

21ST CENTURY HOLDING CO  
Form 10-K  
March 30, 2012

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

ý Annual Report under Section 13 or 15(d) of the Securities Act of 1934  
For the fiscal year ended December 31, 2011

or

o Transition Report under Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period of \_\_\_\_\_ to \_\_\_\_\_  
Commission file number: 0-2500111

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

Florida  
(State or other jurisdiction of  
incorporation or organization)

65-0248866  
(I.R.S. Employer Identification  
No)

14050 N.W. 14th Street, Suite 180, Sunrise, Florida 33323  
(Address of principal executive offices) (Zip Code)

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value \$0.01 per share	NASDAQ Global Market, LLC

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

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

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý

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 ý No o

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

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

Large accelerated filer  Accelerated filer  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 Act). Yes  No

The aggregate market value of the Registrant's common stock held by non-affiliates was \$20,202,003 on June 30, 2011, computed on the basis of the closing sale price of the Registrant's common stock on that date.

As of March 30, 2012, the total number of common shares outstanding of Registrant's common stock was 7,946,384.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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21st Century Holding Company

PART I

SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report on Form 10-K, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements generally are identified by words “believes,” “project,” “expects,” “anticipates,” “estimates,” “intends,” “strategy,” “plan,” “may,” “will,” “would,” “will be,” “will continue,” “will likely result,” and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. A detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in the section entitled “Risk Factors” in Part I, Item 1A of this Annual Report. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 1 BUSINESS

GENERAL

21st Century Holding Company (“21st Century”, “Company”, “we”, “us”) is an insurance holding company that controls substantially all steps in the insurance underwriting, distribution and claims processes through our subsidiaries and our contractual relationships with our independent agents and general agents.

We are authorized to underwrite, and/or place through our wholly owned subsidiaries, homeowners’ multi-peril (“homeowners”), commercial general liability, personal and commercial automobile, personal umbrella, fire, allied lines, workers’ compensation and commercial inland marine insurance in Florida and various other states. We market and distribute our own and third-party insurers’ products and our other services through a network of independent agents. We also utilize a select number of general agents for the same purpose.

- Our primary insurance subsidiary is Federated National Insurance Company (“Federated National”). Federated National is licensed as an admitted carrier in Florida. 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. Through contractual relationships with a network of approximately 3,000 independent agents, of which approximately 600 actively sell and service our products, Federated National is authorized to underwrite homeowners’, fire, allied lines and personal and commercial automobile insurance in Florida. Federated National is also licensed as an admitted carrier in Alabama, Louisiana, Georgia and Texas, and underwrites commercial general liability insurance in those states. Federated National operated as a non-admitted carrier in Arkansas, California, Kentucky, Maryland, Missouri, Nevada, Oklahoma, South Carolina, Tennessee and Virginia, and could underwrite commercial general liability insurance in all of these states. A non-admitted carrier 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.

In January 2011, we merged Federated National and our other wholly owned insurance subsidiary, American Vehicle Insurance Company (“American Vehicle”), with Federated National continuing the operations of both entities. In connection with this merger, the Company, Federated National and American Vehicle entered into a Consent Order with the Florida Office of Insurance Regulation (“Florida OIR”) pursuant to which we agreed to certain restrictions on our business operations. See “Regulation– Consent Order.”

- We internally process claims made by our insureds through our wholly owned claims adjusting company, Superior Adjusting, Inc. (“Superior”). Until June 2011, we offered premium financing to our own and third-party insureds through our wholly owned subsidiary, Federated Premium Finance, Inc. (“Federated Premium”).
- Assurance Managing General Agents (“Assurance MGA”), a wholly owned subsidiary of the Company, acts as Federated National’s exclusive managing general agent in Florida and is also licensed as a managing general agent in the States of Alabama, Georgia, Illinois, Louisiana, North Carolina, Mississippi, Missouri, New York, Nevada, South Carolina, Texas and Virginia. Assurance MGA has contracted with several unaffiliated insurance companies to sell commercial general liability, workers compensation, personal umbrella and inland marine insurance through Assurance MGA’s existing network of agents.

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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 earns a \$25 per policy fee, and traditionally a 6% commission fee from its affiliates Federated National and American Vehicle. During the fourth quarter of 2010, Assurance MGA, pursuant to the Consent Order as discussed in “Regulation – Consent Order” reduced its fee, to earn amounts varying between 2% and 4%, which we anticipate will return to 6% at an unknown future date with approval from the Florida OIR. A formal agreement reflecting this fee modification was executed during January 2011.

Although we are authorized to underwrite the various lines described above, our business is primarily underwriting homeowners’ policies. During 2011, 81.8%, 10.3%, 4.6% and 3.3% of the premiums we underwrote were for homeowners’, commercial general liability, federal flood, and personal automobile insurance, respectively. During 2010, 79.7%, 12.3%, 4.1% and 3.9% of the premiums we underwrote were for homeowners’, commercial general liability, federal flood, and personal automobile insurance, respectively.

During the years ended December 31, 2011, 2010 or 2009, we did not experience any weather-related catastrophic events such as the hurricanes that occurred in Florida during 2005 and 2004. We are not able to predict how hurricanes or other insurable events will affect our future results of operations and liquidity. Loss and loss adjustment expenses (“LAE”) are affected by a number of factors, many of which are partially or entirely beyond our control, including the following.

- the nature and severity of the loss;
- weather-related patterns;
- the availability, cost and terms of reinsurance;
- underlying settlement costs, including medical and legal costs;
- legal and political factors such as legislative initiatives and public opinion;
- macroeconomic issues.

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 us. When our estimated liabilities for unpaid losses and LAE are less than the actuarially determined amounts, we increase the expense in the current period. Conversely, when our estimated liabilities for unpaid losses and LAE are greater than the actuarially determined amounts, we decrease the expense in the current period.

Our goal in our reinsurance strategy is to equalize the liquidity requirements imposed by most severe insurable events and by all other insurable events we manage in the normal course of business. Please see “Reinsurance Agreements” under “Item 1. Business” for a more detailed description of our reinsurance agreements and strategy.

From time to time, new regulations and legislation are proposed to limit damage awards, to control plaintiffs' counsel fees, to bring the industry under regulation by the Federal government, to control premiums, policy terminations and other policy terms and to impose new taxes and assessments. It is not possible to predict whether, in what form or in what jurisdictions, any of these proposals might be adopted, or the effect, if any, on us.

Our executive offices are located at 14050 N.W. 14th Street, Suite 180, Sunrise, Florida 33323 and our telephone number is (954) 581-9993.

Our internet web sites are [www.21stcenturyholding.com](http://www.21stcenturyholding.com), primarily for investors and [myFNIC.com](http://myFNIC.com), primarily for policy holders and agents. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form

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8-K and amendments to such reports are available, free of charge, through our website as soon as reasonably practicable after we electronically file or furnish such material to the Securities and Exchange Commission (“SEC”). Further, a copy of this annual report on Form 10-K is located at the SEC’s Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site that contains reports, proxy and information statements and other information regarding our filings at [www.sec.gov](http://www.sec.gov).

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RECENT DEVELOPMENTS

In February 2012, we received approval from the Florida OIR of a 14.1% rate increase. That rate increase, together with our 2011 rate increases for our voluntary property book of homeowners' business, averaging 20.2% statewide, and our assumed property book of homeowners' business, averaging 13.9% statewide, are expected to gain momentum and accrete throughout 2012.

The Company anticipates unfavorable pricing terms on our upcoming reinsurance contracts due to reduced Florida Hurricane Catastrophe Fund ("FHCF") capacity, though we also anticipate that this higher marginal rate will be mitigated by a reduced reinsurance requirement.

BUSINESS STRATEGY

We expect that in 2012 we will capitalize on our operational efficiencies and business practices through:

- improved property analytical qualities such as a broader geographical dispersion of risks throughout the state of Florida and avoiding risks that do not yield an underwriting profit;
  - continued territorial expansion of our commercial general liability, inland marine, and private passenger automobile insurance products into additional states;
  - employing our business practices developed and used in Florida in our expansion to other selected states;
  - maintaining a commitment to provide high quality customer service to our agents and insureds;
- expansion of our marketing efforts by retaining key personnel and implementing direct marketing technologies;
  - offering attractive incentives to our agents to place a high volume of quality business with our companies;
- offering our employees continuing education classes appropriate to the respective discipline employed within this organization;
  - assumption of existing risks from other carriers; and
- additional strategies that may include possible acquisitions or further dispositions of assets, and development of procedures to improve claims history and mitigate losses from claims.

There can be no assurances, however, that any of the foregoing strategies will be developed or successfully implemented or, if implemented, that they will positively affect our results of operations.

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## 21st Century Holding Company

## INSURANCE OPERATIONS AND RELATED SERVICES

## Overview of Insurance Lines of Business

The following tables set forth the amount and percentages of our consolidated gross premiums written, premiums ceded to reinsurers and net premiums written by line of business for the periods indicated.

	2011		Years Ended December 31,				2009		
	Premium	Percent	Premium	Percent	Premium	Percent	Premium	Percent	
	(Dollars in Thousands)								
Gross written premiums:									
Automobile	\$3,274	3.3	%	\$3,721	3.9	%	\$836	0.8	%
Federal Flood	4,468	4.5	%	3,951	4.1	%	3,559	3.4	%
Homeowners'	80,403	81.9	%	76,845	79.7	%	84,705	81.2	%
Commercial General Liability	10,125	10.3	%	11,894	12.3	%	15,279	14.6	%
Total gross written premiums	\$98,270	100.0	%	\$96,411	100.0	%	\$104,379	100.0	%
Ceded premiums:									
Automobile	\$1,541	3.3	%	\$1,882	3.6	%	\$14	0.0	%
Federal Flood	4,468	9.7	%	3,951	7.5	%	3,559	6.3	%
Homeowners'	40,273	87.0	%	46,893	88.5	%	52,518	93.5	%
Commercial General Liability	12	0.0	%	238	0.4	%	126	0.2	%
Total ceded premiums	\$46,294	100.0	%	\$52,964	100.0	%	\$56,217	100.0	%
Net written premiums									
Automobile	\$1,733	3.3	%	\$1,839	4.3	%	\$822	1.7	%
Federal Flood	-	0.0	%	-	0.0	%	-	0.0	%
Homeowners'	40,130	77.2	%	29,952	68.9	%	32,187	66.8	%
Commercial General Liability	10,113	19.5	%	11,656	26.8	%	15,153	31.5	%
Total net written premiums	\$51,976	100.0	%	\$43,447	100.0	%	\$48,162	100.0	%

## Homeowners' Property and Casualty Insurance

Federated National underwrites homeowners' insurance primarily in the South, West and Central Florida regions. Homeowners' insurance generally protects an owner of real and personal property against covered causes of loss to that property. The table that follows reflects the number of homeowner policies in-force by South Florida counties and all other Florida counties and reflects our concentrations of risk from catastrophic events.

County	2011		In-Force Policy Count Years Ended December 31,				2009		
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	
Dade	1,944	4.4	%	2,835	6.6	%	3,544	6.7	%
Broward	4,386	10.0	%	5,008	11.6	%	4,139	7.9	%
Pinellas	3,788	8.6	%	3,437	8.0	%	5,147	9.8	%

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Hillsborough	2,984	6.8	%	3,265	7.6	%	4,505	8.6	%
West Palm Beach	8,203	18.7	%	12,221	28.3	%	14,543	27.6	%
All others	22,488	51.5	%	16,366	37.9	%	20,728	39.4	%
Total	43,793	100.0	%	43,132	100.0	%	52,606	100.0	%

(a) immaterial amounts are included in "All Others"

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Our homeowner insurance products provide maximum dwelling coverage in the amount of approximately \$1.8 million, with the aggregate maximum policy limit being approximately \$3.0 million. We continually subject these limits to review; though there were no material changes during 2011. The approximate average premium on the policies currently in-force is \$1,793, as compared with \$1,803 for 2010. The typical deductible is either \$2,500 or \$1,000 for non-hurricane-related claims and generally 2% of the coverage amount for the structure for hurricane-related claims.

Premium rates charged to our homeowner insurance policyholders are continually evaluated to assure that they meet the expectation that they are actuarially sound and produce a reasonable level of profit (neither excessive nor inadequate). Premium rates are regulated and approved by the Florida OIR. Our 14.9% rate increase in connection with our Citizens Property Insurance Corporation (“Citizens”) assumptions was approved during 2010 by the Florida OIR. Additionally, the Florida OIR approved a second 14.1% rate increase in February 2012.

For a further discussion regarding Homeowners’ Property and Casualty Insurance, see “Recent Developments”, above.

