficial owner of more than 5% of our outstanding shares of common stock, (ii) each present director, (iii) each person listed in the Summary Compensation Table under "Executive Compensation," and (iv) all of our present executive officers and directors as a group.

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned	Approximate Percent of Class
Barry B. Goldstein 1154 Broadway Hewlett, New York	1,040,597 (1)(2)	25.8%
Michael R. Feinsod c/o Infinity Capital 50 Jericho Quadrangle Jericho, New York	504,490 (1)(3)	13.3%
Jack D. Seibald 1336 Boxwood Drive West Hewlett Harbor, New York	311,147 (1)(4)	8.2%
Jay M. Haft 69 Beaver Dam Road Salisbury, Connecticut	170,275 (1)(5)	4.5%
David A. Lyons 252 Brookdale Road Stamford, Connecticut	16,660 (1)	*
Victor J. Brodsky 1154 Broadway Hewlett, New York	15,000 (1)(6)	*
John D. Reiersen 15 Joys Lane Kingston, New York	14,600 (1)(7)	*
All executive officers and directors as a group (7 persons)	2,072,769 (1)(2)(3)(4)(5)(6)(7)	51.1%

* Less than 1%.

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(1) Based upon Schedule 13D filed under the Securities Exchange Act of 1934, as amended, and other information that is publicly available.

(2) Includes (i) 26,500 shares held in retirement trusts for the benefit of Mr. Goldstein and (ii) 251,648 shares issuable upon the exercise of options that are exercisable currently or within 60 days. Excludes shares owned by members of Mr. Goldstein's family. Mr. Goldstein disclaims beneficial ownership of the shares owned by such family members.

(3) Includes 487,495 shares owned by Infinity Capital Partners, L.P. ("Partners"). Each of (i) Infinity Capital, LLC ("Capital"), as the general partner of Partners, (ii) Infinity Management, LLC ("Management"), as the Investment Manager of Partners, and (iii) Michael Feinsod, as the Managing Member of Capital and Management, the General Partner and Investment Manager, respectively, of Partners, may be deemed to be the beneficial owners of the shares held by Partners. Pursuant to the Schedule 13D filed under the Securities Exchange Act of 1934, as amended, by Partners, Capital, Management and Mr. Feinsod, each has sole voting and dispositive power over the shares. Also includes 10,000 shares held in a retirement trust for the benefit of Mr. Feinsod.

(4) Includes (i) 113,000 shares owned jointly by Mr. Seibald and his wife, Stephanie Seibald, (ii) 3,000 shares owned by Boxwood FLTD Partners, a limited partnership ("Boxwood") and (iii) 174,824 shares held in a retirement trust for the benefit of Mr. Seibald. Mr. Seibald has voting and dispositive power over the shares owned by Boxwood.

(5) Includes 576 shares held in a retirement trust for the benefit of Mr. Haft.

(6) Represents shares issuable upon the exercise of currently exercisable options.

(7) Includes 10,000 shares issuable upon the exercise of currently exercisable options.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth information as of December 31, 2011 with respect to compensation plans (including individual compensation arrangements) under which our common shares are authorized for issuance, aggregated as follows:

All compensation plans previously approved by security holders; and
All compensation plans not previously approved by security holders.

EQUITY COMPENSATION PLAN INFORMATION

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	393,865	$ 2.32	153,635
Equity compensation plans not approved by security holders	-0-	-0-	-0-
Total	393,865	$ 2.32	153,635

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

Exchange of Preferred Stock

Effective June 30, 2010, three holders of our Series E preferred stock exchanged such shares for our common stock. The effective price for the exchange was $1.65 per share. Pursuant to the exchange, a retirement trust established for the benefit of Jack D. Seibald, one of our principal stockholders and directors, received 174,824 shares of common stock. In addition, pursuant to an exchange made by Kidstone LLC ("Kidstone"), a limited liability company whose members are Barry Goldstein, our President, Chairman of the Board and Chief Executive Officer and one of our principal stockholders, Steven Shapiro, a director of KICO, and a family member of Sam Yedid, a director of KICO, Messrs. Goldstein and Shapiro and the family member of Mr. Yedid received 23,309, 23,310 and 23,310 shares of common stock, respectively.

In addition, effective June 30, 2010, AIA Partners, LLC ("AIA Partners") exchanged its Series E preferred stock for an aggregate of 472,727 shares of our common stock at a price of $1.65 per share. Such common stock was distributed to its members, including 176,139 shares to members of Mr. Goldstein's family, 55,593 shares to Mr. Shapiro and 47,099 shares to members of the family of Mr. Yedid.

