21ST CENTURY HOLDING CO
Form 10-K
March 31, 2011

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

T Annual Report under Section 13 or 15(d) of the Securities Act of 1934
For the fiscal year ended December 31, 2010

or

£ 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	65-0248866
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No)

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

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

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 £ No T

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 £ No T

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. YesT No £

Indicate by check mark whether the registrant has electronically submitted and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required

to submit and post such files). Yes £ No £

Indicate by check mark 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 T

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes£ No T

The aggregate market value of the Registrant's common stock held by non-affiliates was $27,558,314 on June 30, 2010, computed on the basis of the closing sale price of the Registrant's common stock on that date.

As of March 31, 2011, 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 resu 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, which, through our subsidiaries and our contractual relationships with our independent agents and general agents, controls substantially all aspects of the insurance underwriting, distribution and claims processes. We are authorized to underwrite homeowners' multi-peril ("homeowners"), personal umbrella, commercial general liability, following form commercial excess liability, personal and commercial automobile, fire, allied lines, workers' compensation, business personal property and commercial inland marine insurance. We are authorized to underwrite in various states on behalf of our wholly owned subsidiary, Federated National Insurance Company ("Federated National") and other insurance carriers. Federated National is the resulting entity following the merger of Federated National into our other wholly owned subsidiary, American Vehicle Insurance Company ("American Vehicle"), in January 2011. In connection with this merger, the Company, Federated National and American Vehicle entered into the Consent Order with the Florida Office of Insurance Regulation ("Florida OIR"). See "Recent Developments – Consent Order". 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.

The insurable events during 2010, 2009 and 2008 did not include any weather related catastrophic events such as the well publicized series of hurricanes that occurred in Florida during 2005 and 2004. During 2010, 2009 and 2008 we processed property and liability claims stemming from our homeowners', commercial general liability and private passenger automobile lines of business. Our reinsurance strategy serves to smooth the liquidity requirements imposed by most severe insurable events and for all other insurable events we manage, at a micro and macro perspective, in the normal course of business.

We are not certain how hurricanes and 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 including the following.

- the quality of the insurable risks underwritten;
- 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.

We continue to manage the foregoing to the extent within our control. Many of the foregoing are partially, or entirely, outside our control.

Federated National is licensed as an admitted carrier in Florida. Through contractual relationships with a network of approximately 4,200 independent agents, of which approximately 400 actively sell and service our products, Federated National is authorized to underwrite homeowners', fire, allied lines and personal automobile insurance in Florida. Effective January 26, 2011, Federated National merged into American Vehicle.

American Vehicle is licensed as an admitted carrier in Florida, and underwrites commercial general liability, and personal and commercial automobile insurance. American Vehicle is also licensed as an admitted carrier in Alabama, Louisiana, Georgia and Texas, and underwrites commercial general liability insurance in those states. American Vehicle operates as a non-admitted carrier in Arkansas, California, Kentucky, Maryland, Missouri, Nevada, Oklahoma, South Carolina, Tennessee and Virginia, and can underwrite commercial general liability insurance in all of these states.

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

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

During 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 2009, 81.2%, 14.6%, 3.4% and 0.8% of the premiums we underwrote were for homeowners’, commercial general liability, federal flood, and personal automobile insurance, respectively.

The Company’s sale of homeowners’ policies decreased $7.9 million, or 9.3%, to $76.8 million in 2010, compared with $84.7 million in 2009, primarily due to the effects of Florida’s mandated homeowners’ wind mitigation discounts and the 2009 inclusion of $17.9 million from policies we assumed from Citizens Property Insurance Corporation (“Citizens”). The primary factor for the decrease in commercial general liability production is a slowdown in the economy, which had a dramatic impact on the artisan contractor portfolio written by American Vehicle.

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

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

Our executive offices are located at 3661 West Oakland Park Boulevard, Suite 300, Lauderdale Lakes, Florida and our telephone number is (954) 581-9993.

Our internet web site is www.21stcenturyholding.com. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 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.

