KINGSTONE COMPANIES, INC.
Form 10-Q
November 15, 2010

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

(Mark one)

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

For the quarterly period ended September 30, 2010

OR

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

For the transition period from _________to _________

Commission File Number 0-1665

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

Delaware (State or other jurisdiction of incorporation or organization)	36-2476480 (I.R.S. Employer Identification Number)

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

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

(Former Name, if Changed Since Last Report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filero	Non-accelerated filer o	Smaller reporting company þ

(Do not check if a smaller reporting
company)

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

As of November 15, 2010, there were 3,838,386 shares of the registrant's common stock outstanding.

KINGSTONE COMPANIES, INC.
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Forward-Looking Statements

This Quarterly Report contains forward-looking statements as that term is defined in the federal securities laws. The events described in forward-looking statements contained in this Quarterly Report may not occur. Generally these statements relate to business plans or strategies, projected or anticipated benefits or other consequences of our plans or strategies, projected or anticipated benefits from acquisitions to be made by us, or projections involving anticipated revenues, earnings or other aspects of our operating results. The words "may," "will," "expect," "believe," "anticipate," "project," "plan," "intend," "estimate," and "continue," and their opposites and similar expressions are intended to identify forward-looking statements. We caution you that these statements are not guarantees of future performance or events and are subject to a number of uncertainties, risks and other influences, many of which are beyond our control, that may influence the accuracy of the statements and the projections upon which the statements are based. Factors which may affect our results include, but are not limited to, the risks and uncertainties discussed in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2009 under “Factors That May Affect Future Results and Financial Condition”.

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

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

	September 30, 2010 (unaudited)	December 31, 2009
Assets		
Short term investments	$-	$225,336
Fixed-maturity securities, held to maturity, at amortized cost (fair value of $121,295)	106,205	-
Fixed-maturity securities, available for sale, at fair value (amortized cost of $14,621,154 at September 30, 2010 and $12,676,867 at December 31, 2009)	15,213,163	12,791,080
Equity securities, available-for-sale, at fair value (cost of $2,852,670 at September 30, 2010 and $1,973,738 at December 31, 2009)	3,151,399	2,186,926
Total investments	18,470,767	15,203,342
Cash and cash equivalents	762,035	625,320
Premiums receivable, net of provision for uncollectible amounts	5,275,124	4,479,363
Receivables - reinsurance contracts	1,579,897	564,408
Reinsurance receivables, net of of provision for uncollectible amounts	20,881,949	20,849,621
Notes receivable-sale of business	755,298	1,119,365
Deferred acquisition costs	3,595,153	2,917,984
Intangible assets, net	4,255,314	4,612,100
Property and equipment, net of accumulated depreciation	1,557,875	1,659,015
Equities in pools and associations	220,708	220,708
Other assets	480,306	392,527
Total assets	$57,834,426	$52,643,753
Liabilities		
Loss and loss adjustment expenses	$17,138,236	$16,513,318
Unearned premiums	17,215,777	14,088,187
Advance premiums	521,938	411,676
Reinsurance balances payable	1,825,397	1,918,169
Deferred ceding commission revenue	3,202,015	3,298,245
Notes payable (includes payable to related parties of $785,000 at September 30, 2010 and $585,000 at December 31, 2009)	1,467,369	1,085,637
Accounts payable, accrued liabilities and other liabilities	1,934,157	2,446,558
Deferred income taxes	1,327,574	1,173,256
Mandatorily redeemable preferred stock	-	1,299,231
Liabilities of discontinued operations	-	26,000
Total liabilities	44,632,463	42,260,277
Commitments and Contingencies		
Stockholders' Equity		
Common stock, $.01 par value; authorized 10,000,000 shares; issued 4,643,122 shares at September 30, 2010 and 3,804,536 shares at December 31, 2009; outstanding 3,838,386 shares at September 30, 2010 and 2,988,511 shares at December 31, 2009	46,432	38,046

Preferred stock, $.01 par value; authorized 1,000,000 shares; 0 shares issued and outstanding	-	-
Capital in excess of par	13,611,626	12,051,332
Accumulated other comprehensive income	585,908	216,086
Retained earnings (accumulated deficit)	121,255	(701,606)
	14,365,221	11,603,858
Treasury stock, at cost, 804,736 shares at September 30, 2010 and 816,025 shares at December 31, 2009	(1,163,258)	(1,220,382)
Total stockholders' equity	13,201,963	10,383,476
Total liabilities and stockholders' equity	$57,834,426	$52,643,753

See notes to condensed consolidated financial statements.

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KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations and Comprehensive Income (Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
Revenues				
Net premiums earned	$ 3,065,289	$ 2,262,819	$ 7,905,350	$ 2,262,819
Ceding commission revenue	2,231,493	1,483,249	6,413,774	1,483,249
Net investment income	154,679	115,657	435,882	115,657
Net realized gains on investments	84,054	99,856	228,803	99,856
Other income	214,606	153,867	664,091	518,288
Total revenues	5,750,121	4,115,448	15,647,900	4,479,869
Expenses				
Loss and loss adjustment expenses	1,907,917	1,087,276	4,518,253	1,087,276
Commission expense	1,287,268	1,091,638	3,647,371	1,091,638
Other underwriting expenses	1,580,827	1,077,318	4,112,889	1,077,318
Other operating expenses	428,401	285,674	1,345,208	952,570
Depreciation and amortization	155,258	94,519	463,746	103,113
Interest expense	46,258	17,220	138,560	150,571
Interest expense - mandatorily redeemable preferred stock	-	37,353	74,706	89,805
Total expenses	5,405,929	3,690,998	14,300,733	4,552,291
Income (loss) from operations	344,192	424,450	1,347,167	(72,422)
Gain on acquistion of Kingstone Insurance Company	-	5,401,860	-	5,401,860
Interest income-CMIC note receivable	-	-	-	60,757
Income from continuing operations before taxes	344,192	5,826,310	1,347,167	5,390,195
Income tax expense (benefit)	128,278	184,162	564,388	(25,590)
Income from continuing operations	215,914	5,642,148	782,779	5,415,785
Income (loss) from discontinued operations, net of taxes	16,234	(56,550)	40,082	(240,323)
Net income	232,148	5,585,598	822,861	5,175,462
Gross unrealized investment holding gains arising during period	523,690	329,522	560,337	329,522
Income tax expense related to items of other comprehensive income	(178,055)	(112,037)	(190,515)	(112,037)

Comprehensive income	$ 577,783	$ 5,803,083	$ 1,192,683	$ 5,392,947
Basic earnings per common share:				
Income from continuing operations	$ 0.06	$ 1.89	$ 0.24	$ 1.82
Income (loss) from discontinued operations	$ -	$ (0.02)	$ 0.01	$ (0.08)
Income per common share	$ 0.06	$ 1.87	$ 0.25	$ 1.74
Diluted earnings per common share:				
Income from continuing operations	$ 0.06	$ 1.56	$ 0.24	$ 1.82
Income (loss) from discontinued operations	$ -	$ (0.02)	$ 0.01	$ (0.08)
Income per common share	$ 0.06	$ 1.54	$ 0.25	$ 1.74
Weighted average common shares outstanding				
Basic	3,833,798	2,977,501	3,292,145	2,974,349
Diluted	3,833,798	3,627,117	3,292,145	2,974,349

See notes to condensed consolidated financial statements.

KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

Consolidated Statement of Stockholders' Equity (Unaudited)
Year ended December 31, 2009 and Nine Months Ended September 30, 2010

	Common Stock Shares	Common Stock Amount	Preferred Stock Shares	Preferred Stock Amount	Capital in Excess of Par	Accumulated Other Comprehensive Income	Retained Earnings Accumulated (Deficit)	Treasury Stock Shares	Treasury Stock Amount	Total
Balance, December 31, 2008	3,788,771	$37,888	-	$-	$11,962,512	$-	$(5,522,448)	816,025	$(1,220,382)	$5,257,570
Stock-based payments	15,765	158	-	-	88,820	-	-	-	-	88,978
Net income	-	-	-	-	-		4,820,842	-	-	4,820,842
Net unrealized gains on securities available for sale, net of income tax	-	-	-	-	-	216,086	-	-	-	216,086
Balance, December 31, 2009	3,804,536	38,046	-	-	12,051,332	216,086	(701,606)	816,025	(1,220,382)	10,383,476
Stock-based payments	62,466	624	-	-	325,949	-	-	-	-	326,573
Mandatorily redeemable preferred stock exchanged for restricted common stock	787,409	7,874	-	-	1,291,357	-	-	-	-	1,299,231
Retirement of treasury stock	(11,289)	(112)			(57,012)			(11,289)	57,124	-
Net income	-	-	-	-	-	-	822,861	-	-	822,861
Net unrealized gains on securities available for sale, net of income tax	-	-	-	-	-	369,822	-	-	-	369,822

Balance, September 30, 2010	4,643,122	$46,432	-	$-	$13,611,626	$585,908	$121,255	804,736	$(1,163,258)	$13,201,963

See notes to condensed consolidated financial statements.

KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows
(Unaudited)

Nine Months Ended September 30,	2010	2009
Cash flows provided by operating activities:		
Net income	$ 822,861	$ 5,175,462
Adjustments to reconcile net income to net cash provided by operations:		
Gain on acquisition of Kingstone Insurance Company	-	(5,401,860)
Gain on sale of investments	(228,803)	(99,856)
Depreciation and amortization	463,746	103,113
Amortization of bond premium, net	54,810	11,142
Stock-based payments	326,573	51,326
Deferred income taxes	(36,197)	(300,368)
(Increase) decrease in assets:		
Short term investments	225,336	373,430
Premiums receivable, net	(795,761)	94,856
Receivables - reinsurance contracts	(1,015,489)	(46,140)
Reinsurance receivables, net	(32,328)	(1,038,873)
Deferred acquisition costs	(677,169)	(134,643)
Other assets	(142,388)	78,670
Increase (decrease) in liabilities:		
Loss and loss adjustment expenses	624,918	1,001,485
Unearned premiums	3,127,590	340,977
Advance premiums	110,262	-
Reinsurance balances payable	(92,772)	(15,988)
Deferred ceding commission revenue	(96,230)	143,327
Accounts payable, accrued liabilities and other liabilities	(512,401)	122,789
Net cash provided by operating activities of continuing operations	2,126,557	458,849
Operating activities of discontinued operations	(26,000)	123,325
Net cash flows provided by operating activities	2,100,557	582,174
Cash flows (used in) provided by investing activities:		
Purchase - fixed-maturity securities held to maturity	(106,205)	(3,046,799)
Purchase - fixed-maturity securities available for sale	(4,449,040)	-
Purchase - equity securities	(1,968,273)	(744,704)
Sale - fixed-maturity securities available for sale	2,616,788	1,575,031
Sale - equity securities	1,202,909	1,439,854
Cash acquired in acquisition	-	1,327,057
Increase in notes receivable and accrued interest - Sale of businesses	-	(118,766)
	364,067	52,420

Collections of notes receivable and accrued interest - Sale of businesses		
Other investing activities	(5,820)	(62,560)
Net cash (used in) provided by investing activities of continuing operations	(2,345,574)	421,533
Investing activities of discontinued operations	-	1,869,628
Net cash flows (used in) provided by investing activities	(2,345,574)	2,291,161
Cash flows provided by (used in) financing activities:		
Proceeds from long term debt (includes $200,000 from related parties in 2010		
and $370,000 in 2009)	400,000	750,000
Principal payments on long-term debt	(18,268)	(1,448,143)
Net cash provided by (used in) financing activities of continuing operations	381,732	(698,143)
Financing activities of discontinued operations	-	-
Net cash flows provided by (used in) financing activities	381,732	(698,143)

See notes to condensed consolidated financial statements.

KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited)

Nine Months Ended September 30,		2010		2009
Increase in cash and cash equivalents	$	136,715	$	2,175,192
Cash and cash equivalents, beginning of period		625,320		142,949
Cash and cash equivalents, end of period	$	762,035	$	2,318,141
Supplemental Schedule of Non-Cash Investing and Finacing Activities:				
Mandatorily redeemable preferred stock exchanged for common stock	$	1,299,231	$	-
Exchange of notes receivable as consideration paid for acquisition of Kingstone Insurance Company	$	-	$	5,996,461
Notes receivable issued in connection with sale of business	$	-	$	1,047,573
Notes payable exchanged for mandatorily redeemable preferred stock	$	-	$	519,231

See notes to condensed consolidated financial statements.

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

Note 1 - Basis of Presentation and Nature of Business

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

Effective July 1, 2009, Kingstone, through its subsidiary KICO, offers property and casualty insurance products to small businesses and individuals in New York State. The effect of the KICO acquisition is only included in the Company’s results of operations and cash flows for the period from July 1, 2009 (the KICO acquisition date) through September 30, 2010. Accordingly, only the disclosures for the nine months ended September 30, 2010 and the three month periods ended September 30, 2010 and 2009 will include KICO for the entire period. For the nine months ended September 30, 2009, KICO is included for only three months. As a result, disclosures for the nine months ended September 30, 2010 and 2009 are not comparable.

Until December 2008, continuing operations primarily consisted of the ownership and operation of a network of retail insurance brokerage and agency offices engaged in the sale of retail auto, motorcycle, boat, business, and homeowner's insurance.

In December 2008, due to declining revenues and profits, the Company made a decision to restructure its network of retail offices (the “Retail Business”). The plan of restructuring called for the closing of seven of the least profitable locations during the month of December 2008 and the entry into negotiations to sell the remaining 19 locations of the Retail Business. On April 17, 2009, the Company sold substantially all of the assets, including the book of business, of its 16 remaining Retail Business locations that it owned in New York State (the “New York Sale”) (see Note 14). Effective June 30, 2009, the Company sold all of the outstanding stock of the subsidiary that operated its three remaining Retail Locations in Pennsylvania (the “Pennsylvania Sale”) (see Note 14). As a result of the restructuring in December 2008, the New York Sale on April 17, 2009 and the Pennsylvania Sale effective June 30, 2009, the Retail Business has been presented as discontinued operations and prior periods have been restated.

Until May 2009, the Company operated a DCAP franchise business. Effective May 1, 2009, the Company sold all of the outstanding stock of the subsidiaries that operated such DCAP franchise business (see Note 14). As a result of the sale, the franchise business has been presented as discontinued operations and prior periods have been restated.

Note 2 – Accounting Policies and Basis of Presentation

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements included in this report have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information and the instructions to Securities and Exchange Commission (“SEC”) Form 10-Q and Article 8-03 of SEC Regulation S-X. The principles for condensed interim financial information do not require the inclusion of all the information and footnotes required by generally accepted accounting principles for complete financial statements. Therefore, these financial statements should be read in conjunction with the consolidated financial statements as of and for the year ended December 31, 2009 and notes thereto included in the Company’s Annual Report on Form 10-K filed on April 7, 2010. The accompanying condensed consolidated financial statements have not been audited by an independent registered public accounting firm in accordance with standards of the Public Company Accounting Oversight Board (United States) but, in the opinion of management, such financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the Company’s financial position and results of operations. The results of operations for the nine months ended September 30, 2010 may not be indicative of the results that may be expected for the year ending December 31, 2010.

Use of Estimates

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

Reclassification

The Company has reclassified certain amounts in its 2009 consolidated balance sheet and 2009 statements of operations to conform to the 2010 presentation. None of these reclassifications had an effect on the Company's consolidated net earnings, total stockholders' equity or cash flows.

Principles of Consolidation

The consolidated financial statements consist of Kingstone and its wholly-owned subsidiaries. Subsidiaries acquired on July 1, 2009 include KICO and its subsidiaries, CMIC Properties, Inc. ("CMIC Properties") and 15 Joys Lane, LLC ("15 Joys Lane"), which together own the land and building from which KICO operates. All material intercompany transactions have been eliminated in consolidation.

Accounting Pronouncements

Accounting guidance adopted in 2010

In June 2009, the Financial Accounting Standards Board ("FASB") issued new guidance which requires more information about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. This guidance eliminates the concept of a "qualifying special-purpose entity," changes the requirements for derecognizing financial assets, and requires additional disclosures. The new guidance enhances information reported to users of financial statements by providing greater transparency about transfers of financial assets and an entity's continuing involvement in transferred financial assets. The Company adopted this new guidance on January 1, 2010, with no material effects on its financial statements as of September 30, 2010.

In June 2009, the FASB issued new guidance which concerns the consolidation of variable interest entities and changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a reporting entity is required to consolidate another entity is based on, among other things, the other entity's purpose and design and the reporting entity's ability to direct the activities of the other entity that most significantly affect the other entity's economic performance. The new guidance requires a reporting entity to provide additional disclosures about its involvement with variable interest entities and any significant changes in risk exposure due to that involvement. A reporting entity is required to disclose how its involvement with a variable interest entity affects the reporting entity's financial statements. The Company adopted this new guidance on January 1, 2010, with no material effects on its financial statements as of September 30, 2010. The Company will apply this guidance on a transaction by transaction basis going forward.

In January 2010, the FASB issued new guidance that requires additional disclosure of the fair value of assets and liabilities. This guidance requires additional disclosures to be made about significant transfers in and out of Levels 1 and 2 of the fair value hierarchy within GAAP. The Company adopted this guidance on January 1, 2010, with the required disclosure included in “Note 5 — Fair Value Measurements”.

Accounting guidance not yet effective

The guidance issued by the FASB in January 2010 also requires additional disclosure about the gross activity within Level 3 of the fair value hierarchy within GAAP as opposed to the net disclosure currently required. This disclosure will be effective for annual and interim periods beginning after December 15, 2010. As this guidance relates to disclosure rather than measurement of assets and liabilities, there will be no effect on the financial results or position of the Company. The Company will comply with this disclosure requirement when it becomes effective, and does not anticipate that it will materially impact the consolidated financial statements.

Pending accounting guidance

The Emerging Issues Task Force of the FASB is discussing Issue No. 09-G, “Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts.” At issue is how the definition of acquisition costs should be interpreted in assessing whether certain costs relating to the acquisition of new or renewal insurance contracts qualify as deferred acquisition costs. In July 2010, the Task Force reached a final consensus-for-exposure that acquisition costs that qualify as deferrable should include only those costs that are directly related to the acquisition of insurance contracts by applying a model similar to the accounting for loan origination costs. That definition would not include, for example, any costs incurred in the acquisition of new or renewal contracts related to unsuccessful contract acquisitions. This pending guidance is expected to be effective for annual and interim periods beginning after December 15, 2011 and would allow, but not require, retrospective application. The amount included in the category “other deferred acquisition expenses” may be significantly reduced as a result of the adoption of this pending guidance.

Note 3 - Acquisition of Kingstone Insurance Company

On July 1, 2009, Kingstone completed the acquisition of 100% of the issued and outstanding common stock of KICO, pursuant to the conversion of CMIC from an advance premium cooperative to a stock property and casualty insurance company. The total purchase price was $5,996,461.

As of June 30, 2009, Kingstone held two surplus notes issued by CMIC in the aggregate principal amount of $3,750,000. Previously accrued and unpaid interest on the notes as of June 30, 2009 was approximately $2,246,000. Pursuant to the plan of conversion, effective July 1, 2009, Kingstone acquired a 100% equity interest in KICO in consideration of the exchange of the principal amount of surplus notes of CMIC. In addition, Kingstone forgave all accrued and unpaid interest on the surplus notes as of the date of conversion. The transaction was considered a bargain purchase, resulting in a gain on acquisition.

The Company began consolidating KICO’s financial statements as of the closing date in accordance with GAAP. The purchase consideration has been allocated to the assets acquired and liabilities assumed, including separately identified intangible assets, based on their fair values as of the close of the acquisition.

Note 4 - Investments

Available for Sale Securities

The amortized cost and fair value of investments in available for sale fixed-maturity securities, equities and short term investments as of September 30, 2010 and December 31, 2009 are summarized as follows:

	September 30, 2010					
	Cost or	Gross	Gross Unrealized Losses			Unrealized
			Less than	More than		
	Amortized	Unrealized	12	12	Fair	Gains/
Category	Cost (a)	Gains	Months	Months	Value	(Losses)
	(unaudited)					
Fixed-Maturity Securities:						
U.S. Treasury securities and obligations of U.S. government corporations and agencies (b)	$1,471,367	$70,580	$(20,192)	$-	$1,521,755	$50,388
Political subdivisions of States, Territories and Possessions	6,901,104	235,417	(17,024)	-	7,119,497	218,393
Corporate and other bonds Industrial and miscellaneous	6,251,683	321,096	(868)	-	6,571,911	320,228
Total fixed-maturity securities	14,624,154	627,093	(38,084)	-	15,213,163	589,009
Equity Securities:						
Preferred stocks	781,235	60,388	(103)	-	841,520	60,285
Common stocks	2,071,435	240,735	(2,291)	-	2,309,879	238,444
Total equity securities	2,852,670	301,123	(2,394)	-	3,151,399	298,729
Short term investments	-	-	-	-	-	-
Total	$17,476,824	$928,216	$(40,478)	$-	$18,364,562	$887,738

	December 31, 2009					
	Cost or	Gross	Gross Unrealized Losses			Unrealized
			Less than	More than		
	Amortized	Unrealized	12	12	Fair	Gains/
Category	Cost (a)	Gains	Months	Months	Value	(Losses)
Fixed-Maturity Securities:						
U.S. Treasury securities and obligations of U.S. government corporations and agencies (b)	$3,549,616	$38,790	$(23,929)	$-	$3,564,477	$14,861
Political subdivisions of States, Territories and Possessions	5,751,979	82,480	(12,356)	-	5,822,103	70,124
Corporate and other bonds Industrial and miscellaneous	3,375,272	54,384	(25,156)	-	3,404,500	29,228
Total fixed-maturity securities	12,676,867	175,654	(61,441)	-	12,791,080	114,213
Equity Securities:						
Preferred stocks	716,903	33,661	(5,564)	-	745,000	28,097
Common stocks	1,256,835	191,075	(5,984)	-	1,441,926	185,091
Total equity securities	1,973,738	224,736	(11,548)	-	2,186,926	213,188
Short term investments	225,336	-	-	-	225,336	-
Total	$14,875,941	$400,390	$(72,989)	$-	$15,203,342	$327,401

(a) The cost or amortized cost of securities acquired in the KICO acquisition are equal to their fair value as of the July 1, 2009 acquisition date.