## Commercial General Liability

We underwrite commercial general liability insurance for approximately 380 classes of artisan (excluding home-builders and developers) and mercantile trades (such as owners, landlords and tenants). The limits of liability range from \$100,000 per occurrence with a \$200,000 policy aggregate to \$1.0 million per occurrence with a \$2.0 million policy aggregate. We continually subject these limits to review, though there were no changes during 2011. We market the commercial general liability insurance products through independent agents and a limited number of general agencies unaffiliated with the Company. The average annual premium on policies currently in-force during 2011 is approximately \$712, as compared with \$734 in 2010.

The following table sets forth the amounts and percentages of our gross premiums written in connection with our commercial general liability program by state.

State	Years Ended December 31, 2011		2010		2009	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Alabama	\$57	0.56 %	\$46	0.39 %	\$76	0.50 %
Arkansas	-	0.00 %	1	0.01 %	4	0.03 %
California	8	0.08 %	34	0.29 %	49	0.32 %
Florida	8,606	84.99 %	9,972	83.85 %	12,341	80.77 %
Georgia	-	0.00 %	68	0.57 %	291	1.91 %
Kentucky	-	0.00 %	-	0.00 %	1	0.00 %
Louisiana	916	9.05 %	1,094	9.19 %	1,736	11.36 %
Maryland	-	0.00 %	9	0.07 %	-	0.00 %
Oklahoma	2	0.02 %	-	0.00 %	-	0.00 %
South Carolina	2	0.02 %	1	0.01 %	2	0.01 %
Texas	534	5.28 %	665	5.59 %	778	5.09 %
Virginia	-	0.00 %	4	0.03 %	1	0.01 %
Total	\$10,125	100.00 %	\$11,894	100.00 %	\$15,279	100.00 %

Personal Automobile

Personal automobile insurance markets can be divided into two categories, standard automobile and nonstandard automobile. Standard personal automobile insurance is principally provided to insureds who present an average risk profile in terms of driving record, vehicle type and other factors. Nonstandard personal automobile insurance is principally provided to insureds that are unable to obtain standard insurance coverage because of their driving record, age, vehicle type or other factors, including market conditions. The average annual nonstandard personal automobile insurance policy currently in-force is approximately \$1,104, as compared with \$1,007 for 2010, and the nonstandard personal automobile insurance lines represents 100% of our written premiums for personal automobile insurance in 2011 and 2010.

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The maximum exposures for the nonstandard policy in Florida are \$10,000 per individual, \$20,000 per accident for bodily injury, \$10,000 per accident for property damage, and predominantly \$50,000 for comprehensive and collision. Beginning in late 2010 we underwrote nonstandard personal automobile insurance in Georgia, where the maximum exposures are \$25,000 per individual, \$50,000 per accident for bodily injury, \$25,000 per accident for property damage, and predominantly \$50,000 for comprehensive and collision. In addition, we write commercial automobile insurance in Florida. The maximum exposure is predominantly \$30,000 on a combined single limit basis.

#### Flood

Federated National writes flood insurance through the National Flood Insurance Program (“NFIP”). We write the policy for the NFIP, which assumes 100% of the flood risk while we retain a commission for our service. The average flood policy premium is approximately \$496 with limits up to \$250,000. Commissions in connection with this program totaled \$0.2 million in 2011, 2010 and 2009, respectively. Pursuant to the Florida OIR regulations, we are required to report write-your-own-flood premiums on a direct and ceded basis for 2008 and subsequent years. Prior to 2008, we reported only the commissions income associated with this program.

#### Managing General Agent Services

Assurance MGA, a wholly owned subsidiary of the Company, acts as Federated National’s exclusive managing general agent in Florida and is also licensed as a managing general agent in the States of Alabama, Georgia, Illinois, Louisiana, North Carolina, Mississippi, Missouri, New York, Nevada, South Carolina, Texas and Virginia. Assurance MGA has contracted with several unaffiliated insurance companies to sell commercial general liability, workers compensation, personal umbrella and inland marine insurance through Assurance MGA’s existing network of agents.

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 earns a \$25 per policy fee, and traditionally a 6% commission fee from its affiliates Federated National and American Vehicle. During the fourth quarter of 2010, Assurance MGA, pursuant to the Consent Order as discussed in “Regulation – Consent Order” reduced its fee, to earn amounts varying between 2% and 4%, which we anticipate will return to 6% at an unknown future date with approval from the Florida OIR. A formal agreement reflecting this fee modification was executed during January 2011.

#### Claims Adjusting

We internally process claims made by our insureds through our wholly owned claims adjusting company, Superior. Our agents have no authority to settle claims or otherwise exercise control over the claims process. Furthermore, we believe that the retention of independent adjusters, in addition to the employment of salaried claims personnel, results in reduced ultimate loss payments, lower LAE and improved customer service for our claimants and policyholders. We also employ an in-house legal department to cost-effectively manage claims-related litigation and to monitor our claims handling practices for efficiency and regulatory compliance.

#### Premium Finance

Until June 2011, our wholly owned subsidiary, Federated Premium, offered premium financing to our own and third-party insureds. Premium financing has been marketed through our distribution network of general agents and independent agents.

Finance contracts receivable totaled less than \$0.1 million as of December 31, 2011, compared with \$0.3 million as of December 31, 2010.

The Company anticipates continued use of the direct bill feature associated with our homeowners', commercial general liability and automobile programs. Direct billing is when the insurance company accepts from the insured, as a receivable, a promise to pay the premium, as opposed to requiring payment of the full amount of the policy. The advantage of direct billing a policyholder by the insurance company is that we are not reliant on a credit facility, but remain able to charge and collect interest from the policyholder. We believe that the direct billing program does not increase our risk because the insurance policy, which serves as collateral, is managed by our computer system. Underwriting criteria are designed with down payment requirements and monthly payments that create policyholder equity in the insurance policy. The equity in the policy is collateral for the extension of credit to the insured.

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Through our monitoring systems, we track delinquent payments and, in accordance with the terms of the extension of credit, cancel if payment is not made. If any excess premium remains after cancellation of the policy and deduction of applicable penalties, this excess is refunded to the policyholder. The direct bill program enables us to closely manage our risk while providing credit to our insureds.

Independent Insurance Agency

Insure-Link, Inc. (“Insure-Link”) was formed in March 2008 to serve as an independent insurance agency. The insurance agency markets direct to the public to provide a variety of insurance products and services to individual clients, as well as business clients, by offering a full line of insurance products including, but not limited to, homeowners’, flood, personal and commercial automobile, commercial general liability and workers’ compensation insurance through their agency appointments with over fifty different carriers.

MARKETING AND DISTRIBUTION

We are focusing our marketing efforts on continuing to expand our distribution network and market our products and services throughout Florida and in other states by establishing relationships with additional independent agents and general agents. There can be no assurance, however, that we will be able to obtain the required regulatory approvals to offer additional insurance products or expand into other states.

Our independent agents and general agents have the authority to sell and bind insurance coverage in accordance with procedures established by Assurance MGA. Assurance MGA reviews all coverage bound by the agents promptly and generally accepts all coverage that falls within stated underwriting criteria. For all policies issued, Assurance MGA also has the right, within a period that varies by state between 60 days and 120 days from a policy's inception, to cancel any policy, upon an advanced notice provided in accordance with statutory specific guidelines, even if the risk falls within our underwriting criteria.

We believe that our integrated computer systems, which allow for rapid automated premium quotation and policy issuance by our agents, is a key element in providing quality service to both our agents and insureds for various lines of our business.

We believe that the management of our distribution system now centers on our ability to capture and maintain relevant data by producing agents. We believe that information management of agent production, coupled with loss experience, will enable us to maximize profitability.

REINSURANCE AGREEMENTS

Financing risk generally involves a combination of risk retention and risk transfer techniques. “Retention”, similar to a deductible, involves financing losses by funds internally generated. “Transfer” involves the existence of a contractual arrangement designed to shift financial responsibility to another party in exchange for premium. Secondary to the primary risk-transfer agreements we use reinsurance agreements to transfer a portion of the risks insured under our policies to other companies through the purchase of reinsurance. We utilize reinsurance to reduce exposure to catastrophic and non-catastrophic risks and to help manage the cost of capital. Reinsurance techniques are designed to lessen earnings volatility, improve shareholder return, and to support the required statutory surplus requirements. We also use reinsurance to realize an arbitrage of premium rates, benefit from the availability of our reinsurers’ expertise, and benefit from the management of a profitable portfolio of insureds by way of enhanced analytical capacities.



In addition to reinsurance agreements, we also from time to time enter into retro-cessionary reinsurance agreements; each designed to shift financial responsibility based on predefined conditions. Generally, there are three separate kinds of reinsurance structures – quota share, excess of loss, and facultative, each considered either proportional or non-proportional. Our reinsurance structures are maintained to protect our insurance subsidiary against the severity of losses on individual claims or unusually serious occurrences in which the frequency and or the severity of claims produce an aggregate extraordinary loss from catastrophic events.

Although reinsurance does not discharge us from our primary obligation to pay for losses insured under the policies we issue, reinsurance does make the assuming reinsurer liable to the insurance subsidiary for the reinsured portion of the risk. A credit risk exposure exists with respect to ceded losses to the extent that any reinsurer is unable or unwilling to meet the obligations assumed under the reinsurance contracts. The collectability of reinsurance is subject to the solvency of the reinsurers, interpretation of contract language and other factors. A reinsurer's insolvency or inability to make payments under the terms of a reinsurance contract could have a material adverse effect on our results of operations and financial condition. Our reinsurance structure has significant risks, including the fact that the FHCF may not be able to raise sufficient money to pay its claims or impair its ability to pay its claims in a timely manner. This could result in significant financial, legal and operational challenges to all property and casualty companies associated with FHCF, including our company.

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The availability and costs associated with the acquisition of reinsurance will vary year to year. These fluctuations, which can be significant, are not subject to our control and may limit our ability to purchase adequate coverage. For example, FHCF has restricted its very affordable reinsurance capacity for the 2011–2012 and 2010–2011 hurricane seasons and is expected to continue constricting its claim paying capacity for future seasons. This gradual restriction is requiring us to replace that capacity with more expensive private market reinsurance. The recovery of increased reinsurance costs through rate action is not immediate and cannot be presumed, as it is subject to Florida OIR approval. Our reinsurance program is subject to approval by the Florida OIR and review by Demotech, Inc. (“Demotech”).

Our property lines of business include homeowners’ and fire. For the 2011–2012 hurricane season, the excess of loss and FHCF treaties will insure the property lines for approximately \$298.0 million of aggregate catastrophic losses and LAE with a maximum single event coverage totaling approximately \$226.0 million, with the Company retaining the first \$7.0 million of losses and LAE for each event. Our reinsurance program includes coverage purchased from the private market, which affords optional reinstatement premium protection that provides coverage beyond the first event, along with any remaining coverage from the FHCF. Coverage afforded by the FHCF totals approximately \$154.1 million, or 51.7% of the \$298.0 million of aggregate catastrophic losses and LAE. The FHCF affords coverage for the entire season, subject to maximum payouts, without regard to any particular insurable event.

The estimated cost to the Company for the excess of loss reinsurance products for the 2011-2012 hurricane season, inclusive of approximately \$11.7 million payable to the FHCF and the prepaid automatic premium reinstatement protection, is approximately \$39.7 million.

Annually, the cost and amounts of reinsurance are based on management's analysis of Federated National's exposure to catastrophic risk as of June 30 and estimated to September 30. Our data is then subjected to actual exposure level analysis as of September 30. This analysis of our exposure level in relation to the total exposures to the FHCF and excess of loss treaties may produce changes in limits and reinsurance premiums as a result of the reconciliation of estimated to actual exposure level. Last year, the September 30, 2010 change to total limits was an increase of \$10.3 million of probable maximum loss or 2.9% and the change to reinsurance premiums was an increase of \$3.7 million or 8.7%. The September 30, 2011 change to total limits was an increase of \$172.2 million of total insured value or 1.4 % and the change to reinsurance premiums was an increase of \$0.5 million or 1.1%. The subsequent change to management’s June 30, 2011 exposure analysis, as of September 30, 2011 is being amortized over the underlying policy term.

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The 2011-2012 private reinsurance companies and their respective A.M. Best Company ("A.M. BEST") rating are listed in the table as follows.

