21ST CENTURY HOLDING CO
Form 10-Q
May 11, 2009

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

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

FOR THE QUARTERLY PERIOD ENDED March 31, 2009
OR

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

FOR THE TRANSITION PERIOD FROM ___________________TO _______________________

Commission File number 0-2500111

21st Century Holding Company
(Exact name of registrant as specified in its charter)

Florida	65-0248866
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification Number)

3661 West Oakland Park Boulevard, Suite 300, Lauderdale Lakes, Florida 33311
(Address of principal executive offices) (Zip Code)

954-581-9993
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

Indicate by check mark whether the registrant has electronically submitted 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

Yes ¨ No ¨

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

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ Smaller reporting company ¨

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

Common Stock, $.01 par value – 8,013,894 outstanding as of May 11, 2009

21ST CENTURY HOLDING COMPANY

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PART I: FINANCIAL INFORMATION
Item 1

21st CENTURY HOLDING COMPANY
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	Period Ending	
	March 31, 2009	December 31, 2008
	(Dollars in Thousands)	
ASSETS		
Investments		
Fixed maturities, available for sale, at fair value	$ 59,498	$ 9,429
Fixed maturities, held to maturity, at amortized cost	4,892	13,496
Equity securities, available for sale, at fair value	7,300	3,140
Total investments	71,690	26,065
Cash and short term investments	78,781	124,577
Prepaid reinsurance premiums	9,661	5,537
Premiums receivable, net of allowance for credit losses of $145 and $122, respectively	4,107	3,353
Reinsurance recoverable, net of allowance for credit losses of $199 and $226, respectively	17,688	16,880
Deferred policy acquisition costs	8,095	6,558
Deferred income taxes, net	9,074	8,530
Income taxes receivable	1,938	2,275
Property, plant and equipment, net	817	855
Other assets	2,826	2,472
Total assets	$ 204,676	$ 197,102
LIABILITIES AND SHAREHOLDERS' EQUITY		
Unpaid losses and LAE	$ 66,091	$ 64,775
Unearned premiums	46,637	40,508
Premiums deposits and customer credit balances	1,973	1,700
Bank overdraft	9,336	8,694
Deferred gain from sale of property	1,374	1,495
Accounts payable and accrued expenses	3,038	3,699
Total liabilities	128,448	120,871
Shareholders' equity:		
Common stock, $0.01 par value. Authorized 25,000,000 shares; issued and outstanding 8,013,894 and 8,013,894, respectively. Preferred stock, $0.01 par value. Authorized 1,000,000 shares; none issued or outstanding.	80	80
Additional paid-in capital	50,125	49,979
Accumulated other comprehensive (deficit)	(1,158)	(1,187)

Retained earnings	27,181	27,359
Total shareholders' equity	76,228	76,231
Total liabilities and shareholders' equity	$ 204,676	$ 197,102

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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21ST CENTURY HOLDING COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended March 31,			
	2009		2008	
	(Dollars in Thousands except EPS and dividend data)			
Revenue:				
Gross premiums written	$	28,431	$	27,603
Gross premiums ceded		(328)		-
Net premiums written		28,103		27,603
Decrease in prepaid reinsurance premiums		(8,069)		(11,154)
(Increase) Decrease in unearned premiums		(6,129)		2,156
Net change in prepaid reinsurance premiums and unearned premiums		(14,198)		(8,998)
Net premiums earned		13,905		18,606
Commission income		238		118
Finance revenue		83		86
Managing general agent fees		431		499
Net investment income		644		1,876
Net realized investment losses		(537)		(1,649)
Regulatory assessments recovered		548		322
Other income		312		184
Total revenue		15,624		20,042
Expenses:				
Losses and LAE		8,873		7,874
Operating and underwriting expenses		1,917		1,555
Salaries and wages		1,909		1,759
Policy acquisition costs, net of amortization		2,744		3,836
Total expenses		15,442		15,024
Income before provision for income tax (benefit) expense		181		5,018
Provision for income tax (benefit) expense		(122)		709
Net income	$	303	$	4,309
Basic net income per share	$	0.04	$	0.54
Fully diluted net income per share	$	0.04	$	0.54
Weighted average number of common shares outstanding		8,013,894		7,912,692

Weighted average number of common shares outstanding (assuming dilution)		8,013,894		7,960,313
Dividends paid per share	$	0.18	$	0.18