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RECENT DEVELOPMENTS

Consent Order

As part of its approval of the 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") have agreed to the following:

- The Merged Company shall retain 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 shall not write commercial multi peril policy premium without prior approval from the Florida OIR. The Merged Company currently has no commercial multi peril policy premium in force.

- The Merged Company shall surrender its surety license. The Merged Company currently has no Surety policy premium in force.

- The Merged Company shall not write new commercial habitation condominium associations without prior approval from the Florida OIR. The current commercial habitation book of business is approximately $2.6 million of policy premium, which will be renewed pursuant to normal underwriting guidelines.

- The Merged Company has 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% will be 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, 2010, the Company had approximately 46.5% of its homeowners' policies located within Tri-County Area.

- The managing general agency fees payable by the Merged Company to Assurance Managing General Agents, Inc. ("Assurance MGA"), the Company's wholly owned subsidiary, which are currently 6% of gross written premium, will be 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 premium for the first quarter of 2011, 3% of gross written premium for the second quarter of 2011, and 4% of gross written premium thereafter. This will have no impact on the Company's consolidated financial results.

- The claims service fees payable by the Merged Company to Superior will be reduced from 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 Consent Order continues the prohibition on the Company from the payment of dividends until the Merged Company reports two consecutive quarters of net underwriting income.

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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.

BUSINESS STRATEGY

We expect that in 2011 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;

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- 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.

Additionally, State of Florida legislative initiatives, increased competition, softening general market conditions and additional loss development from catastrophic events over three years old suggest that continued financial challenges exist in 2011.

The Company expects the recently approved additional rate increase for our voluntary property book of homeowners' business, averaging 20.2% statewide, to gain momentum and accrete throughout 2011. Furthermore, the Company anticipates favorable pricing terms on our upcoming reinsurance contracts because early indicators show that there is ample capital availability in the private reinsurance markets. Additionally, we will continue to seek improvements in our marketing strategies intended to attract profitable distribution channels while maintaining compliance with our underwriting guidelines.

INSURANCE OPERATIONS AND RELATED SERVICES

General

We are authorized to underwrite homeowners', personal umbrella, commercial general liability, following form commercial excess liability, personal and commercial automobile, fire, allied lines, workers' compensation, business personal property and commercial inland marine insurance in various states on behalf of our wholly owned subsidiary, Federated National.

Effective January 26, 2011, Federated National merged with and into American Vehicle, and the resulting entity changed its name to "Federated National Insurance Company". In connection with this merger, the Company, Federated National and American Vehicle entered into the Consent Order with the Florida OIR. See "Recent Developments – Consent Order".

Federated National is licensed as an admitted carrier in Florida. Through contractual relationships with a network of approximately 4,200 independent agents, of which approximately 400 actively sell and service our products, Federated National is authorized to underwrite homeowners', fire, allied lines and personal automobile insurance in

Florida.

American Vehicle is licensed as an admitted carrier in Florida, and underwrites commercial general liability, and personal and commercial automobile insurance. American Vehicle is also licensed as an admitted carrier in Alabama, Louisiana, Georgia and Texas, and underwrites commercial general liability insurance in those states. American Vehicle operates as a non-admitted carrier in Arkansas, California, Kentucky, Maryland, Missouri, Nevada, Oklahoma, South Carolina, Tennessee and Virginia, and can underwrite commercial general liability insurance in all of these states.

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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.