(b) Includes U. S. Treasury securities with fair values at September 30, 2010 and December 31, 2009 of $530,399 and $608,327, respectively, held in trust pursuant to the New York State Insurance Department's minimum funds requirement.

A summary of the amortized cost and fair value of the Company's available for sale investments in fixed-maturity securities by contractual maturity as of September 30, 2010 and December 31, 2009 is shown below:

	September 30, 2010		December 31, 2009	
	Amortized		Amortized	
Remaining Time to Maturity	Cost	Fair Value	Cost	Fair Value
	(unaudited)			
Less than one year	$ 884,855	$ 857,065	$ 1,190,319	$ 1,176,050
One to five years	4,750,514	4,891,792	5,202,936	5,260,443
Five to ten years	7,070,982	7,465,591	4,945,787	4,986,236
More than 10 years	1,917,803	1,998,715	1,337,825	1,368,351
Total	$ 14,624,154	$ 15,213,163	$ 12,676,867	$ 12,791,080

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

Held to Maturity Securities

The amortized cost and fair value of investments in held to maturity fixed-maturity securities as of September 30, 2010 are summarized as follows:

	September 30, 2010					
	Cost or	Gross	Gross Unrealized Losses			Unrealized
	Amortized	Unrealized	Less than 12	More than 12	Fair	Gains/
Category	Cost (a)	Gains	Months	Months	Value	(Losses)
U.S. Treasury securities	$106,205	$15,090	$-	$-	$121,295	$15,090

All held to maturity securities mature on May 15, 2040. There were no held to maturity securities as of December 31, 2009.

Investment Income

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

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
	(unaudited)		(unaudited)	
Income				
Fixed-maturity securities	$ 140,953	$ 105,300	$ 395,676	$ 105,300
Equity securities	41,176	23,130	100,702	23,130
Cash and cash equivalents	61	18,791	4,878	18,791
Other	13	60	34	60
Total	182,203	147,281	501,290	147,281
Expenses				
Investment expenses	27,524	31,624	65,408	31,624
Net investment income	$ 154,679	$ 115,657	$ 435,882	$ 115,657

Proceeds from the sale and maturity of fixed-maturity securities were $2,616,788 and $1,575,031 for the nine months ended September 30, 2010 and 2009, respectively.

Proceeds from the sale of equity securities were $1,202,909 and $1,439,854 for the nine months ended September 30, 2010 and 2009, respectively.

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

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
	(unaudited)		(unaudited)	
Fixed-maturity securities				
Gross realized gains	$ 37,601	$ 7,433	$ 133,598	$ 7,433
Gross realized losses	-	(1,446)	(18,562)	(1,446)

	37,601	5,987	115,036	5,987
Equity securities				
Gross realized gains	64,210	93,869	148,462	93,869
Gross realized losses	(17,757)	-	(34,695)	-
	46,453	93,869	113,767	93,869
Net realized gains	$ 84,054	$ 99,856	$ 228,803	$ 99,856

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Impairment Review

The Company regularly reviews its fixed-maturity securities and equity securities portfolios to evaluate the necessity of recording impairment losses for other-than-temporary impairments ("OTTI") in the fair value of investments. The Company determined there was no OTTI for its portfolio of fixed maturity investments, equity securities and short term investments for the nine months and three months ended September 30, 2010 and 2009. Significant factors influencing the Company's determination that unrealized losses were temporary included the magnitude of the unrealized losses in relation to each security's cost, the nature of the investment and management's intent and ability to retain the investment for a period of time sufficient to allow for anticipated recovery of fair value to the Company's cost basis.

The Company held securities with unrealized losses representing declines that were considered temporary at September 30, 2010 as follows:

	September 30, 2010						
	Less than 12 months			12 months or more		Total	
Category	Fair Value	Unrealized Losses	No. of Positions Held	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
				(unaudited)			
Fixed-Maturity Securities:							
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$450,675	$(20,192)	1	$-	$-	$450,675	$(20,192)
Political subdivisions of States, Territories and Possessions	1,074,175	(17,024)	3	-	-	1,074,175	(17,024)
Corporate and other bonds industrial and miscellaneous	499,319	(868)	5	-	-	499,319	(868)
Total fixed-maturity securities	$2,024,169	$(38,084)	9	$-	$-	$2,024,169	$(38,084)
Equity Securities:							
Preferred stocks	$12,810	$(103)	1	$-	$-	$12,810	$(103)
Common stocks	2,291	(2,291)	4	-	-	2,291	(2,291)
Total equity securities	$15,101	$(2,394)	5	$-	$-	$15,101	$(2,394)

Total	$2,039,270	$(40,478)	14	$-	$-	$2,039,270	$(40,478)

Note 5 - Fair Value Measurements

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

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

Level 1—Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities traded in active markets. Included are those investments traded on an active exchange, such as the NASDAQ Global Select Market, U.S. Treasury securities and obligations of U.S. government agencies, together with municipal bonds, corporate debt securities that are generally investment grade.

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

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

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

The Company's investments are allocated among pricing input levels at September 30, 2010 and December 31, 2009 as follows:

	September 30, 2010			
($ in thousands)	Level 1	Level 2	Level 3	Total
	(unaudited)			
Fixed-maturity investments held to maturity				
U.S. Treasury securities	$ 121	$ -	$ -	$ 121
Fixed-maturity investments available for sale				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	1,522	-	-	1,522
Political subdivisions of States, Territories and Possessions	7,119	-	-	7,119
Corporate and other bonds	6,572	-	-	6,572
Total fixed maturities	15,334	-	-	15,334
Equity investments	3,151	-	-	3,151
Short term investments	-	-	-	-
Total investments	$ 18,485	$ -	$ -	$ 18,485

	December 31, 2009			
($ in thousands)	Level 1	Level 2	Level 3	Total
Fixed-maturity investments				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 3,564	$ -	$ -	$ 3,564
Political subdivisions of States, Territories and Possessions	5,822	-	-	5,822
Corporate and other bonds	3,405	-	-	3,405
Total fixed maturities	12,791	-	-	12,791
Equity investments	2,187	-	-	2,187
Short term investments	225	-	-	225

Total investments	$ 15,203	$ -	$ -	$ 15,203

Note 6 - Fair Value of Financial Instruments

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

Equity and fixed income investments: Fair value disclosures for investments are included in “Note 4 - Investments.”

Cash, cash equivalents, and short-term investments: The carrying values of cash and cash equivalents, and short-term investments approximate their fair values because of the short maturity of these investments.

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

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

Real Estate Assets: The fair value of the land and building included in property and equipment, which is used in the Company's operations, and was based on an appraisal dated August 31, 2009. The appraisal was prepared using the sales comparison approach.

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

Long-term debt and mandatorily redeemable preferred stock (including related parties): For fair value of long-term debt and mandatorily redeemable preferred stock for which there are no quoted market prices, we estimate that the carrying amount of notes payable and mandatorily redeemable preferred stock approximates fair value because of the recently negotiated interest rates based on term of the loan, risk and guaranty.

The estimated fair values of our financial instruments are as follows:

	September 30, 2010		December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(unaudited)			
Cash, cash equivalents, and short-term investments	$762,035	$762,035	$850,656	$850,656
Premiums receivable	5,275,124	5,275,124	4,479,363	4,479,363
Receivables - reinsurance contracts	1,579,897	1,579,897	564,408	564,408
Reinsurance receivables	20,881,949	20,881,949	20,849,621	20,849,621
Notes receivable-sale of business	755,298	755,298	1,119,365	1,119,365
Real estate, net of accumulated depreciation	1,444,133	1,510,000	1,547,629	1,510,000
Reinsurance balances payable	1,825,397	1,825,397	1,918,169	1,918,169
Notes payable (including related parties)	1,467,369	1,467,369	1,085,637	1,085,637
Mandatorily redeemable preferred stock (including related parties)	-	-	1,299,231	1,299,231

Note 7 – Property and Casualty Activity

Loss and Loss Adjustment Expenses

The following table provides a reconciliation of the beginning and ending balances for unpaid losses and LAE for the nine months ended September 30, 2010 (unaudited):

Balance at January 1, 2010	$16,513,318
Less reinsurance recoverables	(10,512,203)
	6,001,115
Incurred related to:	
Current year	4,211,203
Prior years	307,050
Total incurred	4,518,253
Paid related to:	
Current year	1,960,235
Prior years	1,725,204
Total paid	3,685,439
Net balance at end of period	6,833,929
Add reinsurance recoverables	10,304,307
Balance at September 30, 2010	$17,138,236

Incurred losses and LAE are net of reinsurance recoveries under reinsurance contracts of $6,588,317 for the nine months ended September 30, 2010.

Loss and loss adjustment expense reserves

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

Due to the inherent uncertainty associated with the reserving process, the ultimate liability may differ, perhaps substantially, from the original estimate. Such estimates are regularly reviewed and updated and any resulting adjustments are included in the current year's results. Reserves are closely monitored and are recomputed periodically using the most recent information on reported claims and a variety of statistical techniques. Specifically, on at least a quarterly basis, the Company reviews, by line of business, existing reserves, new claims, changes to existing case reserves and paid losses with respect to the current and prior years.

Reinsurance

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

Personal Lines

Personal Lines business 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 in coverage excess of the $700,000 for a total coverage of $2,200,000 per occurrence. Personal Umbrella business written is reinsured under a 90% quota share treaty limiting the Company to a maximum of $100,000 per occurrence.