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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21ST CENTURY HOLDING COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three Months Ended March 31,	
	2009	2008
	(Dollars in Thousands)	
Cash flow from operating activities:		
Net income	$ 303	$ 4,309
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of investment (discount), net	(38)	(63)
Depreciation and amortization of property plant and equipment, net	47	80
Net realized investment losses	537	1,649
Provision for credit losses, net	12	4
(Recovery) provision for uncollectible premiums receivable	(24)	81
Non-cash compensation	119	118
Changes in operating assets and liabilities:		
Premiums receivable	(730)	(1,328)
Prepaid reinsurance premiums	(4,124)	2,958
Reinsurance recoverable, net	(808)	3,297
Income taxes recoverable	336	-
Deferred income tax expense	(544)	(1,554)
Policy acquisition costs, net of amortization	(1,537)	204
Other assets	(487)	965
Unpaid losses and LAE	1,316	(1,987)
Unearned premiums	6,129	(2,156)
Premium deposits and customer credit balances	273	220
Income taxes payable	-	(1,046)
Bank overdraft	642	318
Accounts payable and accrued expenses	(662)	(509)
Net cash provided by operating activities	761	5,559
Cash flow (used) provided by investing activities:		
Proceeds from sale of investment securities available for sale	12,256	67,598
Purchases of investment securities available for sale	(58,351)	(46,907)
Purchases of property and equipment	(9)	-
Net cash (used) provided by in investing activities	(46,104)	20,691
Cash flow (used) by financing activities:		
Exercised stock options	-	553
Dividends paid	(481)	(1,369)
Acquisition of Common Stock	-	(144)
Tax benefit related to non-cash compensation	27	44
Net cash (used) by financing activities	(454)	(916)
Net (decrease) increase in cash and short term investments	(45,796)	25,335
Cash and short term investments at beginning of period	124,577	22,524
Cash and short term investments at end of period	$ 78,781	$ 47,859

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

21ST CENTURY HOLDING COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(continued)	Three Months Ended March 31, 2009	2008
	(Dollars in Thousands)	
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income taxes	$ 75	$ 3,250
Non-cash investing and finance activities:		
Accrued dividends payable	$ 481	$ 1,429

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

21st Century Holding Company
Notes to Consolidated Financial Statements

(1) Organization and Business

In this Quarterly Report on Form 10-Q, "21st Century" and the terms "Company", "we", "us" and "our" refer to 21st Centu
Holding Company and its subsidiaries, unless the context indicates otherwise.

21st Century is an insurance holding company, which, through our subsidiaries and our contractual relationships with our independent agents and general agents, controls substantially all aspects of the insurance underwriting, distribution and claims processes. We are authorized to underwrite fire, allied lines, homeowners' property and casualty insurance, commercial general liability insurance, commercial multi peril, inland marine, personal automobile insurance and commercial automobile insurance in various states with various lines of authority through our wholly owned subsidiaries, Federated National Insurance Company ("Federated National") and American Vehicle Insurance Company ("American Vehicle"). We market and distribute our own and third-party insurers' products and our other services primarily in Florida, through contractual relationships with a network of approximately 1,500 independent agents and a select number of general agents.

Federated National is authorized to underwrite fire, allied lines, personal automobile, and homeowners' property and casualty insurance in Florida as an admitted carrier. American Vehicle is authorized to underwrite commercial multi peril, inland marine and personal and commercial automobile insurance in Florida as an admitted carrier. In addition, American Vehicle is authorized to underwrite commercial general liability insurance in fifteen states, of which eleven states had ongoing operations in 2009, as either an admitted or a non-admitted carrier. American Vehicle is authorized as an admitted carrier in Alabama, Florida, and Louisiana. American Vehicle is authorized as a non-admitted carrier in Arkansas, California, Georgia, Kentucky, Maryland, Missouri, Nevada, Oklahoma, South Carolina, Tennessee, and Virginia. As American Vehicle continues its expansion of commercial general liability insurance into new states, we intend to retain other general agents to market our commercial general liability insurance products.

An admitted carrier is an insurance company that has received a license from the state department of insurance giving the company the authority to write specific lines of insurance in that state. These companies are also bound by rate and form regulations, and are strictly regulated to protect policyholders from a variety of illegal and unethical practices, including fraud. Admitted carriers are also required to financially contribute to the state guarantee fund, which is used to pay for losses if an insurance carrier becomes insolvent or unable to pay the losses due their policyholders.