	Years Ended December 31,					
	2010		2009		2008	
	Premium	Percent	Premium	Percent	Premium	Percent
			(Dollars in Thousands)			
Gross written premiums:						
Automobile	$3,721	3.9 %	$836	0.8 %	$487	0.6 %
Federal Flood	3,951	4.1 %	3,559	3.4 %	3,263	3.7 %
Homeowners'	76,845	79.7 %	84,705	81.2 %	60,708	68.7 %
Commercial General Liability	11,894	12.3 %	15,279	14.6 %	23,790	27.0 %
Total gross written premiums	$96,411	100.0 %	$104,379	100.0 %	$88,248	100.0 %
Ceded premiums:						
Automobile	$1,882	3.6 %	$14	0.0 %	$-	0.0 %
Federal Flood	3,951	7.5 %	3,559	6.3 %	3,263	9.4 %
Homeowners'	46,893	88.5 %	52,518	93.5 %	31,290	90.6 %
Commercial General Liability	238	0.4 %	126	0.2 %	-	0.0 %
Total ceded premiums	$52,964	100.0 %	$56,217	100.0 %	$34,553	100.0 %
Net written premiums						
Automobile	$1,839	4.3 %	$822	1.7 %	$487	0.9 %
Federal Flood	-	0.0 %	-	0.0 %	-	0.0 %
Homeowners'	29,952	68.9 %	32,187	66.8 %	29,418	54.8 %
Commercial General Liability	11,656	26.8 %	15,153	31.5 %	23,790	44.3 %
Total net written premiums	$43,447	100.0 %	$48,162	100.0 %	$53,695	100.0 %

We marketed our insurance products through our network of approximately 4,200 independent agents, of which approximately 400 actively sell and service our products, and general agents during fiscal years 2010, 2009 and 2008.

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.

	In-Force Policy Count					
	Years Ended December 31,					
	2010		2009		2008	
County	Amount	Percentage	Amount	Percentage	Amount	Percentage
Dade	2,835	6.6 %	3,544	6.7 %	2,981	9.7 %
Broward	5,008	11.6 %	4,139	7.9 %	3,629	11.8 %
Pinellas	3,437	8.0 %	5,147	9.8 %	(a)	0.0 %
Hillsborough	3,265	7.6 %	4,505	8.6 %	(a)	0.0 %

West Palm Beach	12,221	28.3	%	14,543	27.6	%	14,152	45.7	%
All others	16,366	37.9	%	20,728	39.4	%	10,122	32.8	%
Total	43,132	100.0	%	52,606	100.0	%	30,884	100.0	%

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

Our homeowner insurance products typically provide maximum dwelling coverage in the amount of approximately $0.8 million, with the aggregate maximum policy limit being approximately $1.5 million. We continually subject these limits to review; though there were no material changes during 2010. The approximate average premium on the policies currently in-force is $1,803, as compared with $1,696 for 2009. 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.

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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 assumptions was approved during 2010 by the Florida OIR.

The Company expects the recently approved additional rate increase for our voluntary property book of homeowners' business, averaging 20.2% statewide, to improve our total revenues throughout 2011. During 2009, the Florida OIR granted Federated National an average statewide increase of 19.0% for new and renewal policies which were not part of the Citizens assumptions, effective November 1, 2009 and December 1, 2009, respectively. Previous to this filing was our May 2008 "file and use" rate filing that reflected an average rate decrease of 11.3%.

Commercial Residential Property Insurance

During 2009 the Florida OIR granted Federated National the authority to write commercial residential property insurance under the fire line of business. This class of business affords property coverage primarily to associations with property commonly owned by the tenants of the association. Aggregate policy limits ranged between $1.0 million and $20.0 million. Additionally, the Company has secured automatic facultative reinsurance for insured values up to $10.0 million with permission to individually submit attractive risks greater than $10 million to our reinsurers for quote and binding authority. Typically, Federated National retains the first $1.0 million of loss and cedes the remaining balance via our facultative treaty.

These risks are significantly different from the homeowner risks discussed previously in terms of insured value, frequency of covered loss and marketing techniques. We market this program directly to a select number of reputable agencies throughout the state of Florida.

Commercial General Liability and Inland Marine

We underwrite commercial general liability insurance for approximately 350 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 2010. 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 2010 is approximately $838, as compared with $854 in 2009.