Reinsurer	A.M. Best Rating		
<b>UNITED STATES</b>			
American Agricultural Insurance	A-		
Everest Reinsurance Company	A+		(2)
Houston Casualty Co. (UK Branch)	A+		(2)
Munich Reinsurance America, Inc.	A+		(2)
Odyssey Reinsurance Company	A		
QBE Reinsurance Corporation	A		(2)
<b>BERMUDA</b>			
ACE Tempest Reinsurance Ltd.	A+	*	(2)
Arch Reinsurance Limited	A		(2)
Ariel Reinsurance Company Limited	A-	*	
DaVinci Reinsurance Limited	A	*	(2)
D.E. Shaw Re (Bermuda) Ltd.	NR		(1)
JC Re Ltd (Juniperus)	NR	*	(1)
Montpelier Reinsurance Ltd.	A-		
Renaissance Reinsurance Limited	A+	*	(2)
Torus Insurance (Bermuda) Limited	A-	*	
<b>UNITED KINGDOM</b>			
Amlin Syndicate No. 2001 (AML)	A	*	(2)
Antares Syndicate No. 1274 (AUL)	A		(2)
Arrow Syndicate No. 1910 (ARW)	A	*	(2)
Broadgate Underwriting Limited Syndicate No. 1301 (BGT)	A		(2)
Liberty Syndicates Paris/Syndicate 4472	A		(2)
MAP Underwriting Syndicate No. 2791 (MAP)	A	*	(2)
Novae Syndicate No. 2007 (NVA)	A		(2)
<b>EUROPE</b>			
Amlin Bermuda Limited	A		(2)
Flagstone Reassurance Suisse SA	A-		
Lansforsakringar Sak Forsakringsaktiebolag	NR-5		(2)
Scor Switzerland AG	A		(2)

\* Reinstatement Premium Protection Program Participants

(1) Participant will fund a trust agreement for their exposure with cash and U.S. Government obligations of American institutions at fair market value.

(2) Standard & Poor's rated "A" or higher (investment grade - economic situation can affect finance)

For the 2010-2011 hurricane season, the excess of loss and FHCF treaties insured the property lines for approximately \$360.7 million of aggregate catastrophic losses and LAE with a maximum single event coverage totaling approximately \$285.5 million, with the Company retaining the first \$5.0 million of losses and LAE for each event. Our reinsurance program included coverage purchased from the private market, which afforded optional reinstatement premium protection that provided coverage beyond the first event, along with coverage from the FHCF. Coverage afforded by the FHCF totaled approximately \$220.4 million, or 61.1% of the \$360.7 million of aggregate catastrophic losses and LAE. The FHCF affords coverage for the entire season, subject to maximum payouts, without regard to any particular insurable event.

The estimated cost to the Company for the excess of loss reinsurance products for the 2010-2011 hurricane season, inclusive of approximately \$19.1 million payable to the FHCF and the prepaid automatic premium reinstatement protection, was approximately \$46.5 million.

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## 21st Century Holding Company

The 2010-2011 private reinsurance companies and their respective A.M. Best rating are listed in the table as follows.

Reinsurer	A.M. Best Rating		
<b>UNITED STATES</b>			
American Agricultural Insurance	A		(2)
Everest Reinsurance Company	A+		(2)
Munich Reinsurance America, Inc.	A+		(2)
QBE Reinsurance Corporation	A		(2)
<b>BERMUDA</b>			
ACE Tempest Reinsurance Ltd.	A+	*	(2)
Actua Re Limited	NR	*	(1)
Amlin Bermuda Limited	A		(2)
Ariel Reinsurance Company Limited	A-	*	
DaVinci Reinsurance Limited	A	*	(2)
Flagstone Reinsurance Limited	A-		
Montpelier Reinsurance Ltd.	A-		(2)
Nephila/ Allianz Risk Trnsfr Zurich (BDA)	NR-5	*	(2)
Renaissance Reinsurance Limited	A+	*	(2)
Torus Insurance (Bermuda) Limited	A-	*	
<b>UNITED KINGDOM</b>			
Antares Syndicate No. 1274 (AUL)	A		(2)
Broadgate Underwriting Limited Syndicate No. 1301 (BGT)	A		(2)
Arrow Syndicate No. 1910 (ARW)	A	*	(2)
Amlin Syndicate No. 2001 (AML)	A		(2)
Novae Syndicate No. 2007 (NVA)	A		(2)
Houson Casualty Co. (UK Branch)	A+		(2)
<b>EUROPE</b>			
Lansforsakringar Sak Forsakringsaktiebolag	NR-5		(2)
Liberty Syndicates Paris/Syndicate 4472	A		(2)

\* Reinstatement Premium Protection Program Participants

(1) Participant has funded a trust agreement for their exposure with approximately \$3.8 million of cash and U.S. Government obligations of American institutions at fair market value.

(2) Standard & Poor's rated "A" or higher (investment grade - economic situation can affect finance)

For the 2012-2013 hurricane season, Federated National entered into a Reimbursement Contract and Addendum No. 1 thereto with SBA on February 28, 2012. This Reimbursement Contract will reimburse Federated National for covered property losses under its homeowners' insurance policies resulting from hurricanes that cause damage in the State of Florida through May 31, 2013. Under this Reimbursement Contract, the FHCF will provide approximately \$135.0 million of aggregate seasonal coverage for covered losses in excess of approximately \$53.0 million, subject to a

10.0% Company participation. Federated National's premium for the FHCF reinsurance coverage will be approximately \$8.2 million payable in three installments between August 2012 and December 2012. The actual attachment point, total coverage and cost will not be finalized until December 31, 2012.

Pursuant to commutation provisions contained in the original 2005 FHCF agreement, on July 21, 2011 Federated National and the FHCF negotiated such a commutation agreement for the 2005 contract year. The terms of the agreement provide that Federated National release the FHCF from all its obligations under the original reinsurance agreement for a negotiated consideration as a final payment for all unpaid claims subject to the treaty. This negotiation resulted in a final commutation payment received by us for a total of \$4.1 million, which is the maximum available under the treaty to pay loss and LAE including incurred but not yet reported ("IBNR") for the subject losses. The benefit of the FHCF treaty inures to the benefit of the private reinsurers participating in the treaty.

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21st Century Holding Company

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 the Florida Insurance Guaranty Association ("FIGA"). Participation in these pools is based on our written premium by line of business to total premiums written statewide by all insurers. Participation has resulted in assessments against us, as it had in 2006 and 2007, and again on October 30, 2009. There were no assessments made during the years ended December 31, 2008, 2010 or 2011. Through 2007, we were assessed \$6.6 million and in 2009 we were assessed an additional \$0.6 million in connection with the insolvencies of domestic insurance companies. For statutory accounting these assessments were not charged to operations, in contrast, Generally Accepted Accounting Principles ("GAAP") treatment was to charge current operations for the assessments. If new assessments occur, we will be required to treat these assessments consistent with GAAP since accounting difference with Statutory accounting no longer exists as of January 1, 2011. Through policyholder surcharges, as approved by the Florida OIR, we have since fully recouped \$7.2 million in connection with these assessments.

Related to statutory accounting, in October 2010, the National Association of Insurance Commissioners ("NAIC") issued substantive revisions in SSAP No. 35R, Guaranty Fund and Other Assessments. For statutory accounting, SSAP No. 35R, effective January 1, 2011, requires assessments that could be recouped through future premium surcharges be expensed and an asset cannot be recognized. The impact is there might be an effect on statutory policyholder surplus once the liability for the assessments is recognized. The adoption of SSAP No. 35R rule will not have a material effect on our current operations.

The FHCF reimbursement contract and addendums were all effective June 1, 2011, and the private excess of loss type treaties were all effective July 1, 2011; all treaties have a term of one year. Our reinsurance treaty with the FHCF has a significant credit risk, including the fact that the FHCF may not be able to raise sufficient money to pay its claims or be able to pay its claims in a timely manner. This could result in significant financial, legal and operational challenges to all companies, including ours. Additionally, the FHCF treaty contains an exclusion for "Losses in excess of the sum of the Balance of the Fund as of December 31 of the Contract Year and the amount the SBA is able to raise through the issuance of revenue bonds or by the use of other financing mechanisms, up to the limit pursuant to Section 215.555(4) (c), Florida Statutes." This credit risk is mitigated by a fund cash buildup due to the absence of covered events in recent years.

To date, we have made no claims asserted against our reinsurers in connection with the 2011–2012 and 2010–2011 excess of loss and FHCF treaties.

As regards to the commercial multi-peril property program that began recording premium on August 28, 2009, we have secured an automatic facultative reinsurance agreement with Munich Reinsurance America, Inc. ("Munich Re") and Ascot Underwriting Limited ("Ascot") for bound risks with total insured values not to exceed \$10.0 million, with additional coverage in excess of \$10.0 million available upon submission and subjected to underwriting guidelines. This coverage excludes catastrophic wind-storm risk. A.M. Best ratings for Munich Re and Ascot are A+ and A, respectively.

During 2010, the Company secured casualty reinsurance affording coverage totaling \$4.0 million in excess of \$1.0 million. This reinsurance also protects the Company against extra contractual obligations and losses in excess of policy limits. Any loss occurrence that involves liability exposure written by either Federated National or American Vehicle or a combination of both will be covered. The cost of this coverage totaled approximately \$0.5 million.

In order to expand our commercial business, American Vehicle entered into various quota share reinsurance agreements whereby American Vehicle is the assuming reinsurer. On March 26, 2009, we announced that American

Vehicle received approval from the Florida OIR to enter into a reinsurance relationship allowing the opportunity to market and underwrite commercial insurance through a company that has an "A" rating with A.M. Best. This agreement was designed to enable the deployment of commercial general liability and other commercial insurance products in most of the contiguous 48 states to policyholders who require their commercial insurance policy to come from an insurance company with an A- or better A.M. Best rating. Operations began during the quarter ended June 30, 2009. During 2011, the companies mutually agreed to suspend this treaty effective May 15, 2011.

The quota share retrocessionaire reinsurance agreements require American Vehicle to securitize credit, regulatory and business risk. As of December 31, 2010, irrevocable letters of credit fully collateralized by American Vehicle and further guaranteed by the parent company, 21st Century, were replaced by fully funded trust agreements. Fully funded trust agreements totaled \$4.7 million and \$4.6 million as of December 31, 2011 and December 31, 2010, respectively.



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LIABILITY FOR UNPAID LOSSES AND LAE

We are directly liable for loss and LAE payments under the terms of the insurance policies that we write. In many cases, there may be a time lag between the occurrence and reporting of an insured loss and our payment of that loss. As required by insurance regulations and accounting rules, we reflect the liability for the ultimate payment of all incurred losses and LAE by establishing a liability for those unpaid losses and LAE for both reported and unreported claims, which represent estimates of future amounts needed to pay claims and related expenses.

When a claim, other than personal automobile, involving a probable loss is reported, we establish a liability for the estimated amount of our ultimate losses and LAE payments. The estimate of the amount of the ultimate loss is based upon such factors as the type of loss, jurisdiction of the occurrence, knowledge of the circumstances surrounding the claim, severity of injury or damage, potential for ultimate exposure, estimate of liability on the part of the insured, past experience with similar claims and the applicable policy provisions.

All newly reported claims received with respect to personal automobile policies are set up with an initial average liability. The average liability for these claims is determined by dividing the number of reported claims into the total amount paid during the same period. If a claim is open more than 45 days, that open case liability is evaluated and the liability is adjusted upward or downward according to the facts and circumstances of that particular claim.

In addition, management provides for a liability on an aggregate basis to provide for IBNR. We utilize independent actuaries to help establish liability for unpaid losses and LAE. We do not discount the liability for unpaid losses and LAE for financial statement purposes.

The estimates of the liability for unpaid losses and LAE are subject to the effect of trends in claims severity and frequency and are continually reviewed. As part of this process, we review historical data and consider various factors, including known and anticipated legal developments, inflation and economic conditions. As experience develops and other data become available, these estimates are revised, as required, resulting in increases or decreases to the existing liability for unpaid losses and LAE. Adjustments are reflected in results of operations in the period in which they are made and the liabilities may deviate substantially from prior estimates.

Among our classes of insurance, the automobile and homeowners' liability claims historically tend to have longer time lapses between the occurrence of the event, the reporting of the claim and the final settlement, than do automobile physical damage and homeowners' property claims. These liability claims often involve parties filing suit and therefore may result in litigation. By comparison, property damage claims tend to be reported in a relatively shorter period of time and settled in a shorter time frame with less occurrence of litigation.

There can be no assurance that our liability for unpaid losses and LAE will be adequate to cover actual losses. If our liability for unpaid losses and LAE proves to be inadequate, we will be required to increase the liability with a corresponding reduction in our net income in the period in which the deficiency is identified. Future loss experience substantially in excess of established liability for unpaid losses and LAE could have a material adverse effect on our business, results of operations and financial condition.

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## 21st Century Holding Company

The following table sets forth a reconciliation of beginning and ending liability for unpaid losses and LAE as shown in our consolidated financial statements for the periods indicated.