A non-admitted carrier is not licensed by the state, but is allowed to do business in that state and is strictly regulated to protect policyholders from a variety of illegal and unethical practices, including fraud. Sometimes, non-admitted carriers are referred to as "excess and surplus" lines carriers. Non-admitted carriers are subject to considerably less regulation with respect to policy rates and forms. Non-admitted carriers are not required to financially contribute to and benefit from the state guarantee fund, which is used to pay for losses if an insurance carrier becomes insolvent or unable to pay the losses due their policyholders.

During the three months ended March 31, 2009, 81.0%, 15.9%, 2.6% and 0.5% of the premiums we underwrote were for homeowners' property and casualty insurance, commercial general liability insurance, federal flood, and personal automobile insurance, respectively. During the three months ended March 31, 2008, 72.4%, 26.7% and 0.9% of the premiums we underwrote were for homeowners' property and casualty insurance, commercial general liability insurance and personal automobile insurance, respectively.

Our business, results of operations and financial condition are subject to fluctuations due to a variety of factors. Abnormally high severity or frequency of claims in any period could have a material adverse effect on our business,

results of operations and financial condition. In addition, if our estimated liabilities for unpaid losses and loss adjustment expenses (“LAE”) are less than actual losses and LAE, we will be required to increase reserves with a corresponding reduction in our net income in the period in which the deficiency is identified.

We internally process claims made by our insureds through our wholly owned claims adjusting company, Superior Adjusting, Inc. (“Superior”). We also offer premium financing to our own and third-party insureds through our wholly owned subsidiary, Federated Premium Finance, Inc. (“Federated Premium”).

21st Century Holding Company
Notes to Consolidated Financial Statements

Assurance Managing General Agents, Inc. (“Assurance MGA”), a wholly owned subsidiary, acts as Federated National’s and American Vehicle’s exclusive managing general agent in the state of Florida. During the year ended December 31, 2008, Assurance MGA became licensed as Federated National’s and American Vehicle’s exclusive managing general agent in the states of Alabama, Arkansas, Georgia, Illinois, Mississippi, Missouri, Nevada, North Carolina, Texas and Virginia.

Assurance MGA earns commissions and fees for providing policy administration, marketing, accounting and analytical services, and for participating in the negotiation of reinsurance contracts. Assurance MGA generates a 6% commission fee and a $25 per policy fee from the affiliates Federated National and American Vehicle.

Insure-Link, Inc. (“Insure-Link”) was formed in March 2008 to serve as an independent insurance agency. The insurance agency markets to the public to serve all of their insurance needs. Insure-Link will expand its’ business through marketing and acquiring other insurance agencies.

(2) Basis of Presentation

The accompanying unaudited consolidated financial statements of 21st Century have been prepared in accordance with generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions for Form 10-Q and Rule 10-01 of Regulation S-X. These financial statements do not include all information and notes required by GAAP for complete financial statements, and should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2008. The December 31, 2008 year-end balance sheet data was derived from audited financial statements but does not include all disclosures required by GAAP. The financial information furnished reflects all adjustments, consisting only of normal recurring accruals, which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented. The results of operations are not necessarily indicative of the results of operations that may be achieved in the future.

(3) Summary of Significant Accounting Policies and Practices

(A) Critical Accounting Policies

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results inevitably will differ from those estimates, and such differences may be material to the financial statements.

The most significant accounting estimates inherent in the preparation of our financial statements include estimates associated with management’s evaluation of the determination of liability for unpaid losses and LAE and the amount and recoverability of amortization of Deferred Policy Acquisition Costs (“DPAC”). In addition, significant estimates form the basis for our reserves with respect to finance contracts, premiums receivable and deferred income taxes. Various assumptions and other factors underlie the determination of these significant estimates, which are described in greater detail at Footnote 2 of the Company’s audited financial statements for the fiscal year ended December 31, 2008 filed on Form 10-K with the Securities and Exchange Commission (“SEC”) on March 16, 2009.

We believe that during the first three months of fiscal 2009 there were no significant changes in those critical accounting policies and estimates. Senior management has reviewed the development and selection of our critical accounting policies and estimates and their disclosure in this Form 10-Q with the Audit Committee of our Board of Directors.