Commercial Lines

Policies written by the Company are 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 in coverage excess of the $700,000 for a total coverage of $2,200,000 per occurrence.

Catastrophe Reinsurance

A total of $41,000,000 of catastrophe coverage has been provided, where the Company retains $500,000 per occurrence.

Note 8 - Long-Term Debt

Long-term debt and capital lease obligations consist of:

	September 30, 2010 (unaudited)			December 31, 2009		
	Total Debt	Less Current Maturities	Long-Term Debt	Total Debt	Less Current Maturities	Long-Term Debt
Capitalized lease	$ 17,369	$ 17,369	$ -	$ 35,637	$ 24,466	$ 11,171
Notes payable	1,450,000	1,450,000	-	1,050,000	-	1,050,000
	$ 1,467,369	$ 1,467,369	$ -	$ 1,085,637	$ 24,466	$ 1,061,171

Notes Payable

As of December 31, 2008, the outstanding principal balance of Notes Payable was $1,500,000. On May 12, 2009, three of the holders of the notes exchanged an aggregate of $519,231 of note principal for Series E Preferred Stock having an aggregate redemption amount equal to such aggregate principal amount of notes (see Note 9). Concurrently, the Company paid $49,543 to the three holders, which amount represents all accrued and unpaid interest and incentive payments through the date of exchange. As part of the transaction, a retirement trust established for the benefit of Jack Seibald, one of the Company's directors and principal stockholders, exchanged its note in the approximate principal amount of $288,000 for shares of Series E Preferred Stock. In addition, a limited liability company of which Barry Goldstein, the Company's Chief Executive Officer (and a director and a principal stockholder), is a minority member exchanged its note in the approximate principal amount of $115,000 for shares of Series E Preferred Stock.

On May 12, 2009, the Company prepaid $686,539 in principal of the Notes Payable to the remaining five note holders, together with $81,200, which amount represents accrued and unpaid interest and incentive payments on such prepayment.

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

From June 2009 through December 2009, the Company borrowed $1,050,000 (including $585,000 from related parties as discussed below) and issued promissory notes in such aggregate principal amount (the “2009 Notes”). The 2009 Notes provide for interest at the rate of 12.625% per annum through July 10, 2011, at which time the entire principal balance is due. The 2009 Notes are prepayable without premium or penalty; provided, however, that, under any circumstances, the holders of the 2009 Notes are entitled to receive an aggregate of six months interest from the issue date of the 2009 Notes with respect to the amount prepaid.

From January 2010 through March 26, 2010, the Company borrowed an additional $400,000 under the terms provided for in the 2009 Notes, of which $200,000 was borrowed from related parties as discussed below.

Interest expense on the 2009 Notes for the nine months and three months ended September 30, 2010 was approximately $133,000 and $46,000, respectively. Interest expense on the 2009 Notes for the nine months and three months ended September 30, 2009 was approximately $18,000 and $17,000, respectively.

Aggregate related party borrowings of $785,000 at September 30, 2010 are as follows:

The IRA of Barry Goldstein purchased a 2009 Note in the principal amount of $150,000. A limited liability company owned by Mr. Goldstein, along with Sam Yedid and Steven Shapiro (who are both directors of KICO), purchased a 2009 Note in the principal amount of $120,000. Jay Haft, a director of the Company, purchased a 2009 Note in the principal amount of $50,000. A member of the family of Michael Feinsod, a director of the Company, purchased a 2009 Note in the principal amount of $100,000. Mr. Yedid and members of his family purchased 2009 Notes in the aggregate principal amount of $295,000. A member of the family of Floyd Tupper, a director of KICO, purchased a 2009 Note in the principal amount of $70,000. Interest expense on related party borrowings for the nine months and three months ended September 30, 2010 was approximately $71,000 and $24,000, respectively. Interest expense on related party borrowings for the nine months and three months ended September 30, 2009 was approximately $8,000 and $8,000, respectively.

Long-term debt matures as follows:

Years ended December 31,	
	(unaudited)
2010 (three months)	$ 6,198
2011	1,461,171
	$ 1,467,369

Note 9 - Exchange and Issuance of Stock

Exchange and Issuance of Preferred Stock

Effective April 16, 2008, AIA Acquisition Corp. (“AIA”), the holder of the Company’s Series B Preferred Stock exchanged such shares for an equal number of shares of Series C Preferred Stock, the terms of which were substantially identical to those of the shares of Series B Preferred Stock, except that the outside date for mandatory redemption was April 30, 2009 and the Series C Preferred Stock provided for dividends at the rate of 10% per annum.

Effective August 23, 2008, AIA exchanged the Series C Preferred Stock for an equal number of shares of Series D Preferred Stock, the terms of which were substantially identical to those of the shares of Series C Preferred Stock, except that the outside date for mandatory redemption was July 31, 2009.

Effective May 12, 2009, AIA exchanged the Series D Preferred Stock for an equal number of shares of Series E Preferred Stock. The terms of the Series E Preferred Stock varied from those of the Series D Preferred Stock as follows: (i) the Series E Preferred Stock was mandatorily redeemable on July 31, 2011 (as compared to July 31, 2009 for the Series D Preferred Stock), (ii) the Series E Preferred Stock provided for dividends at the rate of 11.5% per annum (as compared to 10% per annum for the Series D Preferred Stock), (iii) the Series E Preferred Stock was convertible into Common Stock at a price of $2.00 per share (as compared to $2.50 per share for the Series D Preferred Stock), (iv) the Company's obligation to redeem the Series E Preferred Stock was not accelerated based upon a sale of substantially all of its assets or certain of its subsidiaries (as compared to the Series D Preferred Stock which provided for such acceleration) and (v) the Company's obligation to redeem the Series E Preferred Stock was not secured by the pledge of the outstanding stock of its subsidiary, AIA-DCAP Corp. (as compared to the Series D Preferred Stock which provided for such pledge). The aggregate redemption amount for the Series E Preferred Stock held by AIA was $780,000, plus accumulated and unpaid dividends. Members of Mr. Goldstein's family, Sam Yedid and Steven Shapiro are among the stockholders of AIA. Interest expense on related party preferred stock for the nine months and three months ended September 30, 2010 was approximately $68,000 and $-0-, respectively. Interest expense on related party preferred stock for the nine months and three months ended September 30, 2009 was approximately $87,000 and $34,000, respectively.

On May 12, 2009, three holders of the Company's Notes Payable exchanged $519,231 of the principal balance of such notes for shares of Series E Preferred Stock having an aggregate redemption amount of $519,231 (see Note 8).

Upon issuance, the Preferred Stock was reported as a liability, in accordance with GAAP guidance for accounting for certain financial instruments with characteristics of both liabilities and equity. For the nine months ended September 30, 2010 and 2009, the preferred dividends have been classified as interest expense of $74,706 and $89,805, respectively. For the three months ended September 30, 2010 and 2009, the preferred dividends have been classified as interest expense of $-0- and $37,353, respectively.

Exchange and Issuance of Common Stock

Effective June 30, 2010, all 1,299 shares of Series E Preferred Stock were exchanged for 787,409 shares of Common Stock (the "Exchange"). The conversion price of $2.00 per share of Common Stock, pursuant to the terms of the Preferred Stock, was decreased to $1.65 per share, which approximates the fair value of the Company's Common Stock issued in the Exchange.

The Exchange was treated as an extinguishment of debt. Since the fair value of the Common Stock issued in the aggregate approximated the Preferred Stock's carrying value, no gain or loss was reported on this transaction. Among the holders of the Series E Preferred Stock, related parties were as follows: (i) AIA Partners, LLC ("AIA") which exchanged 780 shares of Series E Preferred Stock for 472,727 shares of Common Stock, (ii) a retirement trust for the benefit of Jack Seibald, a director and principal stockholder of the Company, which exchanged approximately 288 shares of Series E Preferred Stock for 174,824 shares of Common Stock and (iii) Kidstone LLC ("Kidstone") which exchanged approximately 115 shares of Series E Preferred Stock for 69,929 shares of Common Stock.

Steven Shapiro, a director of KICO, a wholly-owned subsidiary of the Company, members of the family of Barry B. Goldstein, the Company's Chief Executive Officer and a principal stockholder and a director of the Company, and members of the family of Sam Yedid, a director of KICO, are members of AIA. AIA directed that the shares issuable to it upon the exchange be issued to its members. Mr. Shapiro and Mr. Goldstein's wife received 55,593 and 130,472 shares, respectively, of the shares issued. In addition, Mr. Shapiro, Mr. Goldstein and a member of Mr. Yedid's family are the members of Kidstone. Kidstone directed that the shares issuable to it upon the exchange be issued to its members. Mr. Shapiro and Mr. Goldstein received 23,310 and 23,309 shares, respectively, of the shares issued.

Note 10 – Equity Stock Compensation

Other Equity Compensation

For the nine months ended September 30, 2010, other equity compensation consists of: (a) 50,000 shares of the Company's Common Stock granted to the Chief Executive Officer pursuant to an amended employment agreement dated March 24, 2010, and (b) 12,466 shares granted to directors during the second and third quarters of 2010. For the nine months ended September 30, 2009, other equity compensation consists of 6,836 shares granted to directors during the third quarter of 2009. The fair value of stock grants is as follows:

	Nine Months Ended September 30, 2010		Nine Months Ended September 30, 2009	
Grant	Shares	Fair Value	Shares	Fair Value
Chief Executive Officer	50,000	$ 112,000	-	$ -
Directors	12,466	31,129	6,836	16,200
	62,466	$ 143,129	6,836	$ 16,200

Stock Options

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

The results of operations for the nine months and three months ended September 30, 2010 include share-based compensation expense related to stock options totaling approximately $183,000 and $45,000, respectively. The results of operations for the nine months and three months ended September 30, 2009 include share-based compensation expense related to stock options totaling approximately $35,000 and $21,000, respectively. Share-based compensation expense related to stock options is net of estimated forfeitures of 23% for the nine months and three months ended September 30, 2010 and 2009. Such amounts have been included in the Condensed Consolidated Statements of Operations and Comprehensive Income within other operating expenses.