2009/2010 Debt Financing

Between June 2009 and March 2010, we borrowed an aggregate $1,450,000 and issued promissory notes in such aggregate principal amount (the "2009/2010 Notes"). The 2009/2010 Notes provided for interest at the rate of 12.625% per annum and were payable on July 10, 2011. The 2009/2010 Notes were prepayable by us without premium or penalty; provided, however, that, under any circumstances, the holders of the 2009/2010 Notes were entitled to receive an aggregate of six months interest from the issue date of the 2009/2010 Notes with respect to the amount prepaid.

Kidstone purchased a 2009/2010 Note in the principal amount of $120,000. Jay M. Haft, one of our principal stockholders and directors, purchased a 2009/2010 Note in the principal amount of $50,000. A member of the family of Michael Feinsod, one of our principal stockholders and directors, purchased a 2009/2010 Note in the principal amount of $100,000. Mr. Yedid and members of his family purchased 2009/2010 Notes in the aggregate principal amount of $295,000. A member of the family of Floyd Tupper, a director of KICO, purchased a 2009/2010 Note in the principal amount of $70,000. Mr. Goldstein's retirement account purchased a 2009/2010 Note in the principal amount of $150,000.

In June 2011, we repaid $703,000 of the principal amount borrowed pursuant to the above 2009 and 2010 debt financing, including $120,000 to Kidstone, $20,000 to Mr. Haft, $40,000 to the Feinsod family member, $139,000 to the Yedid family members, $28,000 to the Tupper family member and $60,000 to Mr. Goldstein's retirement account. With regard to the remaining $747,000 principal amount borrowed, we agreed with the lenders, including Mr. Haft, the Feinsod family member, the Yedid family members, the Tupper family member and Mr. Goldstein's retirement account, that the maturity date for the debt will be extended to July 10, 2014 and that interest at the rate of 9.5% per annum will be payable.

Relationship

Certilman Balin Adler & Hyman, LLP, a law firm with which Morton L. Certilman is affiliated, serves as our counsel. Until June 30, 2010, Mr. Certilman was one of our principal stockholders. It is presently anticipated that such firm will continue to represent us and will receive fees for its services at rates and in amounts not greater than would be paid to unrelated law firms performing similar services.

Director Independence

Board of Directors

Our Board of Directors is currently comprised of Barry B. Goldstein, Michael R. Feinsod, Jay M. Haft, David A. Lyons and Jack D. Seibald. Each of Messrs. Feinsod, Haft, Lyons and Seibald is currently an "independent director" based on the definition of independence in Listing Rule 5605(a)(2) of the listing standards at The Nasdaq Stock Market.

Audit Committee

The members of our Board's Audit Committee currently are Messrs. Lyons, Haft and Seibald, each of whom is an "independent director" based on the definition of independence in Listing Rule 5605(a)(2) of the listing standards of The Nasdaq Stock Market and Rule 10A-3(b)(1) under the Securities Exchange Act of 1934.

Nominating Committee

The members of our Board's Nominating Committee currently are Messrs. Feinsod, Haft, Lyons and Seibald, each of whom is an "independent director" based on the definition of independence in Listing Rule 5605(a)(2) of the listing standards of The Nasdaq Stock Market.

Compensation Committee

The members of our Board's Compensation Committee currently are Messrs. Seibald, Haft and Lyons, each of whom is an "independent director" based on the definition of independence in Listing Rule 5605(a)(2) of the listing standards of The Nasdaq Stock Market.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The following is a summary of the fees billed to us by EisnerAmper LLP, our independent auditors, for professional services rendered for the fiscal year ended December 31, 2011 and 2010 and by our former independent auditors, Amper Politziner & Mattia, LLP, for professional services rendered for the fiscal year ended December 31, 2010. On August 16, 2010 Amper Politziner & Mattia, LLP combined its practice with Eisner LLP and the combined practice operates under the name of EisnerAmper LLP. On August 20, 2010, we filed a Current Report on Form 8-K disclosing the change.

Fee Category	Fiscal 2011 Fees	Fiscal 2010 Fees
Audit Fees(1)	$177,549	$185,875
Audit-Related Fees(2)	4,500	-
Tax Fees(3)	-	-
All Other Fees(4)	-	-
	$182,048	$185,875

(1) Audit Fees consist of fees billed for services rendered for the audit of our consolidated financial statements and review of our condensed consolidated financial statements included in our quarterly reports on Form 10-Q and services provided in connection with other statutory or regulatory filings.

(2) Audit-Related Fees consist of aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and are not reported under “Audit Fees.”

(3) Tax Fees consist of fees billed by our independent auditors for professional services related to preparation of our U.S. federal and state income tax returns and tax advice.

(4) All Other Fees consist of aggregate fees billed for products and services provided by our independent auditors, other than those disclosed above.