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

	Years Ended December 31,					
	2010		2009		2008	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
	(Dollars in Thousands)					
State						
Alabama	$46	0.39 %	$76	0.50 %	$117	0.49 %
Arkansas	1	0.01 %	4	0.03 %	12	0.05 %
California	34	0.29 %	49	0.32 %	269	1.13 %
Florida	9,972	83.85 %	12,341	80.77 %	16,011	67.30 %

Georgia	68	0.57	%	291	1.91	%	568	2.39	%
Kentucky	-	0.00	%	1	0.00	%	1	0.00	%
Louisiana	1,094	9.19	%	1,736	11.36	%	4,481	18.84	%
Maryland	9	0.07	%	-	0.00	%	2	0.01	%
South Carolina	1	0.01	%	2	0.01	%	70	0.29	%
Texas	665	5.59	%	778	5.09	%	2,252	9.47	%
Virginia	4	0.03	%	1	0.01	%	7	0.03	%
Total	$11,894	100.00	%	$15,279	100.00	%	$23,790	100.00	%

In 2009 American Vehicle entered into a treaty to assume 50% of the business produced by Assurance MGA for United Specialty Insurance Company (“United Specialty”) and State National Insurance Company (“State National”). Both United Specialty and State National are “A” rated by A.M. Best Company (“A.M. Best”). Under the terms of the treaty, Assurance MGA will underwrite several products within the commercial general liability and inland marine lines of business for United Specialty and State National. United Specialty and State National will cede 100 % of the book of business to an “A” rated reinsurer. American Vehicle has agreed to assume 50% of the business assumed by the “A” rated reinsurer under a retrocession agreement. The commercial general liability average premium is $838 with single limits up to $1.0 million and policy limits of $2.0 million. The inland marine average premium is $593 with policy limit amounts not to exceed $50,000 without specific underwriting approval from reinsurers. During 2011, the companies mutually agreed to suspend this treaty effective May 15, 2011.

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 premium on policies currently in-force is approximately $1,325, as compared with $1,196 for 2009, and the nonstandard personal automobile insurance lines represents 100% of our written premiums for personal automobile insurance in 2010 and 2009.

Limits on standard personal automobile insurance are generally significantly higher than those for nonstandard coverage, but typically provide for deductibles and other restrictive terms. Underwriting criteria for standard coverage has become more restrictive, thereby requiring more insureds to seek nonstandard coverage and contributing to the increase in the size of the nonstandard automobile market. Nonstandard automobile insurance, however, generally involves the potential for increased loss exposure and higher claims experience. Loss exposure is mitigated because premiums usually are written at higher rates than those written for standard insurance coverage.

Both of our insurance subsidiaries did underwrite in 2010 nonstandard personal automobile insurance in Florida, where the maximum exposures are predominantly $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. In addition, American Vehicle writes commercial automobile insurance in Florida. The maximum exposure is predominantly $30,000 on a combined single limit basis.

We underwrite new and renewal policies for this coverage on primarily an annual basis and to a much lesser extent, on a semi-annual basis.

Due to the purchasing habits of nonstandard automobile insureds (for example, nonstandard automobile insureds tend to seek the least expensive insurance required of the policyholder by statute that satisfies the requirements of state laws to register a vehicle), policy renewal rates tend to be low compared with standard policies. Our experience has been that a significant number of existing nonstandard policyholders allow their policies to lapse and then reapply for insurance as new policyholders.

American Vehicle underwrites standard personal automobile insurance policies providing coverage no higher than $100,000 per individual, $300,000 per accident for bodily injury, $50,000 per accident for property damage and comprehensive and collision up to $50,000 per accident, with deductibles ranging from $200 to $1,000. The average premium on the policies in-force was $1,409 for 2010.

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 $570 with limits up to $250,000. Commissions in connection with this program totaled $0.2 million, $0.1 million and $0.2 million in 2010, 2009 and 2008, 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.