Stock option compensation expense in 2010 and 2009 is the estimated fair value of options granted amortized on a straight-line basis over the requisite service period for the entire portion of the award. The weighted average estimated fair value of stock options granted during the nine months ended September 30, 2010 and 2009 was $2.04 and $1.98 per share, respectively. The fair value of options at the grant date was estimated using the Black-Scholes pricing model. The following assumptions were used for grants during the nine months ended September 30, 2010:

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

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A summary of option activity under the 2005 Plan and the Company's 1998 Stock Option Plan as of September 30, 2010, and changes during the nine months then ended, is as follows:

Stock Options	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2010	225,000	$2.24	3.17	$67,550
Granted	188,865	$2.50	-	$-
Exercised	-	$-	-	$-
Forfeited	-	$-	-	$-
Outstanding at September 30, 2010	413,865	$2.36	3.36	$53,200
Vested and Exercisable at September 30, 2010	224,716	$2.27	2.56	$50,100

The aggregate intrinsic value of options outstanding and options exercisable at September 30, 2010 is calculated as the difference between the exercise price of the underlying options and the market price of the Company's common shares for the shares that had exercise prices that were lower than the $2.42 closing price of the Company's common shares on September 30, 2010. No options were exercised in the nine months ended September 30, 2010 and 2009.

As of September 30, 2010, the fair value of unamortized compensation cost related to unvested stock option awards was approximately $198,000. This compensation cost as of September 30, 2010 is expected to be recognized over a remaining weighted-average vesting period of 1.73 years.

Note 11 – Income Taxes

The Company files a consolidated U.S. Federal Income Tax return that includes all wholly-owned subsidiaries. KICO and its subsidiaries are consolidated as of July 1, 2009. State tax returns are filed on a consolidated or separate basis depending on applicable laws. For the nine months and three months ended September 30, 2009, the gain on acquisition of KICO was treated as a permanent difference for income tax purposes.

The Company's effective tax rate from continuing operations for the nine months and three months ended September 30, 2010 was 41.9% and 35.6%, respectively. The Company's effective tax rate from continuing operations for the nine months and three months ended September 30, 2009 was (0.5)% and 37.3%, respectively. The Company expects its effective tax rate for 2010 to be 41.9%.

At December 31, 2009, the Company had the following net operating loss carryforwards for tax purposes:

Type of NOL		Amount	Expiration
Federal and State	$	1,879,290	December 31, 2028
Federal and State		1,086,031	December 31, 2029
Total Federal and State	$	2,965,321	
Additional NOL for State only	$	1,131,568	December 31, 2027

Amount subject to Annual Limitation, Federal only (A)	$	150,000	December 31, 2019

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

For the year ended December 31, 2009, the gain on acquisition of KICO was treated as a permanent difference for income tax purposes. For the nine months and three months ended September 30, 2010 and 2009 the tax effects from discontinued operations were recorded in continuing operations.

Deferred tax assets and liabilities are determined using the enacted tax rates applicable to the period the temporary differences are expected to be recovered. Accordingly, the current period income tax provision can be affected by the enactment of new tax rates. The net deferred income taxes on the balance sheet reflect temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and income tax purposes, tax effected at a various rates depending on whether the temporary differences are subject to Federal taxes, State taxes, or both. As of September 30, 2010 and December 31, 2009 net deferred tax liability was $1,327,574 and $1,173,256, respectively.

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

Effective January 1, 2009, the Company adopted GAAP guidance for the "Accounting for Uncertainty in Income Taxes" and had no material unrecognized tax benefit and no adjustments to liabilities or operations were required. Additionally, Accounting for Uncertainty in Income Taxes, provides guidance on the recognition of interest and penalties related to income taxes. There were no interest or penalties related to income taxes that have been accrued or recognized as of and for the nine months ended September 30, 2010. If any had been recognized these would be reported in income tax expense.

Note 12 - Net Income (Loss) Per Common Share

For the nine months and three months ended September 30, 2010 there were 204,716 and 157,500 vested options with an exercise price below the average market price of the Company's common shares during the period. For the nine months and three months ended September 30, 2010 the inclusion of 51,289 net common shares and 20,608 net common shares, respectively, assumed to issued upon the exercise of such options in the computation of diluted earnings per share would have been anti-dilutive for both periods, and as a result, the weighted average number of common shares used in the calculation of basic and diluted earnings per common share have not been adjusted for the effects of such options.

For the nine months ended September 30, 2009 options and mandatorily redeemable preferred shares had an exercise price in excess of the average market price of the Company's common shares during the period and as a result, the weighted average number of common shares used in the calculation of basic and diluted earnings per common share is the same, and have not been adjusted for the effects of 874,615 potential common shares from unexercised stock options and the conversion of convertible preferred shares.

For the three months ended September 30, 2009 there were 126,563 vested options with an exercise price below the average market price of the Company's common shares during the period. For the three months ended September 30, 2009 the inclusion of 98,438 net common shares assumed to issued upon the exercise of such options in the computation of diluted earnings per share would have been anti-dilutive for both periods, and as a result, the weighted average number of common shares used in the calculation of basic and diluted earnings per common share have not been adjusted for the effects of such options.

The reconciliation of the weighted average number of common shares used in the calculation of basic and diluted earnings per common share for the three months ended September 30, 2009 follows:

Weighted average number of shares outstanding	2,977,501
Effect of dilutive securities, common share equivalents	649,615
Weighted average number of shares outstanding,	
used for computing diluted earnings per share	3,627,116

Net income from continuing operations available to common shareholders for the computation of diluted earnings per share for the three months ended September 30, 2009 is computed as follows:

Net income from continuing operations	$	5,642,148
Interest expense on dilutive convertible preferred stock		37,353
Net income from continuing operations available		
to common shareholders for diluted earnings per share	$	5,679,501

Net income available to common shareholders for the computation of diluted earnings per share for the three months ended September 30, 2009 is computed as follows:

Net income	$	5,585,598
Interest expense on dilutive convertible preferred stock		37,353
Net income available to common shareholders for		
diluted earnings per share	$	5,622,951

Note 13 - Commitments and Contingencies

Litigation

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

Note 14 - Discontinued Operations

Retail Business

In December 2008, due to declining revenues and profits the Company decided to restructure its network of retail offices (the “Retail Business”). The plan of restructuring called for the closing of seven of the least profitable locations during the month of December 2008 and the entry into negotiations to sell the remaining 19 locations in the Retail Business.

On April 17, 2009, the Company’s wholly-owned subsidiaries that owned and operated its 16 remaining Retail Business locations in New York State sold substantially all of their assets, including the book of business (the “New York Assets”). The purchase price for the New York Assets was approximately $2,337,000, of which approximately $1,786,000 was paid at closing. Promissory notes in the aggregate approximate original principal amount of $551,000 (the “New York Notes”) were also delivered at the closing. As of September 30, 2010, the New York Notes were payable in installments of approximately $73,000 on March 31, 2010, monthly installments of $50,000 each between April 30, 2010 and November 30, 2010 and a payment of approximately $105,000 on November 30, 2010, and provide for interest at the rate of 12.625% per annum. As additional consideration, the Company was entitled to receive through September 30, 2010 an additional amount equal to 60% of the net commissions derived from the book of business of six New York retail locations that were closed in 2008. On October 31, 2010, the New York Notes were amended. The amendment included the elimination of the installment payment that was due on September 30, 2010 and modified the repayment of principal and accrued interest. The amended New York Notes are payable in monthly installments of varying payments that average approximately $27,000 each between October 31, 2010 and July 31, 2011.

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

As a result of the restructuring in December 2008, the sale of the New York Assets on April 17, 2009 and the sale of the Pennsylvania Stock effective June 30, 2009, the operating results of the Retail Business operations for the nine months and three months ended September 30, 2010 and 2009 have been presented as discontinued operations. Net assets and liabilities to be disposed of or liquidated, at their book value, have been separately classified in the accompanying consolidated balance sheets at September 30, 2010 and December 31, 2009.

Franchise Business

Effective May 1, 2009, the Company sold all of the outstanding stock of the subsidiaries that operated its DCAP franchise business (collectively, the "Franchise Stock"). The purchase price for the Franchise Stock was $200,000 which was paid by delivery of a promissory note in such principal amount (the "Franchise Note"). The Franchise Note is payable in installments of $50,000 on May 15, 2009, $50,000 on May 1, 2010, and $100,000 on May 1, 2011 and provides for interest at the rate of 5.25% per annum. A principal of the buyer is the son-in-law of Morton L. Certilman, one of the Company's principal shareholders.

As a result of the sale of the Franchise Stock, the operating results of the franchise business operations for the nine months and three months ended September 30, 2010 and 2009 have been presented as discontinued operations. Net assets and liabilities to be disposed of or liquidated, at their book value, have been separately classified in the accompanying consolidated balance sheets at September 30, 2010 and December 31, 2009.

Consolidated Discontinued Operations

Summarized financial information of consolidated discontinued operations for the nine months and three months ended September 30, 2010 and 2009 follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
	(unaudited)		(unaudited)	
Total revenue	$ -	$ -	$ -	$ 1,242,628
Operating Expenses:				
General and administrative expenses	-	49,768	-	1,408,469
Depreciation and amortization	-	-	-	61,542
Interest expense	-	1,034	-	11,517
Impairment of intangibles	-	-	-	49,470
Total operating expenses	-	50,802	-	1,530,998
Loss from operations	-	(50,802)	-	(288,370)
Loss on sale of business	-	(5,748)	-	(28,452)
Additional consideration on sale of businesses	16,234	-	40,082	-
Income (loss) before income taxes	16,234	(56,550)	40,082	(316,822)
Benefit from income taxes	-	-	-	(76,499)
Income (loss) from discontinued operations, net of benefit from income taxes	$ 16,234	$ (56,550)	$ 40,082	$ (240,323)

The components of assets and liabilities of consolidated discontinued operations as of September 30, 2010 and December 31, 2009 are as follows:

	September 30, 2010	December 31, 2009
	(unaudited)	
Total assets	$ -	$ -
Accounts payable and accrued expenses	$ -	$ 26,000
Total liabilities	$ -	$ 26,000

Note 15 – Subsequent Event

The payment terms of the New York Notes related to the sale of the New York Assets were revised as of October 31, 2010 (see Note 14, Retail Business for the revised terms).

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

Overview

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

Effective July 1, 2009, we now offer property and casualty insurance products to small businesses and individuals in New York State through our subsidiary, KICO. The effect of the KICO acquisition is only included in our results of operations and cash flows for the period from July 1, 2009 through September 30, 2010. Accordingly, only the discussions and disclosures for the nine months ended September 30, 2010, and the three months ended September 2010 and 2009 will include KICO for the entire period. For the nine months ended September 30, 2009, KICO is only included for three months.

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

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

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

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

The stores from our Retail Business discontinued operations received commissions from insurance companies for their services. Prior to July 1, 2009, neither we nor the stores served as an insurance company and therefore we did not assume underwriting risks; however, as discussed above, effective July 1, 2009, we acquired a 100% equity interest in KICO.

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Critical Accounting Policies

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

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

Consolidated Results of Operations

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

We have changed the presentation of our business results by reclassifying our previously reported continuing operations based on reporting standards for insurance underwriters. The prior period disclosures have been restated to conform to the current presentation. Other income primarily consists of premium finance fee income on loans financed by a third party finance company. General corporate overhead not incurred by our underwriting business is allocated to other operating expenses.