21st Century Holding Company
Notes to Consolidated Financial Statements

The process of determining significant estimates is fact-specific and takes into account factors such as historical experience, current and expected economic conditions, and in the case of unpaid losses and LAE, an actuarial valuation. Management regularly reevaluates these significant factors and makes adjustments where facts and circumstances dictate. In selecting the best estimate, we utilize various actuarial methodologies. Each of these methodologies is designed to forecast the number of claims we will be called upon to pay and the amounts we will pay on average to settle those claims. In arriving at our best estimate, our actuaries consider the likely predictive value of the various loss development methodologies employed in light of underwriting practices, premium rate changes and claim settlement practices that may have occurred, and weight the credibility of each methodology. Our actuarial methodologies take into account various factors, including, but not limited to, paid losses, liability estimates for reported losses, paid allocated LAE, salvage and other recoveries received, reported claim counts, open claim counts and counts for claims closed with and without payment of loss.

Accounting for loss contingencies pursuant to Statements of Financial Accounting Standards (“SFAS”) Number 5, Accounting for Contingencies (“SFAS No. 5”) involves the existence of a condition, situation or set of circumstances involving uncertainty as to possible loss that will ultimately be resolved when one or more future event(s) occur or fail to occur. Additionally, accounting for a loss contingency requires management to assess each event as probable, reasonably possible or remote. Probable is defined as the future event or events are likely to occur. Reasonably possible is defined as the chance of the future event or events occurring is more than remote but less than probable, while remote is defined as the chance of the future event or events occurring is slight. An estimated loss in connection with a loss contingency shall be recorded by a charge to current operations if both of the following conditions are met: First, the amount can be reasonably estimated, and second, the information available prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements. It is implicit in this condition that it is probable that one or more future events will occur confirming the fact of the loss or incurrence of a liability.

SFAS Number 115, Accounting for Certain Investments in Debt and Equity Securities (“SFAS No. 115”) addresses accounting and reporting for (a) investments in equity securities that have readily determinable fair values and (b) all investments in debt securities. SFAS No. 115 requires that these securities be classified into one of three categories, Held-to-maturity, Trading securities or Available-for-sale.

Investments classified as held-to-maturity include debt securities wherein the Company’s intent and ability are to hold the investment until maturity. The accounting treatment for held-to-maturity investments is to carry them at amortized cost without consideration to unrealized gains or losses. Investments classified as trading securities include debt and equity securities bought and held primarily for the sale in the near term. The accounting treatment for trading securities is to carry them at fair value with unrealized holding gains and losses included in current period operations. Investments classified as available-for-sale include debt and equity securities that are not classified as held-to-maturity or as trading security investments. The accounting treatment for available-for-sale securities is to carry them at fair value with unrealized holding gains and losses excluded from earnings and reported as a separate component of shareholders’ equity, namely “Other Comprehensive Income”.

We are required to review the contractual terms of all our reinsurance purchases to ensure compliance with SFAS Number 113, Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts (SFAS No. 113”). The statement establishes the conditions required for a contract with a reinsurer to be accounted for as reinsurance and prescribes accounting and reporting standards for those contracts. Contracts that do not result in the reasonable possibility that the reinsurer may realize a significant loss from the insurance risk assumed generally do not meet the conditions for reinsurance accounting and must be accounted for as deposits. SFAS No. 113 also requires us

to disclose the nature, purpose and effect of reinsurance transactions, including the premium amounts associated with reinsurance assumed and ceded. It also requires disclosure of concentrations of credit risk associated with reinsurance receivables and prepaid reinsurance premiums.

(B) Impact of New Accounting Pronouncements

In April 2009, the Financial Accounting Standards Board (“FASB”) issued FASB Staff Position (“FSP”) FAS 141R-1, “Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies”. The purpose of FAS 147R-1 is to amend and clarify FASB Statement No. 141, Business Combinations, to address application issues raised by preparers, auditors, and members of the legal profession on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. FSP 147R-1 applies to all assets acquired and liabilities assumed in a business combination that arise from contingencies that would be within the scope of Statement 5 if not acquired or assumed in a business combination, except for assets or liabilities arising from contingencies that are subject to specific guidance in FASB 141R. The Company has not determined the impact that SFAS No. 141R-1 will have on its financial position and results of operations and believes that such determination will not be meaningful until the Company enters into a business combination.