Assurance MGA

Assurance MGA, a wholly owned subsidiary of the Company, acts as Federated National's and American Vehicle's exclusive managing general agent in the state of Florida and is also licensed as a managing general agent in the states of Alabama, Arkansas, 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 a 6% commission fee from its affiliates Federated National and American Vehicle. Effective the fourth quarter of 2010, Assurance MGA entered into a fee modification agreement wherein it will earn varying amounts between 2% and 4%, returning to 6% at an unknown future date.

The homeowner policy provides Assurance MGA the right to cancel any policy within a period of 90 days from the policy's inception with 25 days' notice, or after 90 days from policy inception with 95 days' notice, even if the risk falls within our underwriting criteria.

Superior

Superior processes claims made by insureds from Federated National and American Vehicle. 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.

Federated Premium

Federated Premium provides premium financing to Federated National's, American Vehicle's and third-party's insureds. Premium financing has been marketed through our distribution network of general agents and independent agents.

Premiums for property and casualty insurance, in certain circumstances, are payable at the time a policy is placed in-force or renewed. Federated Premium's services allow the insured to pay a portion of the premium when the policy is placed in-force and the balance in monthly installments over a specified term, generally between six and nine months. As security, Federated Premium retains a contractual right, if a premium installment is not paid when due, to cancel the insurance policy and to receive the unearned premium from the insurer, or in the event of insolvency of an insurer, from FIGA, subject to a $100 per policy deductible. In the event of cancellation, Federated Premium applies the unearned premium towards the payment obligation of the insured.

Finance contracts receivable remained unchanged at $0.3 million as of December 31, 2010, compared with $0.3 million as of December 31, 2009.

The Company anticipates continued use of the direct bill feature associated with Federated National lines of business. The direct billing opportunity is very similar to the premium finance arrangement with respect to down payments and scheduled monthly payments. 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, either directly from the insured or from a premium finance company. 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.

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. Similarly, we believe that the premium financing that we offer to our own insureds involves limited credit risk. By primarily financing policies underwritten by our own insurance carriers, our credit risks are reduced because we can more securely rely on the underwriting processes of our own insurance carriers. Furthermore, the direct bill program enables us to closely manage our risk while providing credit to our insureds.

Insure-Link, Inc. ("Insure-Link")

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', personal and commercial automobile, commercial general liability and workers' compensation insurance through their agency appointments with over fifty different carriers. Insure-Link will expand its business through marketing and by acquiring other insurance agencies. There were no other agency relationships with affiliated captive or franchised agents in 2010, 2009 and 2008.

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. As this occurs, we will seek to replicate our distribution network in those states. For example, American Vehicle became an admitted insurer in the state of Georgia during the quarter ended September 30, 2010. 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 automobile and commercial general liability policies, 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 system, which allows 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. For example, upon entering a customer's basic personal information, the customer's driving record is accessed and a premium rate is quoted. If the customer chooses to purchase the insurance, the system can generate the policy on-site.

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 there are reinsurance agreements. Following reinsurance agreements there are also 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 subsidiaries 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.

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. 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. Additional rationale to secure reinsurance includes an arbitrage of premium rate, availability of reinsurer’s expertise, and improved management of a profitable portfolio of insureds by way of enhanced analytical capacities.

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.

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 2010–2011 and 2009–2010 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 2010-2011 hurricane season, the excess of loss and FHCF treaties will insure 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 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 $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, is approximately $46.5 million.

The cost and amounts of reinsurance were originally based on management's analysis of Federated National's exposure to catastrophic risk as of June 30, 2010. Our data was subjected to exposure level analysis as of September 30, 2010. This analysis of our exposure level in relation to the total exposures to the FHCF and excess of loss treaties produced changes in limits and reinsurance premiums because of increase in our exposure level. The September 30, 2010 change to limits total limits was an increase of $10.3 million or 2.9% and the change to reinsurance premiums was an increase of $3.7 million or 8.7%. The change to management's June 30, 2010 analysis will be amortized over the remaining balance of the underlying policy term. The Company's retention did not change.