Due to the acquisition of KICO and the commencement of our insurance underwriting business on July 1, 2009, and the discontinuance of all business operations previously in place before the acquisition date, the comparability of information between quarters and years is less meaningful.

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

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

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After taking into effect the sale of our businesses as discussed above, our continuing operations for the nine months and three months ended September 30, 2009 consisted of premium finance fee income on loans financed by a third party finance company, corporate overhead, interest expense on notes payable and mandatorily redeemable preferred stock, and interest income on notes receivable.

Separate discussions follow for results of continuing operations and discontinued operations (rounded in thousands).

Nine Months Ended September 30, 2010 Compared to Nine Months Ended September 30, 2009

	Nine months ended September 30,			
($ in thousands)	2010	2009	Change	Percent
Revenues				
Premiums earned				
Gross premiums earned	$ 21,851	$ 6,592	$ 15,259	(A)
Less: ceded premiums earned	(13,946)	(4,329)	(9,616)	(A)
Net premiums earned	7,905	2,263	5,642	(A)
Ceding commission revenue	6,414	1,483	4,931	(A)
Net investment income	436	115	321	(A)
Net realized gain on investments	229	100	129	(A)
Other income	664	518	146	28.2 %
Total revenues	15,648	4,479	11,169	249.4 %
Expenses				
Loss and loss adjustment expenses				
Gross loss and loss adjustment expenses	11,107	3,065	8,042	(A)
Less: ceded loss and loss adjustment expenses	(6,588)	(1,977)	(4,611)	(A)
Net loss and loss adjustment expenses	4,518	1,087	3,431	(A)
Commission expense	3,647	1,092	2,555	(A)
Other underwriting expenses	4,113	1,077	3,036	(A)
Other operating expenses	1,345	952	393	41.3 %
Depreciation and amortization	464	103	361	(A)
Interest expense	139	151	(12)	(7.9) %
Interest expense - mandatorily redeemable preferred stock	75	90	(15)	(16.7) %
Total expenses	14,301	4,552	9,749	214.2 %
Income (loss) from operations	1,347	(73)	1,420	1,937.9 %
Gain on acquisition of Kingstone Insurance Company	-	5,402	(5,402)	(100.0) %
Interest income-CMIC note receivable	-	61	(61)	(100.0) %
Income from continuing operations before taxes	1,347	5,390	(4,043)	(75.0)%
Provision for (benefit from) income tax	564	(25)	589	2,356.0 %
Income from continuing operations	783	5,415	(4,632)	(85.5)%
Income (loss) from discontinued operations, net of taxes	40	(240)	280	116.7 %
Net income	$ 823	$ 5,175	$ (4,352)	(84.1)%

Percent of total revenues:				
Net premiums earned	50.5	%	50.5	%
Ceding commission revenue	41.0	%	33.1	%
Net investment income	2.8	%	2.6	%
Net realized gains on investments	1.5	%	2.2	%
Other income	4.2	%	11.6	%
	100.0	%	100.0	%
Ceded premiums as a percent of gross premiums:				
Written	58.2	%	66.9	%
Earned	63.8	%	64.8	%
Ceded loss and loss adjustment expenses as a percent				
of gross loss and loss and loss adjustment expenses	59.4	%	62.7	%

(A) Not applicable due to the acquisition of KICO on July 1, 2009

Continuing Operations

During the nine months ended September 30, 2010 (“2010”), revenues from continuing operations were $15,648,000, as compared to $4,479,000 for the nine months ended September 30, 2009 (“2009”). The increase in total revenues was due to the increases in all sources of revenue stemming from the acquisition of KICO that occurred on July 1, 2009.

The positive cash flow from operations was the result of the KICO acquisition. The tax equivalent investment yield, excluding cash, was 5.77% at September 30, 2010. Realized capital gains from securities acquired in the KICO acquisition had a cost basis equal to their fair market value as of the acquisition date on July 1, 2009.

Total expenses in 2010 were $14,301,000, as compared to $4,552,000 in 2009. The increase in total expenses was due to the increases in all categories of expenses stemming from the acquisition of KICO that occurred on July 1, 2009.

Gain on acquisition of Kingstone Insurance Company of $5,402,000 in 2009 is attributable to the bargain purchase which was a result of the excess of net assets acquired from KICO compared to the acquisition cost.

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

The provision for income taxes (including state taxes) was $564,000 in 2010, as compared to a tax benefit of $25,000 in 2009. The increase in 2010 was due to the inclusion of KICO earnings for nine months during 2010 compared to only three months in 2009. The gain on acquisition of KICO in 2009 is being treated as a permanent difference for income tax purposes. The tax provision/benefit on income from continuing operations in both periods include the tax provision/benefit resulting from discontinued operations.

Discontinued Operations

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

	Nine months ended September 30,			
($ in thousands)	2010	2009	Change	Percent
Total revenue	$ -	$ 1,242	$ (1,242)	(100) %
Operating Expenses:				
General and administrative expenses	-	1,408	(1,408)	(100) %
Depreciation and amortization	-	62	(62)	(100) %
Interest expense	-	11	(11)	(100) %
Impairment of intangibles	-	49	(49)	(100) %
Total operating expenses	-	1,530	(1,530)	(100) %
Loss from operations	-	(288)	288	100 %
Loss on sale of business		(28)	28	100 %
Additional consideration on sale of business	40	-	40	n/a
Income (loss) before benefit from income taxes	40	(316)	356	113 %
Benefit from income taxes	-	(76)	76	n/a
Income (loss) from discontinued operations	$ 40	$ (240)	$ 280	117 %

The decrease in revenue and expenses in our discontinued operations in 2010 as compared to 2009 was attributable to: (i) the cessation of operations in our Retail Business of the 16 remaining stores located in New York as a result of the sale of their assets on April 17, 2009, and the sale of our Pennsylvania stores on June 30, 2009, and (ii) in our discontinued Franchise Business, the sale on May 1, 2009 of all of the outstanding stock of the subsidiaries that operated our DCAP franchise business.

Net income

Net income was $823,000 for 2010, compared to $5,175,000 in 2009. The decrease in net income of $4,352,000 was due to the $5,402,000 gain on acquisition of KICO in 2009, offset by the inclusion of KICO earnings for nine months during 2010 compared to only three months in 2009 and the cessation of our discontinued operations in 2010.

Three Months Ended September 30, 2010 Compared to Three Months Ended September 30, 2009

	Three months ended September 30,			
($ in thousands)	2010	2009	Change	Percent
Revenues				
Premiums earned				
Gross premiums earned	$ 7,783	$ 6,592	$ 1,191	18.1 %
Less: ceded premiums earned	(4,717)	(4,329)	(388)	9.0 %
Net premiums earned	3,065	2,263	802	35.5 %
Ceding commission revenue	2,231	1,483	748	50.4 %
Net investment income	155	115	40	34.8 %
Net realized gain on investments	84	100	(16)	(16.0) %
Other income	215	154	61	39.6 %
Total revenues	5,750	4,115	1,635	39.7 %
Expenses				
Loss and loss adjustment expenses				
Gross loss and loss adjustment expenses	4,490	3,065	1,425	46.5 %
Less: ceded loss and loss adjustment expenses	(2,582)	(1,977)	(604)	30.6 %
Net loss and loss adjustment expenses	1,908	1,087	821	75.5 %
Commission expense	1,287	1,092	195	17.9 %
Other underwriting expenses	1,581	1,077	504	46.8 %
Other operating expenses	428	285	143	50.2 %
Depreciation and amortization	155	94	61	64.9 %
Interest expense	47	18	29	161.1 %
Interest expense - mandatorily redeemable preferred stock	-	38	(38)	(100.0) %
Total expenses	5,406	3,691	1,715	46.5 %
Income (loss) from operations	344	424	(79)	(18.7)%
Gain on acquisition of Kingstone Insurance Company	-	5,402	(5,402)	(100.0) %
Interest income-CMIC note receivable	-	-	-	- %
Income from continuing operations before taxes	344	5,826	(5,481)	(94.1) %
Provision for (benefit from) income tax	128	184	(56)	(30.4)%
Income from continuing operations	216	5,642	(5,425)	(96.2)%
Income (loss) from discontinued operations, net of taxes	16	(56)	72	128.6 %
Net income	$ 232	$ 5,586	$ (5,353)	(95.8)%
Percent of total revenues:				

Net premiums earned	53.3	%	55.0	%
Ceding commission revenue	38.8	%	36.0	%
Net investment income	2.7	%	2.8	%
Net realized gains on investments	1.5	%	2.4	%
Other income	3.7	%	3.7	%
	100.0	%	100.0	%
Ceded premiums as a percent of gross premiums:				
Written	59.9	%	67.3	%
Earned	60.6	%	65.7	%
Ceded loss and loss adjustment expenses as a percent of gross loss and loss and loss adjustment expenses	57.6	%	64.6	%

Continuing Operations

Gross premiums earned during the three months ended September 30, 2010 (“Q3 2010”) were $7,783,000 compared to $6,592,000 during the three months ended September 30, 2009 (“Q3 2009”).The increase of $1,191,000 or 18.1% was due to an increase in policies in-force during Q3 2010 as compared to Q3 2009. Policies in-force increased by 14.9% as of September 30, 2010 compared to September 30, 2009.

Ceded premiums earned were $4,717,000 during Q3 2010 compared to $4,329,000 during Q3 2009. The increase of $388,000 or 9.0% was due to the growth in gross written premiums resulting in growth of premiums ceded, offset by the elimination of our commercial auto quota share treaty effective January 1, 2010 and a reduction of our ceding percentage in the other commercial lines quota share treaty from 85% to 75% effective July 1, 2010.

Ceding commission revenue was $2,231,000 during Q3 2010 compared to $1,483,000 during Q3 2009. The increase of $748,000 or 50.4% was due to the increase in the amount of premiums ceded and more favorable ceding commission rates. Ceding commission revenue also increased as a result of decreases in ceded loss ratios on prior year's quota share treaties.

Net investment income was $155,000 during Q3 2010 compared to $115,000 during Q3 2009. The increase of $40,000 or 34.8% was due to an increase in average invested assets during Q3 2010 as compared to Q3 2009. The increase in cash and invested assets resulted primarily from increased operating cash flows. The tax equivalent investment yield, excluding cash, was 5.77% at September 30, 2010, compared to 4.91% at September 30, 2009.

Net realized investment gains were $84,000 during Q3 2010 compared to $100,000 during Q3 2009.