The Audit Committee is responsible for the appointment, compensation and oversight of the work of the independent auditors and approves in advance any services to be performed by the independent auditors, whether audit-related or not. The Audit Committee reviews each proposed engagement to determine whether the provision of services is compatible with maintaining the independence of the independent auditors. Substantially all of the fees shown above were pre-approved by the Audit Committee.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

Exhibit Number	Description of Exhibit
3(a)	Restated Certificate of Incorporation (1)
3(b)	Certificate of Amendment of Certificate of Incorporation with regard to name change (2)
3(c)	Certificate of Designations of Series E Preferred Stock (3)
3(d)	By-laws, as amended (4)
10(a)	2005 Equity Participation Plan (5)
10(b)	Employment Agreement, dated as of October 16, 2007, between DCAP Group, Inc. and Barry B. Goldstein (6)
10(c)	Amendment No. 1, dated as of August 25, 2008, to Employment Agreement between DCAP Group, Inc. and Barry B. Goldstein (7)
10(d)	Amendment No. 2, dated as of March 24, 2010, to Employment Agreement between Kingstone Companies, Inc. (formerly DCAP Group, Inc.) and Barry B. Goldstein (8)
10(e)	Amendment No. 3, dated as of May 10, 2011, to Employment Agreement between Kingstone Companies, Inc. and Barry B. Goldstein (9)
10(f)	Employment Contract, effective on July 1, 2008, between Commercial Mutual Insurance Company and Barry B. Goldstein (10)
10(g)	Employment Agreement, dated as of May 10, 2011, between Kingstone Insurance Company and Barry B. Goldstein (9)
10(h)	Stock Option Agreement, dated as of October 16, 2007, between DCAP Group, Inc. and Barry B. Goldstein (6)
10(i)	Form of Promissory Note issued in June 2009 and due July 10, 2011 (11)
10(j)	Form of Promissory Note issued in September 2009 and due July 10, 2011 (applicable to Promissory Notes issued in December 2009 and January 2010) (12)
10(k)	Employment Contract, dated as of September 13, 2006, between Commercial Mutual Insurance Company and Successor Companies and John D. Reiersen (10)

10(l)	Amendment No. 1, dated as of January 25, 2008, to Employment Contract between Commercial Mutual Insurance Company and Successor Companies and John D. Reiersen, dated as of September 13, 2006 (10)
10(m)	Amendment No. 2, dated as of July 18, 2008, to Employment Contract between Commercial Mutual Insurance Company and Successor Companies and John D. Reiersen, dated as of September 13, 2006, and Amendment No. 1, dated as of January 25, 2008 (10)
10(n)	Amendment No. 3, dated as of February 28, 2011, to Employment Contract between Kingstone Insurance Company (as successor in interest to Commercial Mutual Insurance Company) and John D. Reiersen, dated as of September 13, 2006, as amended (13)
10(o)	Stock Option Agreement, dated as of March 24, 2010, between Kingstone Companies, Inc. and Barry B. Goldstein (8)
10(p)	Form of Exchange Agreement, dated as of June 30, 2010, between Kingstone Companies, Inc. and the holders of Series E Preferred Stock (14)
10(q)	Letter agreement, dated February 23, 2012, between Kingstone Companies, Inc. and Barry Goldstein with regard to outstanding options.
14	Code of Ethics (15)
21	Subsidiaries
23	Consent of EisnerAmper LLP
31(a)	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31(b)	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	101.SCH XBRL Taxonomy Extension Schema.
101.CAL	101.CAL XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	101.DEF XBRL Taxonomy Extension Definition Linkbase.
101.LAB	101.LAB XBRL Taxonomy Extension Label Linkbase.
101.PRE	101.PRE XBRL Taxonomy Extension Presentation Linkbase.

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

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

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

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

(5) Denotes document filed as an exhibit to our Annual Report on Form 10-KSB for the fiscal year ended December 31, 2005 and incorporated herein by reference.

(6) Denotes document filed as an exhibit to our Current Report on Form 8-K for an event dated October 16, 2007 and incorporated herein by reference.

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

(8) Denotes document filed as an exhibit to our Current Report on Form 8-K for an event dated March 24, 2010 and incorporated herein by reference.

(9) Denotes document filed as an exhibit to our Current Report on Form 8-K for an event dated May 10, 2011 and incorporated herein by reference.

(10) Denotes document filed as an exhibit to our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 and incorporated herein by reference.

(11) Denotes document filed as an exhibit to our Current Report on Form 8-K for an event dated June 22, 2009 and incorporated herein by reference.

(12) Denotes document filed as an exhibit to our Current Report on Form 8-K for an event dated September 16, 2009 and incorporated herein by reference.