21st Century Holding Company
Notes to Consolidated Financial Statements

In December 2007, the FASB issued SFAS Number 141R, Business Combinations ("SFAS No. 141R"). SFAS No. 141R clarifies the definitions of both a business combination and a business. All business combinations will be accounted for under the acquisition method (previously referred to as the purchase method). This standard defines the acquisition date as the only relevant date for recognition and measurement of the fair value of consideration paid. SFAS No. 141R requires the acquirer to expense all acquisition related costs. SFAS No. 141R also requires acquired loans to be recorded net of the allowance for loan losses on the date of acquisition. SFAS No. 141R defines the measurement period as the time after the acquisition date during which the acquirer may adjust the "provisional" amounts recognized at the acquisition date. This period cannot exceed one year, and any subsequent adjustments made to provisional amounts are made retrospectively and restate prior period data. The provisions of this statement are effective for business combinations during fiscal years beginning after December 15, 2008. The Company has not determined the impact that SFAS No. 141R will have on its financial position and results of operations and believes that such determination will not be meaningful until the Company enters into a business combination.

In October 2008, the FASB issued FASB Staff Position ("FSP") FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active" ("FSP FAS 157-3"). The purpose of FSP FAS 157-3 was to clarify the application of SFAS Number 157 Fair Value Measurements ("SFAS No. 157") in a market that is not active. It allows for the use of management's internal assumptions about future cash flows with appropriately risk-adjusted discount rates when relevant observable market data does not exist. FSP FAS 157-3 did not change the objective of SFAS No. 157, which is the determination of the price that would be received in an orderly transaction that is not a forced liquidation or distressed sale at the measurement date. FSP FAS 157-3 was effective upon issuance, including prior periods for which financial statements had not been issued. Our adoption of FSP FAS 157-3 has not had a material effect on our financial position, results of operations, cash flows or disclosures.

In February 2008, FASB issued FSP FASB 157-2, Effective Date of FASB No. 157 ("FSP FASB 157-2"). FSP FASB 157-2, which was effective upon issuance and delayed the effective date of SFAS No. 157 for non-financial assets and non-financial liabilities, except for items recognized or disclosed at fair value at least once a year, to fiscal years beginning after November 15, 2008. FSP FASB No. 157-2 also covers interim periods within the fiscal years for items within the scope of this FSP. We adopted SFAS No. 157 effective with the first interim period beginning after January 1, 2008.

In September 2006, FASB issued SFAS No. 157, which enhances existing guidance for measuring assets and liabilities using fair value and requires additional disclosure about the use of fair value for measurement. SFAS No. 157 was originally effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The adoption of SFAS No. 157 has not had a material impact, to date, on our financial position or results of operations.

In April 2008, the FASB issued FSP No. 142-3, "Determination of the Useful Life of Intangible Assets". FSP 142-3 amends the factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets under FASB Statement No. 142, "Goodwill and Other Intangible Assets". This new guidance applies prospectively to intangible assets that are acquired individually or with a group of other assets in business combinations and asset acquisitions. FSP 142-3 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. Early adoption was prohibited. SFAS Number 142-3 Goodwill and Other Intangible Assets ("SFAS No. 142-3") did not have an impact on our consolidated financial statements.

In March 2008, the FASB issued SFAS Number 161, "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS No. 161"). SFAS No. 161 requires companies with derivative instruments to disclose information that should enable financial-statement users to understand how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under FASB SFAS Number 133, "Accounting for Derivative Instruments and Hedging Activities," ("SFAS No. 133") and how derivative instruments and related hedged items affect a company's financial position, financial performance and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company does not utilize derivative instruments, and, accordingly the adoption of SFAS No. 161 did not have an impact on our consolidated financial statements.

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Notes to Consolidated Financial Statements

In December 2007, the FASB issued SFAS Number 160, Noncontrolling Interests in Consolidated Financial Statements — An Amendment of ARB No. 51 ("SFAS No. 160"). SFAS No. 160 requires noncontrolling interests to be treated as a separate component of equity, not as a liability or other item outside of equity. Disclosure requirements include net income and comprehensive income to be displayed for both the controlling and noncontrolling interests and a separate schedule that shows the effects of any transactions with the noncontrolling interests on the equity attributable to the controlling interest. The provisions of this statement are effective for fiscal years beginning after December 15, 2008. This statement should be applied prospectively except for the presentation and disclosure requirements that shall be applied retrospectively for all periods presented. There was no material impact on our financial position, results of operations or cash flows upon adoption of SFAS No. 160.