	Years Ended December 31,		
	2011	2010	2009
	(Dollars in Thousands)		
Balance at January 1	\$ 66,529	\$ 70,610	\$ 64,775
Less reinsurance recoverables	(6,810 )	(11,594 )	(12,713 )
Net balance at January 1	\$ 59,719	\$ 59,016	\$ 52,062
Incurred related to			
Current year	\$ 31,893	\$ 37,288	\$ 41,988
Prior years	(997 )	2,800	1,718
Total incurred	\$ 30,896	\$ 40,088	\$ 43,706
Paid related to			
Current year	\$ 13,672	\$ 15,077	\$ 18,478
Prior years	19,048	24,308	18,274
Total paid	\$ 32,720	\$ 39,385	\$ 36,752
Net balance at year-end	\$ 57,895	\$ 59,719	\$ 59,016
Plus reinsurance recoverables	2,088	6,810	11,595
Balance at year-end	\$ 59,983	\$ 66,529	\$ 70,611

As shown above, and as a result of review of liability for losses and LAE, which includes a re-evaluation of the adequacy of reserve levels for prior year's claims, we decreased the liability for losses and LAE for claims occurring in prior years by \$1.0 million for the year ended December 31, 2011, and we increased the liability for losses and LAE for claims occurring in prior years by \$2.8 million and \$1.7 million for the years ended December 31, 2010 and 2009, respectively.

In 2011, we increased incurred losses and LAE for claims in connection with the hurricanes in 2005 and 2004 by approximately \$0.2 million and decreased the incurred loss and LAE attributed to incurred events of prior years in connection with our homeowners', automobile and commercial general liability lines of business by \$1.5 million.

In 2010, we increased incurred losses and LAE for claims in connection with the hurricanes in 2005 and 2004 by approximately \$1.6 million and increased the incurred loss and LAE attributed to incurred events of prior years in connection with our homeowners', automobile and commercial general liability lines of business by \$1.2 million.

Based upon discussions with our independent actuarial consultants and their statements of opinion on losses and LAE, we believe that the liability for unpaid losses and LAE is currently adequate to cover all claims and related expenses which may arise from incidents reported and IBNR as of December 31, 2011. There can be no assurance concerning future adjustments of reserves, positive or negative, for claims incurred through December 31, 2011.

The following table presents total unpaid losses and LAE, net, and total reinsurance recoverable, on a run-off basis, due from our automobile reinsurers as shown in our consolidated financial statements for the periods indicated.

	As of December 31,	
	2011	2010
	(Dollars in Thousands)	
Transatlantic Reinsurance Company (A+ A.M. Best rated)		
Reinsurance (payable) recoverable on paid losses and LAE	(23 )	\$1
Unpaid losses and LAE	\$113	38
	\$90	\$39

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## 21st Century Holding Company

The following table presents total unpaid losses and LAE, net, and total reinsurance recoverable due from our catastrophic reinsurers as shown in our consolidated financial statements.

	As of December 31,	
	2011	2010
Catastrophe Excess of Loss (various participants) and FHCF	(Dollars in Thousands)	
Reinsurance recoverable on paid losses and LAE	\$8	\$1,542
Unpaid losses and LAE	542	5,514
	\$550	\$7,056
Amounts due from (to) reinsurers consisted of amounts related to:		
Unpaid losses and LAE	\$542	\$5,514
Reinsurance recoverable on paid LAE	8	1,542
Reinsurance payable	(1 )	(14,088 )
	\$549	\$(7,032 )

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## 21st Century Holding Company

The following table presents the Statutory liability for unpaid losses and LAE, net of reinsurance recoverable for the years ended December 31, 2002 through 2011 and does not distinguish between catastrophic and non-catastrophic events. The top line of the table shows the estimated net liabilities for unpaid losses and LAE at the balance sheet date for each of the periods indicated. These figures represent the estimated amount of unpaid losses and LAE for claims arising in all prior years that were unpaid at the balance sheet date, including losses that had been IBNR. The portion of the table labeled "Cumulative paid as of" shows the net cumulative payments for losses and LAE made in succeeding years for losses incurred prior to the balance sheet date. The lower portion of the table shows the re-estimated amount of the previously recorded liability based on experience as of the end of each succeeding year.

	Years Ended December 31, (Dollars in Thousands)									
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Statutory unpaid losses and LAE, net	\$55,567	\$59,655	\$59,016	\$52,070	\$39,551	\$27,259	\$25,733	\$37,390	\$15,314	\$9,420
Cumulative paid as of:										
One year later		17,863	22,910	17,264	17,019	19,331	25,465	35,114	10,721	8,620
Two years later			32,086	29,985	25,692	27,724	34,073	48,285	12,600	10,400
Three years later				35,367	35,185	33,308	39,739	53,621	13,558	11,000
Four years later					37,921	40,554	44,085	57,653	14,268	11,900
Five years later						41,335	49,339	60,197	14,583	12,300
Six years later							48,875	62,665	15,852	12,500
Seven years later								62,459	16,234	13,700
Eight years later									16,119	13,800
Nine years later										13,600
Re-estimated net liability as of:										
End of year	55,567	59,655	59,016	52,070	39,551	27,259	25,733	37,390	15,314	9,420
		58,895	61,567	52,755	44,361	35,315	35,804	44,293	14,327	9,850

One year later																			
Two years later	61,956	57,791	47,682	38,902	41,449	52,160	14,427	9,82											
Three years later		58,113	53,026	45,507	45,295	56,479	15,034	10,1											
Four years later			53,189	50,980	51,459	59,400	15,941	11,0											
Five years later				50,909	55,779	64,080	15,921	11,2											
Six years later					55,385	65,638	18,144	11,2											
Seven years later						65,916	18,922	13,5											
Eight years later							18,632	15,7											
Nine years later								14,7											
Cumulative redundancy (deficiency)	760	(2,939 )	(6,043 )	(13,638)	(23,649)	(29,651)	(28,526)	(3,318 )	(5,3										
Cumulative redundancy (-) deficiency as a % of reserves originally established	1.3	% -5.0	% -11.6	% -50.0	% -91.9	% -79.3	% -186.3	% -35.2	% -86.										

The cumulative redundancy or deficiency represents the aggregate change in the estimates over all prior years. A deficiency indicates that the latest estimate of the liability for losses and LAE is higher than the liability that was originally estimated and a redundancy indicates that such estimate is lower. It should be emphasized that the table presents a run-off of balance sheet liability for the periods indicated rather than accident or policy loss development for those periods. Therefore, each amount in the table includes the cumulative effects of changes in liability for all prior periods. Conditions and trends that have affected liabilities in the past may not necessarily occur in the future.

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## 21st Century Holding Company

As noted above, we have since experienced a \$0.8 million cumulative redundancy in connection with the re-estimation of all losses that occurred in 2010, mainly on our homeowners' losses. Relative to 2009, the cumulative deficiency in connection with the re-estimation of all losses totaled \$2.9 million, from which \$1.2 million relates to our homeowners' losses, \$1.5 million relates to our commercial general liability losses and \$0.2 million relates to our automobile losses.

As noted in our Form 10-K for the fiscal year ended December 31, 2010, we experienced a \$2.6 million cumulative deficiency in connection with the re-estimation of all loss that occurred in 2009 and a \$5.7 million cumulative deficiency in connection with the re-estimation of all loss that occurred in 2008. Relative to the \$2.6 million deficiency, homeowner and commercial general liability losses totaled \$1.9 million and \$0.7 million, respectively. Relative to the \$5.7 million deficiency, our homeowner losses totaled \$0.3 million, our automobile losses totaled \$1.9 million and our commercial general liability losses totaled \$3.5 million.

As noted in our Form 10-K for the fiscal year ended December 31, 2009, we experienced a \$0.7 million cumulative deficiency in connection with the re-estimation of all loss that occurred in 2008 and a \$8.2 million cumulative deficiency in connection with the re-estimation of all loss that occurred in 2007. Relative to the \$0.7 million deficiency, our automobile and commercial general liability losses totaled \$1.9 million and \$0.1 million, respectively, and our homeowner benefit totaled \$1.3 million. Relative to the \$8.2 million deficiency, our homeowner and commercial general liability losses totaled \$5.0 million and \$6.4 million, respectively, and our automobile benefit totaled \$3.4 million.

The table below sets forth the differences between loss and LAE reserves as disclosed for GAAP basis compared with Statutory Accounting Principles ("SAP") basis of presentation for the years ended 2011, 2010 and 2009.

	Years Ended December 31,		
	2011	2010	2009
	(Dollars in Thousands)		
GAAP basis Loss and LAE reserves	\$ 59,983	\$ 66,529	\$ 70,611
Less unpaid Losses and LAE ceded	2,319	6,810	11,593
Balance Sheet Liability	57,664	59,719	59,018
Add Insurance Apportionment Plan	17	14	12
SAP basis Loss and LAE reserves	\$ 57,681	\$ 59,733	\$ 59,030

The table below sets forth the differences between loss and LAE incurred as disclosed for GAAP basis compared with SAP basis presentation for the years ended 2011, 2010 and 2009.

	Years Ended December 31,		
	2011	2010	2009
	(Dollars in Thousands)		
GAAP basis Loss and LAE incurred	\$ 30,896	\$ 40,088	\$ 43,706
Intercompany adjusting and other expenses	-	8	4,239
Insurance apportionment plan	(726 )	(2 )	(7 )
SAP basis Loss and LAE incurred	\$ 30,170	\$ 40,094	\$ 47,938

Underwriting results of insurance companies are frequently measured by their Combined Ratios. However, investment income, federal income taxes and other non-underwriting income or expense are not reflected in the Combined Ratio. The profitability of property and casualty insurance companies depends on income from underwriting, investment and service operations. Underwriting results are considered profitable when the Combined Ratio is under 100% and unprofitable when the Combined Ratio is over 100%.

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## 21st Century Holding Company

The following table sets forth Loss Ratios, Expense Ratios and Combined Ratios for the periods indicated for the insurance business of Federated National and American Vehicle for 2011, 2010 and 2009, and are inclusive of Unallocated Loss Adjustment Expenses ("ULAE").

	Years Ended December 31,					
	2011		2010		2009	
Loss Ratio	63.7	%	89.0	%	91.1	%
Expense Ratio	58.2	%	74.7	%	65.1	%
Combined Ratio	121.9	%	163.7	%	156.2	%

## COMPETITION

We operate in highly competitive markets and face competition from national, regional and residual market insurance companies in the homeowners', commercial general liability, and automobile markets. Our competitors include companies that market their products through agents, as well as companies that sell insurance directly to their customers. Large national writers may have certain competitive advantages over agency writers, including increased name recognition, increased loyalty of their customer base and reduced policy acquisition costs. We compete based on underwriting criteria, our distribution network and superior service to our agents and insureds. Although our pricing is inevitably influenced to some degree by that of our competitors, we believe that it is generally not in our best interest to compete solely on price.

In Florida, more than 200 companies are authorized to underwrite homeowners' insurance. Several of our competitors include Citizens, Universal Property and Casualty Insurance Company and St. Johns Insurance Company. In Florida, more than one dozen companies compete with us in commercial general liability insurance market.

Significant competition also emerged because of fundamental changes in 2007 made to the property and casualty insurance business in Florida, which resulted in a multi-pronged approach to address the cost of residential property insurance in Florida. First, the law increased the capacity of reinsurance that stabilized the reinsurance market to the benefit of the insurance companies writing properties lines in Florida. Secondly, the law provided for rate relief to all policyholders. The law also authorized the state-owned insurance company, Citizens, which is free of many of the restraints on private carriers such as surplus, ratios, income taxes and reinsurance expense, to reduce its premium rates and begin competing against private insurers in the residential property insurance market and expands the authority of Citizens to write commercial insurance.

## REGULATION

## General

We are subject to the laws and regulations in Alabama, Florida, Georgia, Illinois, Kentucky, Louisiana, Maryland, Mississippi, Missouri, New York, Nevada, North Carolina, Ohio, Oklahoma, South Carolina, Tennessee, Texas and Virginia and regulations of any other states in which we seek to conduct business in the future. The regulations cover all aspects of our business and are generally designed to protect the interests of insurance policyholders, as opposed to the interests of shareholders. Such regulations relate to authorized lines of business, capital and surplus requirements, allowable rates and forms, investment parameters, underwriting limitations, transactions with affiliates, dividend limitations, changes in control, market conduct, maximum amount allowable for premium financing service charges and a variety of other financial and non-financial components of our business. Our failure to comply with certain provisions of applicable insurance laws and regulations could have a material adverse effect on our business, results of

operations or financial condition. In addition, any changes in such laws and regulations, including the adoption of consumer initiatives regarding rates charged for coverage, could materially and adversely affect our operations or our ability to expand.

The impact of the Florida legislation enacted after the 2004 and 2005 Florida hurricane seasons that froze premium rates to 2007 levels continues to unwind. That legislation, among other things, provided low cost reinsurance to member insurance companies, accelerated rate filings to reflect the reduced reinsurance costs and expanded the role of Citizens in the market place. Other provisions contained in the emergency rule prevented non-renewals and cancellation (except for material misrepresentation and non-payment of premium) and new restrictions on coverage are prohibited. We estimate that with the recently approved rate increases, our property rates have effectively returned to 2007 pre-legislative levels.