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

(14) Denotes document filed as an exhibit to our Quarterly Report on Form 10-Q for the period ended June 30, 2010 and incorporated herein by reference.

(15) Denotes document filed as an exhibit to our Annual Report on Form 10-KSB for the fiscal year ended December 31, 2003 and incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, there–unto duly authorized.

KINGSTONE COMPANIES, INC.

Dated: March 30, 2012	By:	/s/ Barry B. Goldstein Barry B. Goldstein Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Capacity	Date
/s/ Barry B. Goldstein Barry B. Goldstein	President, Chairman of the Board, Chief Executive Officer, Treasurer and Director (Principal Executive Officer)	March 30, 2012
/s/ Victor J. Brodsky Victor J. Brodsky	Chief Financial Officer and Secretary (Principal Financial and Accounting Officer)	March 30, 2012
/s/ Michael R. Feinsod Michael R. Feinsod	Director	March 30, 2012
/s/ Jay M. Haft Jay M. Haft	Director	March 30, 2012
/s/s David A. Lyons David A. Lyons	Director	March 30, 2012
/s/ Jack D. Seibald Jack D. Seibald	Director	March 30, 2012

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Kingstone Companies, Inc. and Subsidiaries
Hewlett, NY

We have audited the accompanying consolidated balance sheets of Kingstone Companies, Inc. and Subsidiaries (the "Company") as of December 31, 2011 and 2010, and the related consolidated statements of operations and comprehensive income, stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2011. The financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kingstone Companies, Inc. and Subsidiaries as of December 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

/s/ EisnerAmper LLP
Edison, New Jersey
March 30, 2012

KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

	December 31, 2011	December 31, 2010
Assets		
Fixed-maturity securities, held to maturity, at amortized cost (fair value of $777,953 at		
December 31, 2011 and $606,398 at December 31, 2010)	$ 606,234	$ 605,424
Fixed-maturity securities, available for sale, at fair value (amortized cost of $22,215,191		
at December 31, 2011 and $16,277,052 at December 31, 2010)	22,568,932	16,339,101
Equity securities, available-for-sale, at fair value (cost of $3,857,741		
at December 31, 2011 and $2,825,015 at December 31, 2010)	4,065,210	2,983,035
Total investments	27,240,376	19,927,560
Cash and cash equivalents	173,126	326,620
Premiums receivable, net of provision for uncollectible amounts	5,779,085	5,001,886
Receivables - reinsurance contracts	1,734,535	1,174,729
Reinsurance receivables, net of provision for uncollectible amounts	23,880,814	20,720,194
Notes receivable-sale of business	393,511	705,019
Deferred acquisition costs	4,535,773	3,619,001
Intangible assets, net	3,660,672	4,136,386
Property and equipment, net of accumulated depreciation	1,646,341	1,585,029
Other assets	660,672	1,486,249
Total assets	$ 69,704,905	$ 58,682,673
Liabilities		
Loss and loss adjustment expenses	$ 18,480,717	$ 17,711,907
Unearned premiums	21,283,160	17,277,332
Advance premiums	544,791	410,574
Reinsurance balances payable	2,761,828	1,106,897
Deferred ceding commission revenue	3,982,399	3,219,513
Notes payable and capital lease obligations (includes payable to related		
parties of $378,000 at December 31, 2011 and $785,000 at December 31, 2010)	1,047,000	1,460,997
Accounts payable, accrued expenses and other liabilities	4,419,623	2,553,031
Income taxes payable	85,393	-
Deferred income taxes	1,789,439	1,998,557
Total liabilities	54,394,350	45,738,808
Commitments and Contingencies		
Stockholders' Equity		
Common stock, $.01 par value; authorized 10,000,000 shares; issued 4,643,122 shares;		
outstanding 3,759,900 shares at December 31, 2011 and 3,838,386 shares		
at December 31, 2010	46,432	46,432
Preferred stock, $.01 par value; authorized 1,000,000 shares;		

-0- shares issued and outstanding	-	-
Capital in excess of par	13,739,792	13,633,913
Accumulated other comprehensive income	370,399	145,247
Retained earnings	2,554,349	281,531
	16,710,972	14,107,123
Treasury stock, at cost, 883,222 shares at December 31, 2011 and 804,736 shares at December 31, 2010	(1,400,417)	(1,163,258)
Total stockholders' equity	15,310,555	12,943,865
Total liabilities and stockholders' equity	$ 69,704,905	$ 58,682,673

See notes to accompanying consolidated financial statements.

KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

Consolidated Statements of Operations and Comprehensive Income

Years ended December 31,	2011	2010
Revenues		
Net premiums earned	$14,868,746	$11,135,635
Ceding commission revenue	10,624,714	8,583,146
&		