Net loss and loss adjustment expenses were $1,908,000 during Q3 2010 compared to $1,087,000 during Q3 2009. The net loss ratio was 62.2% during Q3 2010 compared to 48.0% during Q3 2009. The increase of 14.3 percentage points in our net loss ratio for Q3 2010 as compared to Q3 2009 is primarily due to an increase in losses incurred and a decrease in ceded losses as a percent of total losses. One net loss incurred resulting from a fire during Q3 2010 added 4.1 percentage points to our net loss ratio in Q3 2010.

Commission expense was $1,287,000 during Q3 2010 or 16.5% of gross premiums earned. Commission expense was $1,092,000 during Q3 2009 or 16.5% of gross premiums earned. The increase of $195,000 or 17.9% is due to the 18.1% increase in gross premiums earned in Q3 2010 as compared to Q3 2009.

Other underwriting expenses were $1,581,000 during Q3 2010 compared to $1,077,000 during Q3 2009. The $504,000 increase in other underwriting expenses was primarily due expenses directly related to the increase in gross premiums earned. The gross underwriting expense ratio was 20.3% during Q3 2010 as compared to 16.3% during Q3 2009. The net underwriting expense ratio was 51.6% during Q3 2010 as compared to 47.6% during Q3 2009. The remaining increase was primarily due to increases in: (i) employment costs, (ii) technology expenditures, which are both related to the increase in number of policies written in Q3 2010 as compared to Q3 2009, and (iii) professional fees due to increased compliance costs.

Other operating expenses consist of corporate overhead not related to our insurance underwriting business. Other operating expenses were $428,000 during Q3 2010 compared to $285,000 during Q3 2009. The $143,000 increase or 50.2% was due to an increase in accrued but unpaid executive bonus pursuant to an employment agreement with our Chief Executive Officer dated October 16, 2007, as amended, and an increase in our professional fees related to additional compliance costs.

Interest expense was $47,000 during Q3 2010 compared to $18,000 during Q3 2009. The $29,000 increase in Q3 2010 as compared to Q3 2009 was due to an increase in average debt outstanding.

Interest expense – mandatorily redeemable preferred stock ("Series E Preferred Stock") was $-0- during Q3 2010 compared to $38,000 during Q3 2009. The 100% decrease was due to the exchange of Series E Preferred Stock for common stock effective June 30, 2010.

Gain on acquisition of Kingstone Insurance Company of $5,402,000 in Q3 2009 is attributable to the bargain purchase which was a result of the excess of net assets acquired from KICO compared to the acquisition cost.

The provision for income taxes (including state taxes) was $128,000 in Q3 2010, as compared to $184,000 in 2009. The gain on acquisition of Kingstone Insurance Company is being treated as a permanent difference for income tax purposes. The tax provision/benefit on income from continuing operations in both periods include the tax provision/benefit resulting from discontinued operations.

Discontinued Operations

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

	Three months ended September 30,			
($ in thousands)	2010	2009	Change	Percent
Total revenue	$ -	$ -	$ -	- %
Operating Expenses:				
General and administrative expenses	-	50	(50)	(100) %
Depreciation and amortization	-	-	-	- %
Interest expense	-	1	(1)	(100) %
Impairment of intangibles	-	-	-	- %
Total operating expenses	-	51	(51)	(100) %
Loss from operations	-	(51)	51	100 %
Loss on sale of business	-	(6)	6	100 %
Additional consideration on sale of business	16	-	16	n/a
Income (loss) before benefit from income taxes	16	(57)	73	128 %
Benefit from income taxes	-	-	-	- %
Income (loss) from discontinued operations	$ 16	$ (57)	$ 73	128 %

The decrease in revenue and expenses in our discontinued operations in Q3 2010 as compared to Q3 2009 was attributable to: (i) the cessation of operations in our Retail Business of the 16 remaining stores located in New York as a result of the sale of their assets on April 17, 2009, and the sale of our Pennsylvania stores on June 30, 2009, and (ii) in our discontinued Franchise Business, the sale on May 1, 2009 of all of the outstanding stock of the subsidiaries that operated our DCAP franchise business.

Net income

Net income was $232,000 during Q3 2010 compared to $5,586,000 during Q3 2009. The decrease in net income of $5,353,000 was due to the decrease in gain on acquisition of Kingstone Insurance Company, and increase in both our net loss ratio and gross underwriting ratios, offset by an increase in ceding commission revenue, as described above.

Insurance Underwriting Business on a Standalone Basis

Our insurance underwriting business reported on a standalone basis for the three months ended September 30, 2010 and 2009, and the nine months ended September 30, 2010 is as follows:

	Three Months ended September 30, 2010	Three Months ended September 30, 2009	Nine Months ended September 30, 2010
Revenues			
Net premiums earned	$ 3,065,289	$ 2,262,819	$ 7,905,350
Ceding commission revenue	2,231,493	1,483,249	6,413,774
Net investment income	154,679	115,657	435,882
Net realized gain on investments	84,054	99,856	228,803
Other income	82,498	40,623	244,666
Total revenues	5,618,013	4,002,204	15,228,475
Expenses			
Loss and loss adjustment expenses	1,907,917	1,087,276	4,518,253
Commission expense	1,287,268	1,091,638	3,647,371
Other underwriting expenses	1,580,827	1,077,318	4,112,889
Depreciation and amortization	154,475	90,761	461,076
Total expenses	4,930,488	3,346,993	12,739,590
Income from operations	687,525	655,211	2,488,885
Income tax expense	209,426	241,205	820,036
Net income	$ 478,099	$ 414,006	$ 1,668,850

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

	Direct	Assumed	Ceded	Net
Nine months ended September 30, 2010:				
Written premiums	$ 24,969,119	$ 9,572	$ (14,529,432)	$ 10,449,259
Unearned premiums	(3,126,232)	(1,360)	583,683	(2,543,909)
Earned premiums	$ 21,842,887	$ 8,212	$ (13,945,749)	$ 7,905,350
Loss and loss adjustment expenses	$ 11,095,027	$ 11,543	$ (6,588,317)	$ 4,518,253
Loss ratio	50.8 %	140.6 %	47.2 %	57.2 %
Three months ended September 30, 2010:				

Written premiums	$ 8,375,776	$ 6,436	$ (5,015,905)	$ 3,366,307
Unearned premiums	(595,995)	(3,432)	298,409	(301,018)
Earned premiums	$ 7,779,781	$ 3,004	$ (4,717,496)	$ 3,065,289
Loss and loss adjustment expenses	$ 4,482,893	$ 6,825	$ (2,581,801)	$ 1,907,917
Loss ratio	57.6 %	227.2 %	54.7 %	62.2 %
Three months ended September 30, 2009:				
Written premiums	$ 6,924,750	$ 8,378	$ (4,659,252)	$ 2,273,876
Unearned premiums	(335,551)	(5,426)	329,920	(11,057)
Earned premiums	$ 6,589,199	$ 2,952	$ (4,329,332)	$ 2,262,819
Loss and loss adjustment expenses	$ 3,061,564	$ 3,154	$ (1,977,442)	$ 1,087,276
Loss ratio	46.5 %	106.8 %	45.7 %	48.0 %

Key Measures

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

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

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

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

The key measures for our insurance underwriting business for the nine months ended September 30, 2010 are as follows:

Net premiums earned	$7,905,350	
Ceding commission revenue	6,413,774	
Other income	244,666	
Loss and loss adjustment expenses	4,518,253	
Acquistion costs and other underwriting expenses:		
Commission expense	3,647,371	
Other underwriting expenses	4,112,889	
Total acquistion costs and other underwriting expenses	7,760,260	
Underwriting income	$2,285,277	
Key Measures:		
Net loss ratio	57.2	%
Net underwriting expense ratio	13.9	%
Net combined ratio	71.1	%
Reconciliation of net underwriting expense ratio:		
Acquisition costs and other underwriting expenses	$7,760,260	
Less: Ceding commission revenue	(6,413,774	)
Less: Other income	(244,666	)
	$1,101,820	
Net earned premium	$7,905,350	

Investments

Portfolio Summary

The following table presents a breakdown of the amortized cost, aggregate fair value and unrealized gains and losses by investment type as of September 30, 2010 and December 31, 2009:

Available for Sale Securities

September 30, 2010						
	Cost or	Gross	Gross Unrealized Losses			% 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	$ 1,471,367	$ 70,580	$ (20,192)	$ -	$ 1,521,755	8.3 %
Political subdivisions of States, Territories and Possessions	6,901,104	235,417	(17,024)	-	7,119,497	38.8 %
Corporate and other bonds						
Industrial and miscellaneous	6,251,683	321,096	(868)	-	6,571,911	35.8 %
Total fixed-maturity securities	14,624,154	627,093	(38,084)	-	15,213,163	82.8 %
Equity Securities	2,852,670	301,123	(2,394)	-	3,151,399	17.2 %
Short term investments	-	-	-	-	-	0.0 %
Total	$ 17,476,824	$ 928,216	$ (40,478)	$ -	$ 18,364,562	100.0 %

December 31, 2009						
	Cost or	Gross	Gross Unrealized Losses			% 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	$ 3,549,616	$ 38,790	$ (23,929)	$ -	$ 3,564,477	23.4 %
Political subdivisions of States, Territories and Possessions	5,751,979	82,480	(12,356)	-	5,822,103	38.3 %
Corporate and other bonds						
Industrial and miscellaneous	3,375,272	54,384	(25,156)	-	3,404,500	22.4 %
Total fixed-maturity securities	12,676,867	175,654	(61,441)	-	12,791,080	84.1 %
Equity Securities	1,973,738	224,736	(11,548)	-	2,186,926	14.4 %
Short term investments	225,336	-	-	-	225,336	1.5 %
Total	$ 14,875,941	$ 400,390	$ (72,989)	$ -	$ 15,203,342	100.0 %

Held to Maturity Securities

	September 30, 2010					
	Cost or	Gross	Gross Unrealized Losses			% of
	Amortized	Unrealized	Less than 12	More than 12	Fair	Fair
Category	Cost	Gains	Months	Months	Value	Value
U.S. Treasury securities	$ 106,205	$ 15,090	$ -	$ -	$ 121,295	100.0 %

Credit Rating of Fixed-Maturity Securities

The table below summarizes the credit quality of our fixed-maturity securities available for sale as of September 30, 2010 and December 31, 2009 as rated by Standard and Poor's.

