KINGSTONE COMPANIES, INC.
Form 10-K
April 01, 2013

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, 2012

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 þ 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. þ

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, 2012, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $10,376,238 based on the closing sale price as reported on the NASDAQ Capital Market. As of March 29, 2013, there were 3,840,899 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,” “proj “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.

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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 only nominally 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 2012

Increased Rate of Dividends Declared

In August 2012, we increased our quarterly dividends on our common stock from $.03 per share to $.04 per share. Dividends of $.03 per share were declared on each of February 6, 2012 and May 14, 2012 and were paid on March 15, 2012 and June 15, 2012, respectively. Dividends of $.04 per share were declared on each of August 13, 2012 and November 12, 2012 and were paid on September 18, 2012 and December 14, 2012, respectively.

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.

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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).

(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 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 only nominally 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 2012 and 2010, in a bi-annual 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 2012 and 2010, 115 and 81 companies, respectively, 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. In 2012 some of our commercial lines were added to our online 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.

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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, service line 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.

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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, 2012	2011
Balance at beginning of period	$ 18,480,717	$ 17,711,907
Less reinsurance recoverables	(9,960,334)	(10,431,415)
Net balance, beginning of period	8,520,383	7,280,492
Incurred related to:		
Current year	10,460,000	8,297,998
Prior years	774,713	273,060
Total incurred	11,234,713	8,571,058
Paid related to:		
Current year	4,419,000	4,108,010
Prior years	3,270,258	3,223,157
Total paid	7,689,258	7,331,167
Net balance at end of period	12,065,838	8,520,383
Add reinsurance recoverables	18,419,694	9,960,334
Balance at end of period	$ 30,485,532	$ 18,480,717

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 2012. We did not have accurate and reliable data for 2003, which is 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.

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The “cumulative redundancy (deficiency)” represents, as of December 31, 2012, 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	2012
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	12,065
Net reserve estimated as of One year later	5,122	3,627	4,844	5,430	6,119	6,235	7,483	9,261	
Two years later	5,698	4,315	5,591	5,867	6,609	6,393	8,289		
Three years later	6,356	5,101	5,792	6,433	6,729	6,486			
Four years later	6,985	5,094	6,260	6,569	6,711				
Five years later	7,049	5,540	6,343	6,683					
Six years later	7,476	5,616	6,429						
Seven years later	7,561	5,678							
Eight years later	7,637								
Nine years later									
Ten years later									
Net cumulative redundancy (deficiency)	(4,496)	(2,604)	(2,059)	(1,884)	(888)	(485)	(1,009)	(741)	

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	As of and for the Year Ended December 31,								
	2004	2005	2006	2007	2008	2009	2010	2011	2012
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	3,237	
Two years later	4,291	2,321	3,303	3,339	3,974	3,992	4,947		
Three years later	4,965	3,321	4,036	4,339	5,054	4,659			
Four years later	5,598	3,705	4,471	5,146	5,373				
Five years later	5,840	3,988	5,079	5,424					
Six years later	6,101	4,484	5,305						
Seven years later	6,557	4,595							
Eight years later	6,654								
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	12,065
Reinsurance Recoverable	7,610	7,283	6,523	6,693	9,766	10,512	10,432	9,960	18,420
Gross reserves - December 31,	10,751	10,357	10,893	11,492	15,589	16,513	17,712	18,480	30,485
Net re-estimated reserve	7,637	5,678	6,429	6,683	6,711	6,486	8,289	9,261	
Re-estimated reinsurance recoverable	10,513	10,682	10,825	10,621	12,365	11,879	11,780	11,018	
Gross re-estimated reserve	18,150	16,360	17,254	17,304	19,076	18,365	20,069	20,279	
Gross cumulative redundancy (deficiency)	(7,399)	(6,003)	(6,361)	(5,812)	(3,487)	(1,852)	(2,357)	(1,799)	

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. 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 does not relieve us from our obligations to policyholders.

Investments

Our investment portfolio, including cash and cash equivalents, and short term investments, as of December 31, 2012 and 2011, is summarized in the table below by type of investment.

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	December 31, 2012		December 31, 2011	
	Fair Market Value	Percentage of Fair Market Value	Fair Market Value	Percentage of Fair Market Value
Less than one year	$ 560,162	2.1 %	$ 1,079,924	4.8 %
One to five years	9,569,943	36.6 %	7,045,774	31.2 %
Five to ten years	13,306,033	50.8 %	12,680,441	56.2 %
More than 10 years	2,745,800	10.5 %	1,762,793	7.8 %
Total	$ 26,181,938	100.0 %	$ 22,568,932	100.0 %

The table below summarizes the credit quality of our fixed-maturity securities available for sale as of December 31, 2012 and 2011 as rated by Standard and Poor's.

	December 31, 2012		December 31, 2011	
	Fair Market Value	Percentage of Fair Market Value	Fair Market Value	Percentage of Fair Market Value
Rating				
U.S. Treasury securities	$ -	0.0 %	$ 550,188	2.4 %
AAA	2,226,603	8.5 %	3,041,576	13.5 %
AA	4,088,304	15.6 %	4,502,733	20.0 %
A	6,963,380	26.6 %	6,977,222	30.9 %
BBB	12,903,651	49.3 %	7,497,213	33.2 %
Total	$ 26,181,938	100.00 %	$ 22,568,932	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, and such rating remained in effect in 2012. KICO is beginning 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.

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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 1.2% and 1.8% of our revenues from continuing operations during the years ended December 31, 2012 and 2011, 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.

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.

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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.