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Most states' laws restrict an insurer's underwriting discretion, such as the ability to terminate policies, terminate agents or reject insurance coverage applications, and many state regulators have the power to reduce, or to disallow, increases in premium rates. In addition, state laws generally require that rate schedules and other information be filed with the state's insurance regulatory authority, either directly or through a rating organization with which the insurer is affiliated. The regulatory authority may disapprove a rate filing if it finds that the rates are inadequate, excessive or unfairly discriminatory. Rates, which are not necessarily uniform for all insurers, vary by class of business, hazard covered, and size of risk. Certain states, including Florida, as discussed above, have adopted laws or are considering proposed legislation which, among other things, limit the ability of insurance companies to effect rate increases or to cancel, reduce or non-renew insurance coverage with respect to existing policies, particularly personal automobile insurance.

Most states require licensure or regulatory approval prior to the marketing of new insurance products. Typically, licensure review is comprehensive and includes a review of a company's business plan, solvency, reinsurance, character of its officers and directors, rates, forms and other financial and non-financial aspects of a company. The regulatory authorities may prohibit entry into a new market by not granting a license or by withholding approval.

All insurance companies must file quarterly and annual statements with certain regulatory agencies and are subject to regular and special examinations by those agencies. We may be the subject of additional special examinations or analysis. These examinations or analysis may result in one or more corrective orders being issued by the Florida OIR. The most recent balance sheet audit of Federated National by the Florida OIR occurred as of December 31, 2009. There were no material findings by the independent auditors in connection with this examination. Federated National also experienced a regularly scheduled statutory examination by the Florida OIR which occurred during 2010 for the five years ended December 31, 2009. There were no material findings in connection with this examination.

In some instances, various states routinely require deposits of assets for the protection of policyholders either in those states or for all policyholders. As an example, the Florida OIR requires Federated National to have securities with a fair market value of \$2.0 million held in escrow. As of December 31, 2011, Federated National held investment securities with a fair value of approximately \$2.1 million, as a deposit with the State of Florida. Additionally, as of December 31, 2011 Federated National had cash deposits totaling \$406,400 with the State of Alabama, \$151,000 with the State of Arkansas, \$118,520 with the State of Louisiana and \$25,000 with the State of Georgia.

As of December 31, 2010, Federated National and American Vehicle held investment securities with a fair value of approximately \$1.1 million, each as deposits with the State of Florida. Additionally, as of December 31, 2010 American Vehicle had cash deposits totaling \$416,400 with the State of Alabama, \$160,300 with the State of Arkansas, \$118,283 with the State of Louisiana and \$25,000 with the State of Georgia.

Consent Order

As part of its approval of the January 2011 merger between Federated National and American Vehicle, the Florida OIR, the Company, Federated National and American Vehicle entered into a consent order with the Florida OIR dated January 25, 2011 (the "Consent Order") pursuant to which the Company and the resulting company in the merger (the "Merged Company") agreed to the following:

- The Merged Company retained the following licenses: (010) Fire, (020) Allied Lines, (040) Homeowners Multi Peril, (050) Commercial Multi Peril, (090) Inland Marine, (170) Other Liability, (192) Private Passenger Auto Liability, (194) Commercial Auto Liability, (211) Private Passenger Auto Physical Damage and (212) Commercial Auto Physical Damage.

- The Merged Company will not write commercial multi peril policy premium without prior approval from the Florida OIR. The Merged Company has no commercial multi peril policy premium in force.
- The Merged Company surrendered its surety license. The Merged Company has no surety policy premium in force.
- The Merged Company will not write new commercial habitation condominium associations without prior approval from the Florida OIR. The current commercial habitation book of business is approximately \$1.6 million of policy premium, which will renew pursuant to normal underwriting guidelines.
- The Merged Company agreed to reduce the total number of its homeowners' policies in Miami-Dade, Broward and Palm Beach counties (the "Tri-County Area") to 40% of its entire homeowners' book by December 31, 2011 and limit its new homeowners' policies in the Tri-County Area to \$500,000 of new policy premium per month. The 40% was achieved through the increased writing of property located outside of the Tri-County Area, the non-renewal of certain policies located within the Tri-County Area, and limiting the writing of new property located within the Tri-County Area. As of December 31, 2011, the Company had approximately 33.2% of its homeowners' policies located within Tri-County Area.

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- The managing general agency fees payable by the Merged Company to Assurance MGA, a wholly owned subsidiary of the Company, which were traditionally 6% of gross written premium, were reduced and will not exceed 4% without prior approval from the Florida OIR. The Merged Company has lowered the fee to 2% of gross written to further support the Federated National's results of operations. This will have no impact on the Company's consolidated financial results.
- The claims service fees payable by the Merged Company to Superior were reduced from the traditional 4.5% of gross earned premium to 3.6% of gross earned premium. This will have no impact on the Company's consolidated financial results.
- The Company provided the Florida OIR with a plan of operation and has agreed to provide certain reports to the Florida OIR on a monthly basis, and agreed to obtain the Florida OIR's approval prior to making any changes to the officers of the Merged Company during the first year following the effective date of the Merger.

Restrictions in Payments of Dividends by Domestic Insurance Companies

Under Florida law, a domestic insurer may not pay any dividend or distribute cash or other property to its shareholders except out of that part of its available and accumulated capital surplus funds which is derived from realized net operating profits on its business and net realized capital gains. A Florida domestic insurer may not make dividend payments or distributions to shareholders without prior approval of the Florida OIR if the dividend or distribution would exceed the larger of (i) the lesser of (a) 10.0% of its capital surplus or (b) net income, not including realized capital gains, plus a two-year carryforward, (ii) 10.0% of capital surplus with dividends payable constrained to unassigned funds minus 25.0% of unrealized capital gains or (iii) the lesser of (a) 10.0% of capital surplus or (b) net investment income plus a three-year carryforward with dividends payable constrained to unassigned funds minus 25.0% of unrealized capital gains.

Alternatively, a Florida domestic insurer may pay a dividend or distribution without the prior written approval of the Florida OIR (i) if the dividend is equal to or less than the greater of (a) 10.0% of the insurer's capital surplus as regards policyholders derived from realized net operating profits on its business and net realized capital gains or (b) the insurer's entire net operating profits and realized net capital gains derived during the immediately preceding calendar year, (ii) the insurer will have policy holder capital surplus equal to or exceeding 115.0% of the minimum required statutory capital surplus after the dividend or distribution, (iii) the insurer files a notice of the dividend or distribution with the Florida OIR at least ten business days prior to the dividend payment or distribution and (iv) the notice includes a certification by an officer of the insurer attesting that, after the payment of the dividend or distribution, the insurer will have at least 115.0% of required statutory capital surplus as to policyholders. Except as provided above, a Florida domiciled insurer may only pay a dividend or make a distribution (i) subject to prior approval by the Florida OIR or (ii) 30 days after the Florida OIR has received notice of such dividend or distribution and has not disapproved it within such time.

No dividends were paid by Federated National or American Vehicle in 2011, 2010 and 2009, and none are anticipated in 2012 as a result of our Consent Order with the Florida OIR. Although we believe that amounts required to meet our financial and operating obligations will be available from sources other than dividends from our insurance subsidiaries, there can be no assurance in this regard. Further, there can be no assurance that, if requested, the Florida OIR will allow any dividends to be paid by Federated National to us, the parent company, in the future. The maximum dividends permitted by state law are not necessarily indicative of an insurer's actual ability to pay dividends or other distributions to a parent company, which also may be constrained by business and regulatory considerations, such as the impact of dividends on capital surplus, which could affect an insurer's competitive position, the amount of

premiums that can be written and the ability to pay future dividends. Further, state insurance laws and regulations require that the statutory capital surplus of an insurance company following any dividend or distribution by it be reasonable in relation to its outstanding liabilities and adequate for its financial needs.

While the non-insurance company subsidiaries (Assurance MGA, Superior and any other affiliate) are not subject directly to the dividend and other distribution limitations, insurance holding company regulations govern the amount that any affiliate within the holding company system may charge any of the insurance companies for service (e.g., management fees and commissions).

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NAIC Risk-Based Capital Requirements

In order to enhance the regulation of insurer solvency, the NAIC established risk-based capital requirements for insurance companies that are designed to assess capital adequacy and to raise the level of protection that statutory surplus provides for policy holders. These requirements measure three major areas of risk facing property and casualty insurers: (i) underwriting risks, which encompass the risk of adverse loss developments and inadequate pricing; (ii) declines in asset values arising from credit risk; and (iii) other business risks from investments. Insurers having less statutory surplus than required will be subject to varying degrees of regulatory action, depending on the level of capital inadequacy. The Florida OIR, which follows these requirements, could require Federated National to cease operations in the event they fail to maintain the required statutory capital.

Based upon the 2011 and 2010 statutory financial statements for Federated National, statutory surplus exceeded the regulatory action levels established by the NAIC's risk-based capital requirements.

American Vehicle's statutory surplus exceeded the NAIC regulatory action levels in 2010 as well.

Based on risk-based capital requirements, the extent of regulatory intervention and action increases as the ratio of an insurer's statutory surplus to its Authorized Control Level ("ACL"), as calculated under the NAIC's requirements, decreases. The first action level, the Company Action Level, requires an insurer to submit a plan of corrective actions to the insurance regulators if statutory surplus falls below 200.0% of the ACL amount. The second action level, the Regulatory Action Level, requires an insurer to submit a plan containing corrective actions and permits the insurance regulators to perform an examination or other analysis and issue a corrective order if statutory surplus falls below 150.0% of the ACL amount. The third action level, ACL, allows the regulators to rehabilitate or liquidate an insurer in addition to the aforementioned actions if statutory surplus falls below the ACL amount. The fourth action level is the Mandatory Control Level, which requires the regulators to rehabilitate or liquidate the insurer if statutory surplus falls below 70.0% of the ACL amount. Federated National's ratio of statutory surplus to its ACL was 409.7%, 222.8 % and 245.1% at December 31, 2011, 2010 and 2009, respectively. American Vehicle's ratio of statutory surplus to its ACL was 373.4% and 426.9% at December 31, 2010 and 2009, respectively.

NAIC Insurance Regulatory Information Systems ("IRIS") Ratios

The NAIC has also developed IRIS ratios to assist state insurance departments in identifying companies which may be developing performance or solvency problems, as signaled by significant changes in the companies' operations. Such changes may not necessarily result from any problems with an insurance company, but may merely indicate changes in certain ratios outside the ranges defined as normal by the NAIC. When an insurance company has four or more ratios falling outside "usual ranges", state regulators may investigate to determine the reasons for the variance and whether corrective action is warranted.

As of December 31, 2011, Federated National was outside NAIC's usual range for two of thirteen IRIS ratios. These exceptions related to two-years overall operating ratio and investment yield.

As of December 31, 2010, Federated National was outside NAIC's usual range for four of thirteen IRIS ratios. These exceptions related to two-years overall operating ratio, investment yield, gross change in policyholders' surplus and change in adjusted policyholders' surplus. The Florida OIR approved an additional rate increase for our voluntary property book of homeowners' business which averaged 20.2% statewide and went into effect November 1, 2009 and December 1, 2009 for new and renewed homeowner insurance policies, respectively.

As of December 31, 2009, Federated National was outside NAIC's usual range for four of thirteen IRIS ratios. Three exceptions related to underwriting operations and one related to lower than expected investment yields. The operations ratios relate to the timing of premium rate corrections and elevated reinsurance costs. The Florida OIR granted Federated National an average statewide increase of 19.0% for policies that went into effect November 1, 2009 and December 1, 2009 for new and renewed homeowner insurance policies, respectively.

As of December 31, 2010, American Vehicle was outside NAIC's usual range for four of thirteen IRIS ratios. These exceptions related to two-years overall operating ratio, investment yield, gross change in policyholders' surplus and change in adjusted policyholders' surplus.

As of December 31, 2009, American Vehicle was outside NAIC's usual range for three of thirteen IRIS ratios. These ratios reflect the decline in premium volume and operating results. The third ratio related to lower than expected investment yields.



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There was no action taken by the Florida OIR in connection with the December 31, 2009 or 2010 IRIS ratio results. We do not currently believe that the Florida OIR will take any significant action with respect to Federated National regarding the 2011 IRIS ratios, although there can be no assurance that will be the case.

Insurance Holding Company Regulation

We, the parent company, are subject to laws governing insurance holding companies in Florida where Federated National is domiciled. These laws, among other things, (i) require us to file periodic information with the Florida OIR, including information concerning our capital structure, ownership, financial condition and general business operations, (ii) regulate certain transactions between us and our affiliates, including the amount of dividends and other distributions, the terms of surplus notes and amounts that our affiliates can charge the holding company for services such as management fees or commissions, (iii) restrict the ability of any one person to acquire certain levels of our voting securities without prior regulatory approval. Any purchaser of 5% or more of the outstanding shares of our Common Stock will be presumed to have acquired control of Federated National unless the Florida OIR, upon application, determines otherwise.