	September 30, 2010		December 31, 2009	
Rating	Fair Market Value	Percentage of Fair Market Value	Fair Market Value	Percentage of Fair Market Value
U.S. Treasury securities	$ 1,521,755	10.0 %	$ 3,564,477	27.9 %
AAA	4,183,642	27.5 %	3,404,461	26.6 %
AA	3,834,474	25.2 %	2,564,302	20.0 %
A	4,130,265	27.1 %	2,808,145	22.0 %
BBB	1,543,027	10.1 %	449,695	3.5 %
Total	$ 15,213,163	100.0 %	$ 12,791,080	100.0 %

The table below summarizes the average duration by type of fixed-maturity security available for sale as well as detailing the average yield as of September 30, 2010 and December 31, 2009:

	September 30, 2010		December 31, 2009	
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	2.87 %	3.8	3.08 %	5.8
Political subdivisions of States, Territories and Possessions	4.17 %	6.7	4.09 %	6.0
Corporate and other bonds Industrial and miscellaneous	5.16 %	7.7	5.62 %	8.5

The table below summarizes the average duration by type of fixed-maturity security held to maturity as well as detailing the average yield as of September 30, 2010 and December 31, 2009:

	September 30, 2010		December 31, 2009	
Category	Average Yield %	Weighted Average Duration in Years	Average Yield %	Weighted Average Duration in Years
	4.38%	29.9	n/a	n/a

U.S. Treasury
securities

Fair Value Consideration

As disclosed in Note 5 to the Condensed Consolidated Financial Statements, with respect to “Fair Value Measurements,” effective January 1, 2008, we adopted new GAAP guidance, which provides a revised definition of fair value, establishes a framework for measuring fair value and expands financial statements disclosure requirements for fair value. Under this guidance, fair value is defined 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”). The statement 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 September 30, 2010 and December 31, 2009, 100% of the investment portfolio recorded at fair value was priced based upon quoted market prices.

As more fully described in Note 4 to our Condensed Consolidated Financial Statements, "Investments—Impairment Review," we completed a detailed review of all our securities in a continuous loss position, 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 September 30, 2010 and December 31, 2009:

	September 30, 2010						
	Less than 12 months			12 months or more		Total	
Category	Fair Value	Unrealized Losses	No. of Positions Held	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
				(unaudited)			
Fixed-Maturity Securities:							
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$450,675	$(20,192)	1	$-	$-	$450,675	$(20,192)
Political subdivisions of States, Territories and Possessions	1,074,175	(17,024)	3	-	-	1,074,175	(17,024)
Corporate and other bonds industrial and miscellaneous	499,319	(868)	5	-	-	499,319	(868)
Total fixed-maturity securities	$2,024,169	$(38,084)	9	$-	$-	$2,024,169	$(38,084)
Equity Securities:							
Preferred stocks	$12,810	$(103)	1	$-	$-	$12,810	$(103)
Common stocks	2,291	(2,291)	4	-	-	2,291	(2,291)
Total equity securities	$15,101	$(2,394)	5	$-	$-	$15,101	$(2,394)
Total	$2,039,270	$(40,478)	14	$-	$-	$2,039,270	$(40,478)

	December 31, 2009						
	Less than 12 months			12 months or more		Total	
Category	Fair Value	Unrealized Losses	No. of Positions Held	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed-Maturity Securities:							
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$1,715,062	$(23,929)	6	$-	$-	$1,715,062	$(23,929)
Political subdivisions of States, Territories and Possessions	1,357,203	(12,356)	5	-	-	1,357,203	(12,356)
Corporate and other bonds industrial and miscellaneous	1,376,516	(25,156)	7	-	-	1,376,516	(25,156)
Total fixed-maturity securities	$4,448,781	$(61,441)	18	$-	$-	$4,448,781	$(61,441)
Equity Securities:							
Preferred stocks	$144,900	$(5,564)	3	$-	$-	$144,900	$(5,564)
Common stocks	94,470	(5,984)	5	-	-	94,470	(5,984)
Total equity securities	$239,370	$(11,548)	8	$-	$-	$239,370	$(11,548)
Total	$4,688,151	$(72,989)	26	$-	$-	$4,688,151	$(72,989)

There are 14 securities at September 30, 2010 that account for the gross unrealized loss, none of which is deemed by us to be other than temporarily impaired. There are 26 securities at December 31, 2009 that account for the gross unrealized loss, none of which is 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

Effective July 1, 2009, the primary sources of cash flow is from our insurance underwriting subsidiary, KICO, which are gross 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.

In connection with the plan of conversion of CMIC, we have agreed with the Insurance Department that for a period of two years following the effective date of conversion of July 1, 2009, no dividend may be paid by KICO to us without the approval of the Insurance Department. As of September 30, 2010, no such request has been made by us to the Insurance Department. We have also agreed with the Insurance Department that certain intercompany transactions between KICO and us must be filed with the Insurance Department 30 days prior to implementation and not disapproved by the Insurance 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. If the aforementioned is insufficient to cover our holding company cash requirements, we will seek to obtain additional financing.

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 (used in) 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:

Nine Months Ended September 30,		2010		2009
Cash flows provided by (used in):				
Operating activities	$	2,100,557	$	582,174
Investing activities		(2,345,574)		2,291,161
Financing activities		381,732		(698,143)
Net increase in cash and cash equivalents		136,715		2,175,192
Cash and cash equivalents, beginning of period		625,320		142,949
Cash and cash equivalents, end of period	$	762,035	$	2,318,141

The increase in cash flows provided by operating activities in 2010 was primarily a result of the additional operating cash flows provided through the acquisition of KICO on July 1, 2009 and the cessation of our discontinued operations in 2009.

Net cash flows used in investing activities increased as a result of the investing cash flows used through the acquisition of KICO on July 1, 2009 and the decrease in proceeds from the sale of businesses in 2010 as compared to 2009.

Net cash provided by financing activities increased as a result of the $1,434,000 decrease in principal payments of long-term debt in 2010 as compared to 2009. The acquisition of KICO on July 1, 2009 had no effect on our financing activities.

Significant Transactions in 2010

Mandatorily Redeemable Preferred Stock Exchanged for Common Stock

In accordance with GAAP guidance for accounting for certain financial instruments with characteristics of both liabilities and equity, our mandatorily redeemable preferred stock has 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 nine months ended September 30, 2010 and 2009, the preferred dividends have been classified as interest expense of $74,706 and $89,805, respectively. For the three months ended September 30, 2010 and 2009, the preferred dividends have been classified as interest expense of $-0- and $32,952, respectively.

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Notes Payable

From June 2009 through December 2009, we borrowed an aggregate of $1,050,000 (including $585,000 payable from related parties) and issued promissory notes in such aggregate principal amount (the "2009 Notes"). The 2009 Notes provide for interest at the rate of 12.625% per annum and are payable on July 10, 2011. The 2009 Notes are prepayable by us without premium or penalty; provided, however, that, under any circumstances, the holders of the 2009 Notes are entitled to receive an aggregate of six months interest from the issue date of the 2009 Notes with respect to the amount prepaid. Between January 2010 and March 26, 2010, we borrowed an additional $400,000 (including $200,000 from related parties) on the same terms as provided for in the 2009 Notes.

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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable

Item 4. Controls and Procedures.

Evaluation of 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 Quarterly Report, under the supervision and with the participation of our principal executive officer and principal 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 not effective as of September 30, 2010, for the reasons discussed below, to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC.

Internal Control over Financial Reporting

Management's Report on Internal Control over Financial Reporting

Changes in Internal Control over Financial Reporting

On July 1, 2009, we completed the acquisition of KICO. KICO has not previously been subject to a review of internal control over financial reporting under the Sarbanes-Oxley Act of 2002. Effective June 30, 2010, Management extended its evaluation of the effectiveness of our internal control over financial reporting to include KICO. KICO accounts for substantially all of our consolidated assets and consolidated net income.

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Based on the inclusion of KICO in this evaluation, management has concluded that our internal control over financial reporting was not effective as of September 30, 2010. Our principal executive officer and principal financial officer have concluded that we have material weaknesses in our internal control over financial reporting.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. Management identified the following material weaknesses as of September 30, 2010.

Financial Reporting

Management identified the following significant deficiencies that when aggregated give rise to a material weakness in the area of financial reporting. These deficiencies are: (a) lack of segregation duties within all departments, (b) multiple databases, creating the need for an extensive number of journal entries, (c) the data captured in these multiple data bases are generated from third party software providers that do not provide a Type II SAS 70 report on its internal control nor has extensive IT application testing been performed to validate the reliability of the data, and (d) various manual processes relying on multiple spreadsheets which must be used to augment the lack of integration of the databases. Management is presently addressing these deficiencies.

Information Technology

Management has identified certain control procedures related to the managing of operations for accounting applications. Management is presently addressing this deficiency.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

None

Item 1A. Risk Factors.

Not applicable

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None

Item 3. Defaults Upon Senior Securities.

None

Item 4. Reserved.

Item 5. Other Information.

None

Item 6. Exhibits.

2(a) Asset Purchase Agreement, dated as of March 27, 2009, by and among NII BSA LLC, Barry Scott Agency, Inc., DCAP Accurate, Inc. and DCAP Group, Inc.[1]

2(b) Stock Purchase Agreement, dated as of May 1, 2009, by and between Stuart Greenvald and Abraham Weinzimer and DCAP Group, Inc.[2]

2(c) Stock Purchase Agreement, dated as of June 30, 2009, between Barry Lefkowitz and Blast Acquisition Corp.[3]

3(a) Restated Certificate of Incorporation[4]

3(b) Certificate of Amendment of Certificate of Incorporation filed July 1, 2009[5]

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1 Denotes document filed as an exhibit to our Annual Report on Form 10-K for the year ended December 31, 2008 and incorporated herein by reference.

2 Denotes document filed as an exhibit to our Current Report on Form 8-K for an event dated May 6, 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 June 30, 2009 and incorporated herein by reference.

4 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.

5 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(c) Certificate of Designation of Series A Preferred Stock[6]

3(d) Certificate of Designation of Series B Preferred Stock[7]

3(e) Certificate of Designation of Series C Preferred Stock[8]

3(f) Certificate of Designation of Series D Preferred Stock[9]

3(g) Certificate of Designation of Series E Preferred Stock[10]

3(h) By-laws, as amended[11]

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

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6 Denotes document filed as an exhibit to our Current Report on Form 8-K for an event dated May 28, 2003 and incorporated herein by reference.

7 Denotes document filed as an exhibit to our Annual Report on Form 10-KSB for the year ended December 31, 2006 and incorporated herein by reference.

8 Denotes document filed as an exhibit to our Quarterly Report on Form 10-QSB for the period ended March 31, 2008 and incorporated herein by reference.

9 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.

10 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.

11 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.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	KINGSTONE COMPANIES, INC.	
Dated: November 15, 2010	By:	/s/ Barry B. Goldstein Barry B. Goldstein President
	By:	/s/ Victor Brodsky Victor Brodsky Chief Financial Officer