In February 2007, FASB issued SFAS Number 159 The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of SFAS No. 115 ("SFAS No. 159"), which permits an entity to measure many financial assets and financial liabilities at fair value that are not currently required to be measured at fair value. Entities that elect the fair value option will report unrealized gains and losses in earnings at each subsequent reporting date. The fair value option may be elected on an instrument-by-instrument basis, with a few exceptions. SFAS No. 159 amends previous guidance to extend the use of the fair value option to available-for-sale and held-to-maturity securities. The Statement also establishes presentation and disclosure requirements to help financial statement users understand the effect of the election. We adopted SFAS No. 159 on its effective date, January 1, 2008. The Company did not elect to measure any financial assets and liabilities with SFAS No. 159 fair value option, and accordingly, to date, there is no impact to our consolidated financial statements.

(C) Stock Options

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS Number 123R Share-Based Payment ("SFAS No. 123R") using the modified-prospective-transition method. Under that transition method, compensation cost recognized during the three months ended March 31, 2009 includes compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant date fair-value estimated in accordance with the provisions of SFAS No. 123R.

(D) Earnings per Share

Basic earnings per share ("Basic EPS") is computed by dividing net income by the weighted average number of common shares outstanding during the period presented. Diluted earnings per share ("Diluted EPS") is computed by dividing net income by the weighted average number of shares of common stock and common stock equivalents outstanding during the period presented; outstanding warrants and stock options are considered common stock equivalents and are included in the calculation using the treasury stock method. Additionally, when applicable, we include in our computation of the weighted average number of common shares outstanding all common stock issued in connection with the repayment of our Subordinated note.

(E) Reclassifications

No reclassification of the 2008 financial statements was necessary to conform to the 2009 presentation.

(4) Commitments and Contingencies

Management has a responsibility to continually measure and monitor its commitments and its contingencies. The nature of the Company's commitments and contingencies can be grouped into three major categories; insured claim activity, assessment related activities and operational matters.

21st Century Holding Company
Notes to Consolidated Financial Statements

(A) Insured Claim Activity

We are involved in claims and legal actions arising in the ordinary course of business. Revisions to our estimates are based on our analysis of subsequent information that we receive regarding various factors, including: (i) per claim information; (ii) company and industry historical loss experience; (iii) legislative enactments, judicial decisions, legal developments in the awarding of damages, and (iv) trends in general economic conditions, including the effects of inflation. Management revises its estimates based on the results of its analysis. This process assumes that experience, adjusted for the effects of current developments and anticipated trends, is an appropriate basis for estimating the ultimate settlement of all claims. There is no precise method for subsequently evaluating the impact of any specific factor on the adequacy of the reserves, because the eventual redundancy or deficiency is affected by multiple factors. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial position, results of operations, or liquidity.

The Company's subsidiaries are, from time to time, named as defendants in various lawsuits incidental to their insurance operations. Legal actions relating to claims made in the ordinary course of seeking indemnification for a loss covered by the insurance policy are considered by the Company in establishing loss and LAE reserves.

The Company also faces in the ordinary course of business lawsuits that seek damages beyond policy limits, commonly known as bad faith claims. The Company continually evaluates potential liabilities and reserves for litigation of these types using the criteria established by SFAS Number 5 Accounting for Contingencies (“SFAS No. 5”). Under this guidance, reserves for a loss are recorded if the likelihood of occurrence is probable and the amount can be reasonably estimated. If a loss, while not probable, is judged to be reasonably possible, management will disclose, if it can be estimated, a possible range of loss or state that an estimate cannot be made. Management considers each legal action using this guidance and records reserves for losses as warranted. Certain claims and legal actions have been brought against the Company for which no loss has been accrued, and for which an estimate of a possible range of loss cannot be made under the rules described above. While it is not possible to predict the ultimate outcome of these claims or lawsuits, management does not believe they are likely to have a material effect on the Company’s financial condition or liquidity. Losses incurred because of these cases could, however, have a material adverse impact on net earnings.

(B) Assessment Related Activity

We operate in a regulatory environment where certain entities and organizations have the authority to require us to participate in assessments. Currently these entities and organizations include, but are not limited to, the Florida Insurance Guarantee Association (“FIGA”), Citizens Property Insurance Corporation (“Citizens”) the Florida Hurricane Catastrophe Fund (“FHCF”) and the Florida Joint Underwriters Association (“JUA”).