Underwriting and Marketing Restrictions

During the past several years, various regulatory and legislative bodies have adopted or proposed new laws or regulations to address the cyclical nature of the insurance industry, catastrophic events and insurance capacity and pricing. These regulations include (i) the creation of "market assistance plans" under which insurers are induced to provide certain coverages, (ii) restrictions on the ability of insurers to rescind or otherwise cancel certain policies in mid-term, (iii) advance notice requirements or limitations imposed for certain policy non-renewals and (iv) limitations upon or decreases in rates permitted to be charged.

Industry Ratings Services

Third-party rating agencies assess and rate the ability of insurers to pay their claims. These financial strength ratings are used by the insurance industry to assess the financial strength and quality of insurers. These ratings are based on criteria established by the rating agencies and reflect evaluations of each insurer's profitability, debt and cash levels, customer base, adequacy and soundness of reinsurance, quality and estimated market value of assets, adequacy of reserves and management. Ratings are based upon factors of concern to agents, reinsurers and policyholders and are not directed toward the protection of investors, such as purchasers of our common stock.

As of December 31, 2011, Federated National is rated by Demotech as "A" ("Exceptional"), which is the third of seven ratings, and defined as "Regardless of the severity of a general economic downturn or deterioration in the insurance cycle, insurers earning a Financial Stability Rating ("FSR") of "A" possess "Exceptional" financial stability related to maintaining surplus as regards to policyholders". Demotech's ratings are based upon factors of concern to agents, reinsurers and policyholders and are not primarily directed toward the protection of investors. Our Demotech rating could be jeopardized by factors including adverse development and various surplus related ratio exceptions. On March 16, 2012, Demotech reaffirmed Federated National's FSR of "A" ("Exceptional").

The withdrawal of our ratings could limit or prevent us from writing or renewing desirable insurance policies, from competing with insurers who have higher ratings, from obtaining adequate reinsurance, or from borrowing on a line of credit. The withdrawal of our ratings could have a material adverse effect on the Company's results of operations and financial position because the Company's insurance products might no longer be acceptable to the secondary marketplace and mortgage lenders. Furthermore, a withdrawal of our ratings could prevent independent agents from

selling and servicing our insurance products.

#### EMPLOYEES

As of December 31, 2011, we had 112 employees, including two executive officers. We are not a party to any collective bargaining agreement and we have not experienced work stoppages or strikes as a result of labor disputes. We consider relations with our employees to be satisfactory.

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ITEM 1A RISK FACTORS

We are subject to certain risks in our business operations which are described below. Careful consideration of these risks should be made before making an investment decision. The risks and uncertainties described below are not the only ones facing 21st Century. Additional risks and uncertainties not presently known or currently deemed immaterial may also impair our business operations.

Risks Related to Our Business

Our financial condition could be adversely affected by the occurrence of natural and man-made disasters.

We write insurance policies that cover homeowners', business owners and automobile owners for losses that result from, among other things, catastrophes and sinkholes. Catastrophic losses can be caused by hurricanes, tropical storms, tornadoes, wind, hail, fires, riots and explosions, and their incidence and severity are inherently unpredictable. The extent of losses from a catastrophe is a function of two factors: the total amount of the insurance company's exposure in the area affected by the event and the severity of the event. Our policyholders are currently concentrated in South and Central Florida, which is especially subject to adverse weather conditions such as hurricanes and tropical storms.

The occurrence of claims from catastrophic events could result in substantial volatility in our results of operations or financial condition for any fiscal quarter or year. Increases in the values and concentrations of insured property may also increase the severity of these occurrences in the future. Although we attempt to manage our exposure to such events through the use of underwriting controls and the purchase of third-party reinsurance, catastrophic events are inherently unpredictable and the actual nature of such events when they occur could be more frequent or severe than contemplated in our pricing and risk management expectations. As a result, the occurrence of one or more catastrophic events could have a material adverse effect on our results of operations or financial condition.

Although Florida has not experienced a hurricane during the last six hurricane seasons, some weather analysts believe that we have entered a period of greater hurricane activity. To address this risk, we are exploring alternatives to reduce our exposure to these types of storms. Although these measures may increase operating expenses, management believes that they will assist us in protecting long-term profitability, although there can be no assurances that will be the case.

We have exhausted the reinsurance coverage available for Hurricane Wilma and if any claims exceed this coverage amount, it could adversely impact our business, results of operations and/or financial condition.

As of December 31, 2011 the loss experience (both paid and not yet paid) in connection with Hurricane Wilma which occurred in October 2005 has exhausted the \$194.8 million reinsurance coverage available to us. Currently, we hold \$2.3 million in open reserves connected with Hurricane Wilma. We have realized \$1.5 million in excess of our reinsurance coverage for Hurricane Wilma as of December 31, 2011. If payments to settle the Hurricane Wilma claims exceed our open reserves it could have an adverse impact on our business, results of operations and financial condition.

Although we follow the industry practice of reinsuring a portion of our risks, our costs of obtaining reinsurance fluctuates and we may not be able to successfully alleviate risk through reinsurance arrangements.

We have a reinsurance structure that is a combination of private reinsurance and the FHCF. Our reinsurance structure is comprised of several reinsurance companies with varying levels of participation providing coverage for loss and LAE at pre-established minimum and maximum amounts. Losses incurred in connection with a catastrophic event below the minimum and above the maximum are the responsibility of Federated National.

The availability and costs associated with the acquisition of reinsurance will vary year to year. These fluctuations, which can be significant, are not subject to our control and may limit our ability to purchase adequate coverage. The recovery of increased reinsurance costs through rate action is not immediate and cannot be presumed, as it is subject to Florida OIR approval.

We face a risk of non-collectibility of reinsurance, which could materially and adversely affect our business, results of operations and/or financial condition.

As is common practice within the insurance industry, we transfer a portion of the risks insured under our policies to other companies through the purchase of reinsurance. This reinsurance is maintained to protect our insurance subsidiary against the severity of losses on individual claims, unusually serious occurrences in which a number of claims produce an aggregate extraordinary loss and catastrophic events. Although reinsurance does not discharge our insurance subsidiary from its primary obligation to pay for losses insured under the policies it issues, reinsurance does make the assuming reinsurer liable to the insurance subsidiary for the reinsured portion of the risk. A credit exposure exists with respect to ceded losses to the extent that any reinsurer is unable or unwilling to meet the obligations assumed under the reinsurance contracts. The collectibility of reinsurance is subject to the solvency of the reinsurers, interpretation of contract language and other factors. A reinsurer's insolvency or inability to make payments under the terms of a reinsurance contract could have a material adverse effect on our results of operations and financial condition.

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Our reinsurance structure has significant risks, including the fact that the FHCF may not be able to raise sufficient money to pay their claims or impair their ability to pay their claims in a timely manner. This could result in significant financial, legal and operational challenges to our company. Therefore, in the event of a catastrophic loss, we may become dependent upon the FHCF's ability to pay, which may, in turn, be dependent upon the FHCF's ability to issue bonds in amounts that would be required to meet its reinsurance obligations in the event of such a catastrophic loss.

Our January 2011 Consent Order with the Florida OIR limits our business in certain respects and may prevent us from growing our business.

In January 2011, we entered into a Consent Order with the Florida OIR in connection with our request for approval of the merger of Federated National into American Vehicle. See "Regulation – Consent Order". Among other things, the Consent Order requires us to reduce the concentration of our homeowners' policies in the Tri-County Area. This reduction in concentration could materially adversely affect us by limiting our ability to write policies in the most populous region of the State of Florida, which could materially adversely affect our results of operations if we are not able to replace those policies with policies elsewhere in Florida or the other states in which we do business.

If we are unable to continue our growth because our capital must be used to pay greater than anticipated claims, our financial results may suffer.

Our future growth will depend on our ability to expand the types of insurance products we offer and the geographic markets in which we do business, both balanced by the business risks we choose to assume and cede. We believe that our Company is sufficiently capitalized to operate our business as it now exists and as we currently plan to expand it. Our existing sources of funds include possible sales of our investment securities and our earnings from operations and investments. Unexpected catastrophic events in our market areas, such as the hurricanes experienced in Florida, have resulted and may result in greater claims losses than anticipated, which could require us to limit or halt our growth while we redeploy our capital to pay these unanticipated claims.

We may require additional capital in the future which may not be available or only available on unfavorable terms.

Our future capital requirements depend on many factors, including our ability to write new business successfully and to establish premium rates and reserves at levels sufficient to cover losses. Based on our current operating plan, we believe current capital, together with our anticipated retained earnings, will support our operations without the need to raise additional capital. To the extent that our capital may be insufficient to meet future operating requirements and/or cover losses, we may need to raise additional funds through financings or curtail our growth. Many factors will affect the amount and timing of our capital needs, including our growth and profitability, our claims experience, and the availability of reinsurance, as well as possible acquisition opportunities, market disruptions and other unforeseeable developments.

If we were required to raise additional capital, equity or debt financing may not be available at all or may be available only on terms that are not favorable to us. In the case of equity financings, dilution to our stockholders' ownership could result, and in any case such securities may have rights, preferences and privileges that are senior to those of existing shareholders. If we cannot obtain adequate capital on favorable terms or at all, our business, financial condition or results of operations could be materially adversely affected.

Our business is heavily regulated, and changes in regulation may reduce our profitability and limit our growth.

We are subject to extensive regulation in the states in which we conduct business. This regulation is generally designed to protect the interests of policyholders, as opposed to shareholders and other investors, and relates to authorization for lines of business, capital and surplus requirements, investment limitations, underwriting limitations, transactions with affiliates, dividend limitations, changes in control, premium rates and a variety of other financial and non-financial components of an insurance company's business. The NAIC and state insurance regulators are constantly reexamining existing laws and regulations, generally focusing on modifications to holding company regulations, interpretations of existing laws and the development of new laws.

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From time to time, some states in which we conduct business have considered or enacted laws that may alter or increase state authority to regulate insurance companies and insurance holding companies. In other situations, states in which we conduct business have considered or enacted laws that impact the competitive environment and marketplace for property and casualty insurance. In addition, in recent years the state insurance regulatory framework has come under increased federal scrutiny. Changes in federal legislation and administrative policies in several areas, including changes in the Gramm-Leach-Bliley Act, financial services regulation and federal taxation, can significantly impact the insurance industry and us.

We cannot predict with certainty the effect any enacted, proposed or future state or federal legislation or NAIC initiatives may have on the conduct of our business. Furthermore, there can be no assurance that the regulatory requirements applicable to our business will not become more stringent in the future or result in materially higher costs than current requirements. Changes in the regulation of our business may reduce our profitability, limit our growth or otherwise adversely affect our operations.

We may experience financial exposure from climate change.

Our financial exposure from climate change is most notably associated with losses in connection with the occurrence of hurricanes striking Florida. We mitigate the risk of financial exposure from climate change by restrictive underwriting criteria, sensitivity to geographic concentrations and reinsurance.

Restrictive underwriting criteria can include, but are not limited to, higher premiums and deductibles and more specifically excluded policy risks such as fences and screened-in enclosures. New technological advances in computer generated geographical mapping afford us an enhanced perspective as to geographic concentrations of policyholders and proximity to flood prone areas. Our amount of maximum reinsurance coverage is determined by subjecting our homeowner and mobile homeowner exposures to statistical forecasting models that are designed to quantify a catastrophic event in terms of the frequency of a storm occurring once in every “n” years. Our reinsurance coverage contemplated a catastrophic event occurring once every 100 years. Our amount of losses retained (our deductible) in connection with a catastrophic event is determined by market capacity, pricing conditions and surplus preservation.

Our loss reserves may be inadequate to cover our actual liability for losses, causing our results of operations to be adversely affected.

We maintain reserves to cover our estimated ultimate liabilities for loss and LAE. These reserves are estimates based on historical data and statistical projections of what we believe the settlement and administration of claims will cost based on facts and circumstances then known to us. Actual loss and LAE reserves, however, may vary significantly from our estimates.

Factors that affect unpaid losses and LAE include the estimates made on a claim-by-claim basis known as “case reserves” coupled with bulk estimates known as IBNR. Periodic estimates by management of the ultimate costs required to settle all claim files are based on our analysis of historical data and estimations of the impact of numerous factors such as (i) per claim information; (ii) company and industry historical loss experience; (iii) legislative enactments, judicial decisions, legal developments in the awarding of damages, and changes in political attitudes; 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 past 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.