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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		
UNITED STATES			
American Agricultural Insurance	A		(2)
Everest Reinsurance Company	A+		(2)
Munich Reinsurance America, Inc.	A+		(2)
QBE Reinsurance Corporation	A		(2)
BERMUDA			
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-	*	
UNITED KINGDOM			
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)
EUROPE			
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 2009-2010 hurricane season, the excess of loss and FHCF treaties insured the property lines for approximately $456.6 million of aggregate catastrophic losses and LAE with a maximum single event coverage totaling approximately $349.7 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 $259.0 million, or 56.7% of the $456.6 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.

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21st Century Holding Company

The 2009-2010 private reinsurance companies and their respective A.M. Best rating are listed in the table as follows.

Reinsurer	A.M. Best Rating		
UNITED STATES			
Everest Reinsurance Company	A+		**
Munich Reinsurance America, Inc.	A+		**
QBE Reinsurance Corporation	A		**
BERMUDA			
ACE Tempest Reinsurance Limited	A+	*	
Amlin Bermuda Limited	A		
Ariel Reinsurance Company Limited	A-	*	
DaVinci Reinsurance Limited	A	*	
Flagstone Reinsurance Limited	A-		
Hiscox Insurance Company Limited	A	*	
Montpelier Reinsurance Limited	A-		
Platinum Underwriters Bermuda Limited	A	*	
Renaissance Reinsurance Limited	A+	*	
Torus Insurance (Bermuda) Limited	A-	*	
LONDON & EUROPE			
Amlin Syndicate No. 2001 (AML)	A+		**
Antares Syndicate No. 1274 (AUL)	A		**
Arrow Syndicate No. 1910 (ARW)	A	*	**
Broadgate Syndicate No. 1301 (BGT)	A		**
Liberty Syndicates Services Limited, Paris for and on behalf of Lloyd's Syndicate No. 4472 (LIB)	A		**
Novae Syndicate No. 2007 (NVA)	A		**
SCOR Switzerland AG	A-		
HEDGE FUNDS / COLLATERALIZED			
Actua Re Limited	NR	*	(1)
Allianz Risk Transfer AG (Bermuda Branch)	NR-5	*	(2)

* 2009 Reinstatement Premium Protection Program Participants

** Admitted in Florida as a reinsurer, whether through licensing, accreditation or other means.

(Blank) Non admitted reinsurer in Florida.

(1) Participant has funded a trust agreement for their partcipation with approximately $6.4 million of cash and U.S. Government obligations of American institutions at fair market value.

(2) Standard & Poor's rated "AA" (Obligor's capacity to meet its financial commitment on the obligation is very strong)

As a result of the January 2011 merger of Federated National into American Vehicle we are better capitalized and anticipate more favorable terms in connection with our upcoming reinsurance structure.

American Vehicle and Federated National entered into an 80% quota share treaty with Scor Reinsurance Company effective May 1, 2010 for all private passenger automobile policies in effect on May 1, 2010. This treaty included a ceding of unearned premium to the reinsurers. Our insurance companies will retain 20% of the policy risk for the term of the quota share agreement.

American Vehicle became an admitted insurer in the state of Georgia during the quarter ended September 30, 2010. As part of the ramp-up of our business in Georgia, we entered into an arrangement to write non-standard private passenger automobile insurance through a reputable managing general agent familiar with the Georgia market. A quota share treaty will cede 100% of the risk and be fully collateralized for unearned premium and unpaid loss and LAE.

Pursuant to commutation provisions contained in the original 2004 FHCF agreement, on August 10, 2010 Federated National and the FHCF negotiated such a commutation agreement for the 2004 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 $0.75 million, which the Company believes is adequate 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. Should our estimations for unpaid loss and LAE exceed our commutation with the FHCF and ultimately prove inadequate, our coverage in the private market will continue to indemnify us. We do not expect the private market coverage to be exhausted. Additionally, this commutation agreement did not have an effect on operational net income.