In the aftermath of Superstorm Sandy, the New York State Department of Financial Services has adopted various regulations that could have a material adverse effect on insurance companies that operate in the state of New York. Included among the regulations are accelerated claims investigation and settlement requirements and mandatory participation in non-binding mediation proceedings funded by the insurer. In addition, the Department of Financial Services imposed a four month moratorium on property and casualty policy terminations and non-renewals notwithstanding failure to pay premiums when due. Further, in February 2013, the state of New York announced that the Department of Financial Services has commenced an investigation into the claims practices of three insurance companies, including KICO, in connection with Superstorm Sandy claims. The Department of Financial Services stated that the three insurers had a much larger than average consumer complaint rate with regard to Superstorm Sandy claims and indicated that the three insurers were being investigated for (i) failure to send adjusters in a timely manner; (ii) failure to process claims in a timely manner; and (iii) inability of homeowners to contact insurance company representatives. KICO has received a letter from the Department of Financial Services seeking information and data with regard to the foregoing. KICO is cooperating with the Department of Financial Services in connection with its investigation and we believe that such matter will not have a material adverse effect on our financial position.

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”).

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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. As of December 31, 2012, the examination is still in progress.

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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, 2012.

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 accounting basis) for the trailing four quarters. As of December 31, 2012, the maximum distribution that KICO could pay without prior regulatory approval was approximately $1,015,000, 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, 2012, as a result of its growth, KICO had one ratio outside the usual range due to reliance on quota share reinsurance.

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.

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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 currently 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 principally at 15 Joys Lane, Kingston, New York 12401. Effective May 1, 2013, we will be moving our principal executive offices to our Kingston, New York location. 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.

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Employees

As of December 31, 2012, we had 54 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 currently located at 1154 Broadway, Hewlett, New York. Our insurance underwriting business is located principally at 15 Joys Lane, Kingston, New York.

The current yearly aggregate base rental for our current executive offices is approximately $20,000. The lease for these premises will terminate effective April 30, 2013, at which time we will move our principal executive offices to our Kingston, New York location. We own the building from which our insurance underwriting business principally operates, free of mortgage.

ITEM 3. LEGAL PROCEEDINGS.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

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PART II

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

Market Information

Our common 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
2012 Calendar Year		
First Quarter	$ 3.75	$ 2.98
Second Quarter	6.13	3.18
Third Quarter	6.95	4.51
Fourth Quarter	6.24	4.50

	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

Holders

As of March 18, 2013, there were approximately 430 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 2012, we paid quarterly dividends of $0.03 per share on March 15, 2012 and June 15, 2012, and $0.04 per share on September 18, 2012 and December 14, 2012. 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.

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We declared dividends on our common stock as follows:

	2012	2011
Common stock dividends declared	$533,763	$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, 2012:

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
10/1/12 – 10/31/12	-	-	-	-
11/1/12 – 11/30/12	-	-	-	-
12/1/12 – 12/31/12	1,915	$4.84	-	-
Total	1,915	$4.84	-	-

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

We derive 99% of our revenue from KICO, which includes revenues from earned premiums, ceding commissions from quota share reinsurance, net investment income generated from our portfolio, and net realized gains and losses on investment securities. All of our policies are for a one year period. Earned premiums represent premiums received from insureds, which are recognized as revenue over the period of time that insurance coverage is provided (i.e., ratably over the one year life of the policy). A significant period of time normally elapses between the receipt of insurance premiums and the payment of insurance claims. During this time, KICO invests the premiums, earns investment income and generates net realized and unrealized investment gains and losses on investments.

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

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

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 have a term of one year. Accordingly, for a one-year policy written on July 1, 2011, we would earn half of the premiums in 2011 and the other half in 2012.

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.

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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 and auditing 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.

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

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

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

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

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

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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 ceding commission revenue, deferred policy acquisition costs, deferred income taxes, the impairment of investment securities, intangible assets and the valuation of stock-based compensation. See Note 2 (Accounting Policies and Basis of Presentation) of the Notes to Consolidated Financial Statements following Item 15 of this Annual Report.

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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)	2012	2011	Change	Percent
Revenues				
Direct written premiums	$ 49,252	$ 40,735	$ 8,517	20.9 %
Net written premiums	19,560	16,296	3,264	20.0 %
Change in net unearned premiums	(2,343)	(1,427)	(916)	64.2 %
Net premiums earned	17,217	14,869	2,348	15.8 %
Ceding commission revenue (1)	9,690	10,625	(935)	(8.8) %
Net investment income	1,015	754	261	34.6 %
Net realized gain on investments	288	524	(236)	(45.0) %
Other income	868	921	(53)	(5.8) %
Total revenues	29,078	27,693	1,385	5.0 %
Expenses				
Loss and loss adjustment expenses (1)				
Direct and assumed loss and loss adjustment expenses	32,631	15,644	16,987	108.6 %
Less: ceded loss and loss adjustment expenses	(21,396)	(7,073)	(14,323)	202.5 %
Net loss and loss adjustment expenses	11,235	8,571	2,664	31.1 %
Commission expense	7,246	6,230	1,016	16.3 %
Other underwriting expenses	7,849	7,373	476	6.5 %
Other operating expenses	1,000	1,203	(203)	(16.9) %
Depreciation and amortization	596	603	(7)	(1.2) %
Interest expense	82	121	(39)	(32.2) %
Total expenses	28,008	24,101	3,907	16.2 %
Income from operations before taxes	1,070	3,592	(2,522)	(70.2) %
Provision for income tax	303	1,089	(786)	(72.2) %
Net income	$ 767	$ 2,503	$ (1,736)	(69.4) %
Percent of total revenues:				
Net premiums earned	59.2 %	53.7 %		