Because of the uncertainties that surround estimated loss reserves, we cannot be certain that our reserves will be adequate to cover our actual losses. If our reserves for unpaid losses and LAE are less than actual losses and LAE, we will be required to increase our reserves with a corresponding reduction in our net income in the period in which the deficiency is identified. Future loss experience substantially in excess of our reserves for unpaid losses and LAE could substantially harm our results of operations and financial condition.

Our revenues and operating performance will fluctuate due to statutorily approved assessments that support property and casualty insurance pools and associations.

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 Joint Underwriters Association (“JUA”), FIGA, Citizens and the FHCF. The current assessments stem from the catastrophic effects to the property insurance industry in the state of Florida from the hurricanes that occurred during the fourteen months between August 2004 and October 2005.

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Several of the assessments resulted in a charge to current operations. The insurance companies currently pass the assessments on to insurance policies, in the form of a policy surcharge, and reflect the collection of these assessments as fully earned credits to operations in the period collected. The collection of these fees may adversely affect our overall marketing strategy due to the competitive landscape in Florida. Future assessments are likely, although the impact of these assessments on our balance sheet, results of operations or cash flow are undeterminable at this time.

Our investment portfolio may suffer reduced returns or losses, which would significantly reduce our earnings.

As do other insurance companies, we depend on income from our investment portfolio for a substantial portion of our earnings. During the time that normally elapses between the receipt of insurance premiums and any payment of insurance claims, we invest the funds received, together with our other available capital, primarily in debt securities and to a lesser extent in equity securities, in order to generate investment income.

Our investment portfolio contains interest rate sensitive instruments, such as bonds, which may be adversely affected by changes in interest rates. A significant increase in interest rates or decrease in credit worthiness could have a material adverse effect on our financial condition or results of operations. Generally, bond prices decrease as interest rates rise. Changes in interest rates could also have an adverse effect on our investment income and results of operations. For example, if interest rates decline, investment of new premiums received and funds reinvested will earn less than expected.

We may experience a loss due to the concentration of credit risk.

Financial instruments that potentially subject the Company to significant concentration of credit risk consist of cash and cash equivalents held in a mutual fund money market account. The Company had approximately \$6.8 million and \$14.2 million invested in the MTB Prime Money Market-Inst Fund Number 142, for which the NAIC classification is Class 1, as of December 31, 2011 and 2010, respectively. A money market fund is eligible for listing on the Class 1 list if the fund meets certain characteristics relating to the credit rating, net asset value and other criteria demonstrating the financial condition of the fund.

We face risks in connection with potential material weakness resulting from our Sarbanes-Oxley Section 404 management report and any related remedial measures that we undertake.

In conjunction with our ongoing reporting obligations as a public company and the requirements of Section 404 of the Sarbanes-Oxley Act, management reported on the effectiveness of our internal control over financial reporting as of December 31, 2011. In order to identify any material weaknesses in our internal control over financial reporting, we engaged in a process to document, evaluate and test our internal controls and procedures, including corrections to existing controls and implement additional controls and procedures that we may deem necessary. As a result of this evaluation and testing process, no material financial reporting deficiencies were noted.

Although we did not have any material weaknesses in our internal controls for our fiscal year ended December 31, 2011, we cannot be certain that there will be none in the future. In future periods, if the process required by Section 404 of the Sarbanes-Oxley Act reveals significant deficiencies or material weaknesses, the correction of any such significant deficiencies or material weaknesses could require additional remedial measures that could be costly and time-consuming. In addition, the discovery of material weaknesses could also require the restatement of prior period operating results. If a material weakness exists as of a future period year-end (including a material weakness identified prior to year-end for which there is an insufficient period of time to evaluate and confirm the effectiveness of the corrections or related new procedures), our management will be unable to report favorably as of such future period

year-end as to the effectiveness of our control over financial reporting and we could lose investor confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on our stock price and potentially subject us to litigation.

The failure of any of the loss limitation methods we employ could have a material adverse effect on our financial condition or our results of operations.

Various provisions of our policies, such as limitations or exclusions from coverage which have been negotiated to limit our risks, may not be enforceable in the manner we intend. At the present time we employ a variety of exclusions to our policies that limit exposure to known risks, including, but not limited to, exclusions relating to certain named liabilities, types of vehicles and specific artisan activities.

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In addition, the policies we issue contain conditions requiring the prompt reporting of claims to us and our right to decline coverage in the event of a violation of that condition. While our insurance product exclusions and limitations reduce the loss exposure to us and help eliminate known exposures to certain risks, it is possible that a court or regulatory authority could nullify or void an exclusion or legislation could be enacted modifying or barring the use of such endorsements and limitations in a way that would adversely affect our loss experience, which could have a material adverse effect on our financial condition or results of operations.

The effects of emerging claim and coverage issues on our business are uncertain.

As industry practices and legal, judicial, social and other conditions change, unexpected and unintended issues related to claims and coverage may emerge. These issues may adversely affect our business by either extending coverage beyond our underwriting intent or by increasing the number or size of claims. In some instances, these changes may not become apparent until sometime after we have issued insurance contracts that are affected by the changes. As a result, the full extent of liability under our insurance contracts may not be known for many years after a contract is issued.

An example of such emerging change is the influence public adjusters have had on property claim patterns. Public adjusters represented the vast majority of new and reopened claims filed during 2011, 2010 and 2009 where the cause of loss was asserted as hurricane related. Although the legitimacy of the claim may not prevail we are still required to research, review and sometimes mediate these claims. Several legislative actions in the state of Florida, such as limiting the time a claim can be filed subsequent to the cause of loss, have either passed or remain in legislative sub-committees. Each of these actions is designed to enhance the legitimacy of the public adjusters' influence on the claim process.

The Company's operating results in 2011, 2010 and 2009 were also influenced by legislative enactments relating to claims payments. Following the 2004 and 2005 hurricane seasons, the Florida legislature required all insurers issuing replacement cost policies to pay the full replacement cost of damaged properties without deducting depreciation whether or not the insureds repaired or replaced the damaged property. Under prior law, insurers would pay the depreciated amount of the property until insureds commenced repairs or replacement. The new law has led to an increase in disagreements regarding the scope of damage and has resulted in insureds' not repairing damage. Despite our efforts to adjust claims and promptly pay meritorious amounts, our operating results have been affected by a claims environment in Florida that produces opportunities for fraudulent or overstated claims.

Our failure to pay claims accurately could adversely affect our business, financial results and capital requirements.

We must accurately evaluate and pay claims that are made under our policies. Many factors affect our ability to pay claims accurately, including the training and experience of our claims representatives, the culture of our claims organization and the effectiveness of our management, our ability to develop or select and implement appropriate procedures and systems to support our claims functions and other factors. Our failure to pay claims accurately could lead to material litigation, undermine our reputation in the marketplace, impair our image and negatively affect our financial results.

In addition, if we do not train new claims adjusting employees effectively or if we lose a significant number of experienced claims adjusting employees, our claims department's ability to handle an increasing workload as we grow could be adversely affected. In addition to potentially requiring that growth be slowed in the affected markets, we could suffer decreased quality of claims work, which in turn could lower our operating margins.

Our insurance company is subject to minimum capital and surplus requirements, and our failure to meet these requirements could subject us to regulatory action.

Our insurance company is subject to risk-based capital standards and other minimum capital and surplus requirements imposed under applicable state laws, including the laws of their state of domicile, Florida. The risk-based capital standards, based upon the Risk Based Capital Model Act adopted by the NAIC require our insurance company to report their results of risk-based capital calculations to state departments of insurance and the NAIC. These risk-based capital standards provide for different levels of regulatory attention depending upon the ratio of an insurance company's total adjusted capital, as calculated in accordance with NAIC guidelines, to its authorized control level risk-based capital. Authorized control level risk-based capital is the number determined by applying the NAIC's risk-based capital formula, which measures the minimum amount of capital that an insurance company needs to support its overall business operations.

Any failure by our insurance company to meet the applicable risk-based capital or minimum statutory capital requirements imposed by the laws of Florida or other states where we do business could subject it to further examination or corrective action imposed by state regulators, including limitations on our writing of additional business, state supervision or liquidation. As of December 31, 2011, Federated National was in compliance with the NAIC risk-based capital requirements (see "Business-Regulation" for further discussion).

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Any changes in existing risk-based capital requirements or minimum statutory capital requirements may require us to increase our statutory capital levels, which we may be unable to do.

Our revenues and operating performance may fluctuate with business cycles in the property and casualty insurance industry.

Historically, the financial performance of the property and casualty insurance industry has tended to fluctuate in cyclical patterns characterized by periods of significant competition in pricing and underwriting terms and conditions, which is known as a "soft" insurance market, followed by periods of lessened competition and increasing premium rates, which is known as a "hard" insurance market. Although an individual insurance company's financial performance is dependent on its own specific business characteristics, the profitability of most property and casualty insurance companies tends to follow this cyclical market pattern, with profitability generally increasing in hard markets and decreasing in soft markets. At present, we are experiencing a hardening market in the property and casualty market in Florida because of regulatory changes. We cannot predict, however, how long these market conditions will persist. We do not compete entirely on price or targeted market share. Our ability to compete is governed by our ability to assess and price an insurance product with an acceptable risk for obtaining profit.

We may not obtain the necessary regulatory approvals to expand the types of insurance products we offer or the states in which we operate.

The insurance industry is highly regulated. Prior to selling a new insurance product in a state, we must obtain approval from the applicable state insurance regulators. The insurance regulators in states to which we might apply may request additional information, add conditions to the license that we find unacceptable, or deny our application. This would delay or prevent us from operating in that state. If we want to operate in any additional states, we must file similar applications for licenses, which we may not be successful in obtaining.

Adverse ratings by insurance rating agencies may adversely impact our ability to write new policies, renew desirable policies or obtain adequate insurance, which could limit or halt our growth and harm our business.

Third-party rating agencies assess and rate the ability of insurers to pay their claims. These financial strength ratings are used by the insurance industry to assess the financial strength and quality of insurers. These ratings are based on criteria established by the rating agencies and reflect evaluations of each insurer's profitability, debt and cash levels, customer base, adequacy and soundness of reinsurance, quality and estimated market value of assets, adequacy of reserves, and management. Ratings are based upon factors of concern to agents, reinsurers and policyholders and are not directed toward the protection of investors, such as purchasers of our common stock.

The withdrawal of our ratings could limit or prevent us from writing or renewing desirable insurance policies, from competing with insurers who have higher ratings, from obtaining adequate reinsurance, or from borrowing on a line of credit. The withdrawal of our ratings could have a material adverse effect on the Company's results of operations and financial position because the Company's insurance products might no longer be acceptable to the secondary marketplace and mortgage lenders. Furthermore, a withdrawal of our ratings could prevent independent agents from selling and servicing our insurance products.

We rely on independent and general agents to write our insurance policies, and if we are not able to attract and retain independent and general agents, our revenues would be negatively affected.

We currently market and distribute Federated National's products and services through contractual relationships with a network of approximately 3,000 independent agents, of which approximately 600 actively sell and service our products, and a selected number of general agents. Our independent agents are our primary source for our automobile and property insurance policies. Many of our competitors also rely on independent agents. As a result, we must compete with other insurers for independent agents' business. Our competitors may offer a greater variety of insurance products, lower premiums for insurance coverage, or higher commissions to their agents. If our products, pricing and commissions do not remain competitive, we may find it more difficult to attract business from independent agents to sell our products. A material reduction in the amount of our products that independent agents sell could negatively affect our revenues.

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We rely on our information technology and telecommunications systems, and the failure of these systems could disrupt our operations.

Our business is highly dependent upon the successful and uninterrupted functioning of our current information technology and telecommunications systems. We rely on these systems to process new and renewal business, provide customer service, make claims payments and facilitate collections and cancellations, as well as to perform actuarial and other analytical functions necessary for pricing and product development. As a result, the failure of these systems could interrupt our operations and adversely affect our financial results. We utilize a third-party to provide certain information security related services designed to prevent an information security event or detect one timely. In addition, although we have implemented security measures to protect our systems from computer viruses and intrusions by third parties, there can be no assurances that these measures will be effective.

Nonstandard automobile insurance historically has a higher frequency of claims than standard automobile insurance, thereby increasing our potential for loss exposure beyond what we would be likely to experience if we offered only standard automobile insurance.

Nonstandard automobile insurance is provided to insureds that are unable to obtain preferred or standard insurance coverage because of their payment histories, driving records, age, vehicle types, or prior claims histories. This type of automobile insurance historically has a higher frequency of claims than does preferred or standard automobile insurance policies, although the average dollar amount of the claims is usually smaller under nonstandard insurance policies. As a result, we are exposed to the possibility of increased loss exposure and higher claims experience than would be the case if we offered only standard automobile insurance.

Florida's personal injury protection insurance statute contains provisions that favor claimants, causing us to experience a higher frequency of claims than might otherwise be the case if we operated only outside of Florida.