As a direct premium writer in the state of Florida, we are required to participate in certain insurer solvency associations under Florida Statutes Section 631.57(3) (a), administered by FIGA. Participation in these pools is based on our written premium by line of business to total premiums written statewide by all insurers. Participation may result in assessments against us as it did in 2006 and 2007. Through 2007, we have been assessed $6.7 million in connection with the association. For statutory accounting these assessments are not charged to operations, in contrast GAAP treatment is to charge current operations for the assessments. Through policyholder surcharges, as approved by the Florida Office of Insurance Regulation (“Florida OIR”), we have since recouped $4.9 million in connection with these assessments. There were no assessments made for the year ended December 31, 2008 or the three months ended March 31, 2009.

During its regularly scheduled meeting on August 17, 2005, the Board of Governors of Citizens determined a 2004 plan year deficit existed in the High Risk Account. Citizens decided that a $515 million Regular Assessment was in the best interest of Citizens and consistent with Florida Statutes. On this basis, Citizens certified for a Regular Assessment. Federated National's participation in this assessment totaled $2.0 million.

During a subsequent regularly scheduled meeting on or about December 18, 2006, Citizens board determined an additional 2004 plan year deficit existed in the High Risk Account. Citizens decided that a $515 million Regular Assessment was in the best interest of Citizens and consistent with Florida Statutes. On this basis, Citizens certified for a Regular Assessment. Federated National's participation in this assessment totaled $0.3 million. Provisions contained in our excess of loss reinsurance policies provide for participation of our reinsurers totaling $1.5 million. There was no assessment made for the year ended December 31, 2008 or the three months ended March 31, 2009.

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Pursuant to Florida Statutes Section 627.3512, insurers are permitted to recoup the assessment by adding a surcharge to policies in an amount not to exceed the amount paid by the insurer to Citizens. Federated National is currently underwriting the recoupment in connection with the Citizens assessments and has since recouped approximately $2.0 million. Federated National subrogated approximately $1.5 million to the reinsurers.

The Florida OIR issued Information Memorandum OIR-06-008M, titled Notice of Anticipated Florida Hurricane Catastrophe Fund Assessment, and dated May 4, 2006, to all property and casualty insurers, surplus lines insurers, and surplus lines agents in the state of Florida placing them on notice of an anticipated FHCF assessment. Sighting the unprecedented hurricane seasons of 2004 and 2005, the FHCF exhausted nearly all of the $6 billion in reserves it had accumulated since its inception in 1993. The Florida State Board of Administration, the body that oversees the FHCF, issued its directive to levy an emergency assessment upon all property and casualty business in the state of Florida. There is no statutory requirement that policyholders be notified of the FHCF assessment. The FHCF and Florida OIR are, however, recommending that insurers include the FHCF assessment in a line item on the declaration page for two reasons: (1) this is a multi-year assessment and (2) there may be concurrent assessments and the insureds should know what amount is for which assessment. The assessment became effective on all policies effective after January 1, 2007 and will be remitted to the administrator of the assessment as collected.

In addition to the assessments noted above, the Florida OIR has also issued Information Memorandum OIR -07-02M, titled Information Regarding Emergency Assessment by Citizens Property Insurance Corporation, dated January 11, 2007, to all property and casualty insurers in the state of Florida placing them on notice that an order had been approved for an emergency assessment by Citizens for its High Risk Account. This order requires insurers to begin collecting the emergency assessment for policies issued or renewed on or after July 1, 2007. Similar to the FHCF assessment discussed above, the Citizens emergency assessment will be remitted to the administrator of the assessment as collected and therefore accounted for in a manner such that amounts collected or receivable are not recorded as revenues and amounts due or paid are not expensed.

Federated National and American Vehicle are also required to participate in an insurance apportionment plan under Florida Statutes Section 627.351, which is referred to as a JUA Plan. The JUA Plan provides for the equitable apportionment of any profits realized, or losses and expenses incurred, among participating automobile insurers. In the event of an underwriting deficit incurred by the JUA Plan which is not recovered through the policyholders in the JUA Plan, such deficit shall be recovered from the companies participating in the JUA Plan in the proportion that the net direct written premiums of each such member during the preceding calendar year bear to the aggregate net direct premiums written in this state by all members of the JUA Plan.

In 2009 and 2008, neither Federated National nor American Vehicle was assessed by the JUA Plan. In 2007, Federated National was assessed $7,470 and American Vehicle recovered $842 by and from the JUA Plan based on its December 2007 Cash Activity Report. These charges are contained in operating and underwriting expenses in the Statement of Operations. Future assessments by this association are undeterminable at this time.