As a direct premium writer in the state of Florida, we are required to participate in certain insurer solvency associations under Florida Statutes Section 631.57(3) (a), administered by FIGA. Participation in these pools is based on our written premium by line of business to total premiums written statewide by all insurers. Participation 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 or 2010. 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 are not charged to operations, in contrast, Generally Accepted Accounting Principles (“GAAP”) treatment is to charge current operations for the assessments. Through policyholder surcharges, as approved by the Florida OIR, we have since recouped $7.1 million in connection with these assessments.

The State Board of Administration ("SBA") and the FHCF Financing Corporation agreed to a resolution that would authorize the issuance and sale of FHCF post-event revenue bonds not to exceed $710 million. The proceeds of the bonds would be used for the reimbursement of insurance companies for additional claims due to hurricanes during the 2005 season. These bonds will have fixed interest rates, be exempt from federal income taxes and be secured by not yet implemented emergency assessments and reimbursement premiums. The inability to issue these bonds could result in the FHCF's need to accelerate additional assessments. We have not recorded any liability in connection with this initiative.

The FHCF reimbursement contract and addendums are all effective June 1, 2010, and the private excess of loss type treaties are all effective July 1, 2010; 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 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 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, there have been no claims asserted against the reinsurers in connection with the 2010–2011 and 2009–2010 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. and Ascot Underwriting Limited 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 2009, 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 $0.4 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 is 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.

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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 and outstanding irrevocable letters of credit totaled $4.6 million and $3.1 million as of December 31, 2010 and 2009, respectively.

We are selective in choosing reinsurers and consider numerous factors, the most important of which are the financial stability of the reinsurer, their history of responding to claims and their overall reputation. In an effort to minimize our exposure to the insolvency of a reinsurer, we evaluate the acceptability and review the financial condition of the reinsurer at least annually.

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,		
	2010	2009	2008
	(Dollars in Thousands)		
Balance at January 1	$ 70,610	$ 64,775	$ 59,685
Less reinsurance recoverables	(11,594)	(12,713)	(20,134)
Net balance at January 1	$ 59,016	$ 52,062	$ 39,551
Incurred related to			
Current year	$ 37,288	$ 41,988	$ 37,398
Prior years	2,800	1,718	4,471
Total incurred	$ 40,088	$ 43,706	$ 41,869
Paid related to			
Current year	$ 15,077	$ 18,478	$ 13,277
Prior years	24,308	18,274	16,080
Total paid	$ 39,385	$ 36,752	$ 29,357
Net balance at year-end	$ 59,719	$ 59,016	$ 52,062
Plus reinsurance recoverables	6,810	11,595	12,713
Balance at year-end	$ 66,529	$ 70,611	$ 64,775

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 increased the liability for losses and LAE for claims occurring in prior years by $2.8 million, $1.7 million and $4.5 million for the years ended December 31, 2010, 2009 and 2008, respectively.

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.

In 2009, we increased incurred losses and LAE for claims in connection with the hurricanes in 2005 and 2004 by approximately $2.0 million and decreased the incurred loss and LAE attributed to incurred events of prior years in connection with our automobile and commercial general liability lines of business by $0.3 million.

There can be no assurance concerning future adjustments of reserves, positive or negative, for claims incurred through December 31, 2010.

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, 2010.

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,	
	2010	2009
	(Dollars in Thousands)	
Transatlantic Reinsurance Company (A+ A.M. Best rated)		
Reinsurance recoverable on paid losses and LAE	$ 1	$ -
Unpaid losses and LAE	38	72
	$ 39	$ 72

In addition to reinsurance due from our automobile reinsurers, we also have reinsurance due from our catastrophic reinsurance companies. These reinsurance recoverables relate to Hurricane Katrina and Hurricane Wilma from 2005 and to the four hurricanes that occurred in August and September of 2004. 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,	
	2010	2009
Catastrophe Excess of Loss (various participants) and FHCF	(Dollars in Thousands)	
Reinsurance recoverable on paid losses and LAE	$ 1,542	$ 3,669
Unpaid losses and LAE	5,514	11,666
	$ 7,056	$ 15,335
Amounts due from reinsurers consisted of amounts related to:		
Unpaid losses and LAE	$ 5,514	$ 11,666
Reinsurance recoverable on paid LAE	1,542	3,669
Reinsurance payable	(14,088)	(16,468)
	$ (7,032)	$ (1,133)