Florida's personal injury protection insurance statute limits an insurer's ability to deny benefits for medical treatment that is unrelated to the accident, that is unnecessary, or that is fraudulent. In addition, the statute allows claimants to obtain awards for attorney's fees. Although this statute has been amended several times in recent years, primarily to address concerns over fraud, the Florida legislature has been only marginally successful in implementing effective mechanisms that allow insurers to combat fraud and other abuses. We believe that this statute contributes to a higher frequency of claims under nonstandard automobile insurance policies in Florida, as compared with claims under standard automobile insurance policies in Florida and nonstandard and standard automobile insurance policies in other states. Although we believe that we have successfully offset these higher costs with premium increases, because of competition, we may not be able to do so with as much success in the future.

Our success depends on our ability to accurately price the risks we underwrite.

The results of our operations and the financial condition of our insurance company depends on our ability to underwrite and set premium rates accurately for a wide variety of risks. Rate adequacy is necessary to generate sufficient premiums to pay losses, LAE and underwriting expenses and to earn a profit. In order to price our products accurately, we must collect and properly analyze a substantial amount of data; develop, test and apply appropriate rating formulas; closely monitor and timely recognize changes in trends; and project both severity and frequency of losses with reasonable accuracy. Our ability to undertake these efforts successfully, and as a result price our products accurately, is subject to a number of risks and uncertainties, some of which are outside our control, including:

- the availability of sufficient reliable data and our ability to properly analyze available data;

- the uncertainties that inherently characterize estimates and assumptions;
- our selection and application of appropriate rating and pricing techniques;
- changes in legal standards, claim settlement practices, medical care expenses and restoration costs; and
  - legislatively imposed consumer initiatives.

Consequently, we could under-price risks, which would negatively affect our profit margins, or we could overprice risks, which could reduce our sales volume and competitiveness. In either event, the profitability of our insurance company could be materially and adversely affected.

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Current operating resources are necessary to develop future new insurance products.

We currently intend to expand our product offerings by underwriting additional insurance products and programs, and marketing them through our distribution network. Expansion of our product offerings will result in increases in expenses due to additional costs incurred in actuarial rate justifications, software and personnel. Offering additional insurance products may also require regulatory approval, further increasing our costs. There can be no assurance that we will be successful bringing new insurance products to our marketplace.

Increased competition, competitive pressures, industry developments and market conditions could affect the growth of our business and adversely impact our financial results.

We operate in highly competitive markets and face competition from national, regional and residual market insurance companies in the homeowners', commercial residential property, commercial general liability, and automobile markets, many of whom are larger, have greater financial and other resources, and offer more diversified insurance coverage. Our competitors include companies that market their products through agents, as well as companies that sell insurance directly to their customers. Large national writers may have certain competitive advantages over agency writers, including increased name recognition, increased loyalty of their customer base and reduced policy acquisition costs. Competition could have a material adverse effect on our business, results of operations and financial condition. If we do not meet the prices offered by our competitors, we may lose business in the short term, which could also result in reduced revenues.

Our senior management team is critical to the strategic direction of our company. If there were an unplanned loss of service by any of our officers our business could be harmed.

We depend, and will continue to depend, on the services of our executive management team which includes Michael Braun, our Chief Executive Officer and President of 21st Century Holding Company and Federated National, and Peter Prygelski, our Chief Financial Officer. Our success also will depend in part upon our ability to attract and retain qualified executive officers, experienced underwriting talent and other skilled employees who are knowledgeable about our business. If we were to lose the services of members of our executive management team, our business could be adversely affected. Although we have employment agreements with our executive officers, any unplanned loss of service could substantially harm our business.

Risks Related to an Investment in Our Shares

We have authorized but unissued preferred stock, which could affect rights of holders of common stock.

Our articles of incorporation authorize the issuance of preferred stock with designations, rights and preferences determined from time to time by our board of directors. Accordingly, our board of directors is empowered, without shareholder approval, to issue preferred stock with dividends, liquidation, conversion, voting or other rights that could adversely affect the voting power or other rights of the holders of common stock. In addition, the preferred stock could be issued as a method of discouraging a takeover attempt. Although we do not intend to issue any preferred stock at this time, we may do so in the future.

Our articles of incorporation, bylaws and Florida law may discourage takeover attempts and may result in entrenchment of management.

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Our articles of incorporation and bylaws contain provisions that may discourage takeover attempts and may result in entrenchment of management.

- Our board of directors is elected in classes, with only two or three of the directors elected each year. As a result, shareholders would not be able to change the membership of the board in its entirety in any one year. Shareholders would also be unable to bring about, through the election of a new board of directors, changes in our officers.
- Our articles of incorporation prohibit shareholders from acting by written consent, meaning that shareholders will be required to conduct a meeting in order to vote on any proposals or take any action.
- Our bylaws require at least 60 days' notice if a shareholder desires to submit a proposal for a shareholder vote or to nominate a person for election to our board of directors.

In addition, Florida has enacted legislation that may deter or frustrate takeovers of Florida corporations, such as our Company.

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- The Florida Control Share Act provides that shares acquired in a "control share acquisition" will not have voting rights unless the voting rights are approved by a majority of the corporation's disinterested shareholders. A "control share acquisition" is an acquisition, in whatever form, of voting power in any of the following ranges: (a) at least 20% but less than 33-1/3% of all voting power, (b) at least 33-1/3% but less than a majority of all voting power; or (c) a majority or more of all voting power.
- The Florida Affiliated Transactions Act requires supermajority approval by disinterested shareholders of certain specified transactions between a public company and holders of more than 10% of the outstanding voting shares of the corporation (or their affiliates).

As a holding company, we depend on the earnings of our subsidiaries and their ability to pay management fees and dividends to the holding company as the primary source of our income.

We are an insurance holding company whose primary assets are the stock of our subsidiaries. Our operations, and our ability to service future potential debt, are limited by the earnings of our subsidiaries and their payment of their earnings to us in the form of management fees, commissions, dividends, loans, advances or the reimbursement of expenses. These payments can be made only when our subsidiaries have adequate earnings. In addition, dividend payments made to us by our insurance subsidiary is restricted by Florida law governing the insurance industry. Generally, Florida law limits the dividends payable by insurance companies under complicated formulas based on the subsidiary's available capital and earnings.

In the first quarter of 2010 we paid quarterly dividends of \$0.06 per share. In response to the capital infusion from American Vehicle during March 2010, the Florida OIR has required that the Company not expend capital on the payment of dividends or the buyback of the Company's common stock until Federated National experiences two consecutive quarters with an underwriting profit; hence no additional dividends were paid during 2011 or 2010. Additionally, the January 2011 consent order prohibits the Company from paying dividends. Payment of dividends in the future will depend on OIR approval, our earnings and financial position and such other factors, as our Board of Directors deems relevant. Moreover, our ability to continue to pay dividends may be restricted by regulatory limits on the amount of dividends that Federated National is permitted to pay to the parent company.

ITEM 1B UNRESOLVED STAFF COMMENTS

None

ITEM 2 PROPERTIES

Relative to the Company's commitments stemming from operational matters, on or about March 1, 2006 we sold our interest in the building which housed our operations in Lauderdale Lakes through December 16, 2011, to an unrelated party. As part of this transaction, we agreed to lease the same facilities for a five-year term. We amended the lease agreement and the note receivable on September 1, 2010. As part of the amendment, we discounted the note receivable and have discontinued the interest on the note. In consideration, we paid a reduced lease payment for the remainder of the lease. Our lease for this office space expired in December 2011.

Our executive offices are now located at 14050 N.W. 14th Street, Suite 180, Sunrise, Florida 33323 in an 18,500 square feet office facility. All of our operations are consolidated within this facility. We believe that the facilities are well maintained, in substantial compliance with environmental laws and regulations, and adequately covered by insurance. We also believe that these leased facilities are not unique and could be replaced, if necessary, at the end of

the lease term. Our lease for this office space will expire in May 2017.

ITEM 3 LEGAL PROCEEDINGS

See Item 8 of Part II, “Financial Statements and Supplementary Data – Footnote 9 – Commitments and Contingencies”.

ITEM 4 MINE SAFETY DISCLOSURES

Not applicable.

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## 21st Century Holding Company

## PART II

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

Our common stock is listed for trading on The NASDAQ Global Market under the symbol "TCHC". The following table sets out the high and low closing sale prices as reported on The NASDAQ Global Market. These reported prices reflect inter-dealer prices without adjustments for retail markups, markdowns or commissions.

Quarter Ended	High	Low
March 31, 2011	\$ 3.46	\$ 3.07
June 30, 2011	\$ 3.05	\$ 2.58
September 30, 2011	\$ 2.80	\$ 2.30
December 31, 2011	\$ 2.96	\$ 2.32
March 31, 2010	\$ 4.60	\$ 3.96
June 30, 2010	\$ 4.10	\$ 3.55
September 30, 2010	\$ 3.95	\$ 3.26
December 31, 2010	\$ 3.74	\$ 3.14

As of March 5, 2012, there were 26 holders of record of our common stock. We believe that the number of beneficial owners of our common stock is in excess of 3,200.

## DIVIDENDS

In the first quarter of 2010 we paid quarterly dividends of \$0.06 per share. No further dividends were paid in 2010 or 2011, pursuant to applicable regulatory requirements and our Consent Order with the Florida OIR (see "Regulation – Consent Order").

Payment of dividends in the future will depend on approval of the Florida OIR and our earnings and financial position and such other factors, as our Board of Directors deems relevant. Moreover, our ability to pay dividends may be restricted by regulatory limits on the amount of dividends that Federated National is permitted to pay to the parent company.

## SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table summarizes our equity compensation plans as of December 31, 2011. All equity compensation plans were approved by our shareholders. We have not granted any options, warrants or rights to our shareholders outside of these equity compensation plans.

Plan category	Equity Compensation Plan Information		
	Number of securities to be issued upon exercise of outstanding	Weighted-average exercise price of outstanding options, warrants and	Number of securities remaining available for future issuance

	options, warrants and rights (a)	rights (b)	under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by stock holders*	714,450	\$ 6.98	180,448

\* Includes options from the 1998 Stock Option Plan and the 2002 Stock Option Plan.

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## 21st Century Holding Company

For additional information concerning our capitalization please see Footnote 14 to our Consolidated Financial Statements included under Item 8 of this Annual Report on Form 10-K.

## ISSUER REPURCHASES

During 2011 and 2010, the Company did not repurchase any common stock under previously announced stock repurchase plans.

## SALES OF UNREGISTERED SECURITIES

None.

## ITEM 6 SELECTED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with the consolidated financial statements and notes thereto and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” appearing elsewhere in this Annual Report on Form 10-K.

As of the years ended December 31,  
(Amounts in Thousands except Book Value Per Share)

	2011	2010	2009	2008	2007
Balance Sheet Data					
Total assets	\$ 179,980	\$ 184,049	\$ 202,889	\$ 197,102	\$ 219,361
Investments	129,467	122,485	114,219	26,065	136,224
Cash and short term investments	15,205	16,206	28,197	124,577	22,524
Finance contracts, consumer loans and pay advances receivable, net	-	-	-	-	420
Total liabilities	121,836	126,118	135,447	120,871	138,104
Unpaid losses and LAE	59,983	66,529	70,611	64,775	59,685
Unearned premiums	47,933	47,136	50,857	40,508	56,394
Total shareholders' equity	58,144	57,931	67,442	76,231	81,257
Book value per share	\$7.32	\$7.29	\$8.48	\$9.51	\$10.32

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## 21st Century Holding Company

Years Ended December 31,  
(Amounts in Thousands except EPS and Dividends)

	2011	2010	2009	2008	2007
Operations Data:					
Revenue:					
Gross premiums written	\$98,269	\$96,410	\$104,379	\$88,248	\$133,591
Gross premiums ceded	(46,293 )	(52,963 )	(56,217 )	(34,553 )	(44,550 )
Net premiums written	51,976	43,447	48,162	53,695	89,041
(Decrease) Increase in prepaid reinsurance premiums	(2,656 )	(2,108 )	10,163	(4,451 )	(11,251 )
(Increase) Decrease in unearned premiums	(797 )	3,721	(10,349 )	15,886	21,435
Net change in prepaid reinsurance premiums and unearned premiums	(3,453 )	1,613	(186 )	11,435	10,184
Net premiums earned	48,523	45,060	47,976	65,130	99,224
Commission income	994	1,388	1,362	1,612	7,214
Finance revenue	518	395	294	350	545
Managing general agent fees	1,583	1,609	1,620	1,745	2,035
Net investment income	4,079	3,726	3,397	6,461	8,038
Net realized investment gains (losses)	2,725	6,777	1,117	(10,593 )	(145 )
Regulatory assessments recovered	109	857	2,333	2,104	1,655
Other income	1,632	792	755	655	642
Total revenue	60,163	60,604	58,854		