(C) Operational Matters

The Company’s consolidated federal income tax returns for 2004, 2003 and 2002 have been examined by the Internal Revenue Service (“IRS”). The IRS concluded its’ examination for 2003 and 2002 and there were no material changes in the tax liability for those years. The 2004 income tax return remains under examination.

The Company records valuation allowances to reduce deferred tax assets to the amount that is more likely than not to be realized. When assessing the need for valuation allowances, the Company considers future taxable income and ongoing prudent and feasible tax planning strategies. Should a change in circumstances lead to a change in judgment about the realizability of deferred tax assets in future years, the Company would adjust related valuation allowances in the period that the change in circumstances occurs, along with a corresponding increase or charge to net income. The resolution of tax reserves and changes in valuation allowances could be material to the Company's results of operations for any period, but is not expected to be material to the Company's financial position.

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Relative to the Company’s commitments stemming from operational matters, effective on or about March 1, 2006, 21st Century sold its interest in the Lauderdale Lakes property to an unrelated party. As part of this transaction, 21st Century has agreed to lease the same facilities for a five-year term. Our lease for this office space expires in December 2011.

The expected future lease payouts in connection with this lease are as follows.

Fiscal Year	Lease payments (Dollars in Thousands)	
2009	$	470
2010		638
2011		650
Total	$	1,758

The Company is also involved in various legal actions arising in the ordinary course of business and not related to the insured claims activity.

From July 27, 2007 to August 7, 2007, several securities class action lawsuits were filed against the Company and certain of its executive officers in the United States District Court for the Southern District of Florida (“District Court”) on behalf of all persons and entities (the “plaintiff’s”) who purchased the Company's securities during the various class periods specified in the complaints. A consolidated amended complaint was filed on behalf of the class on January 22, 2008. The complaint alleges that the defendants made false and misleading statements and failed to accurately project the Company's business and financial performance during the putative class period. The plaintiffs seek an unspecified amount of damages and claim violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5.

On November 7, 2008, the District Court granted in part and denied in part the Company's motion to dismiss the consolidated class complaint with leave to amend by December 8, 2009 or the allegations dismissed would be deemed dismissed with prejudice without further order of the Court. Lead plaintiffs did not seek to amend the consolidated complaint and the defendants have answered. The action will proceed on allegations with respect to the company's setting of loss reserves for the year ending 2006 and first quarter of 2007.

The District Court granted both defendants' motion to dismiss the plaintiff’s derivative complaint and the Company’s subsequent motion to stay the amended derivative complaint.

While the Company believes that the allegations in the complaint are without merit, an unfavorable resolution of pending litigation could have a material adverse effect on our financial condition. Litigation may result in substantial costs and expenses and significantly divert the attention of the Company's management regardless of the outcome. There can be no assurance that the Company will be able to achieve a favorable settlement of pending litigation or obtain a favorable resolution of this litigation if it is not settled. In addition, current litigation could lead to increased costs or interruptions of normal business operations of the Company.

(5) Fair Value Disclosure

In October 2008, the FASB issued FSP FAS 157-3. The purpose of FSP FAS 157-3 was to clarify the application of SFAS No. 157 in a market that is not active. FSP FAS 157-3 did not change the objective of SFAS No. 157. FSP

FAS 157-3 was effective upon issuance, including prior periods for which financial statements had not been issued. Our adoption of FSP FAS 157-3 does not have a material effect on our financial position, results of operations, cash flows or disclosures.

In September 2006, FASB issued SFAS No. 157. SFAS No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS No. 157 also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. SFAS No. 157 categorizes assets and liabilities at fair value into one of three different levels depending on the observability of the inputs employed in the measurement, as follows:

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Level 1 — inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.

Level 2 — inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 — inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Securities available for sale: The fair value of securities available for sale is determined by obtaining quoted prices on nationally recognized security exchanges.

Assets measured at fair value on a recurring basis, for which the Company has elected the fair value option, are summarized below.

	As of March 31, 2009			
	Level 1	Level 2	Level 3	Total
	(Dollars in Thousands)			
US government obligations and agencies	$ -	$ 45	$ -	$ 45
Corporate securities and other	15	-	-	15
	$ 15	$ 45	$ -	$ 59
Equity securities	7	-	-	7
	$ 7	$ -	$ -	$ 7

(6) Comprehensive Income

For the three months ended March 31, 2009 and 2008, comprehensive income consisted of the following.

Three Months Ended March 31,	
2009	2008