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21st Century Holding Company

The following table presents the liability for unpaid losses and LAE for the years ended December 31, 2001 through 2010 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)									
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Balance Sheet Liability	$59,655	$59,016	$52,070	$39,551	$27,259	$25,733	$37,390	$15,314	$9,422	$6,20
Cumulative paid as of:										
One year later		22,910	17,264	17,019	19,347	25,238	35,433	10,908	8,629	5,28
Two years later			29,985	25,692	27,740	33,863	48,406	12,938	10,417	7,21
Three years later				35,185	33,324	39,529	53,760	13,921	11,083	7,70
Four years later					40,570	49,340	57,794	14,644	11,994	7,94
Five years later						49,129	60,197	14,964	12,355	8,16
Six years later							62,808	16,234	12,523	8,29
Seven years later								16,616	13,732	8,99
Eight years later									13,842	9,00
Nine years later										8,99
Re-estimated net liability as of:										
End of year	59,655	59,016	52,070	39,551	27,259	25,733	37,390	15,314	9,422	6,20
		61,572	52,769	44,402	35,370	35,625	44,690	14,594	11,014	6,95

One year later									
Two years later		57,797	47,713	38,962	41,280	52,324	14,784	10,885	7,84
Three years later			53,050	45,552	45,131	56,658	15,402	11,236	8,06
Four years later				51,022	51,278	59,583	16,320	12,116	8,31
Five years later					55,596	64,244	16,304	12,365	8,54
Six years later						65,800	18,509	12,410	8,62
Seven years later							19,285	14,610	8,45
Eight years later								16,890	8,43
Nine years later									8,44
Cumulative redundancy (deficiency)	(2,555)	(5,727)	(13,498)	(23,763)	(29,863)	(28,410)	(3,971)	(7,468)	(2,2
Cumulative redundancy (-) deficiency as a % of reserves originally established	-4.3 %	-11.0 %	-34.1 %	-87.2 %	-116.0 %	-76.0 %	-25.9 %	-79.3 %	-36.

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 $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.

As noted in our Form 10-K for the fiscal year ended December 31, 2008, we experienced a $4.9 million cumulative deficiency in connection with the re-estimation of all loss that occurred in 2007 and a $13.5 million cumulative deficiency in connection with the re-estimation of all loss that occurred in 2006. Relative to the $4.9 million deficiency, our homeowner and commercial general liability losses totaled $1.1 million and $4.4 million, respectively, and our automobile benefit totaled $0.7 million. Relative to the $13.5 million deficiency, our homeowner and commercial general liability and automobile losses totaled $5.5 million, $6.6 million and $1.4 million, respectively.

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 2010, 2009 and 2008.

	Years Ended December 31,		
	2010	2009	2008
	(Dollars in Thousands)		
GAAP basis Loss and LAE reserves	$ 66,529	$ 70,611	$ 64,775
Less unpaid Losses and LAE ceded	6,810	11,593	12,705
Balance Sheet Liability	59,719	59,018	52,070
Add Insurance Apportionment Plan	14	12	24
SAP basis Loss and LAE reserves	$ 59,733	$ 59,030	$ 52,094

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 2010, 2009 and 2008.

	Years Ended December 31,		
	2010	2009	2008
	(Dollars in Thousands)		
GAAP basis Loss and LAE incurred	$ 40,088	$ 43,706	$ 41,868
Intercompany adjusting and other expenses	8	4,239	4,313
Insurance apportionment plan	(2)	(7)	4
SAP basis Loss and LAE incurred	$ 40,094	$ 47,938	$ 46,185

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 2010, 2009 and 2008, and are inclusive of Unallocated Loss Adjustment Expenses (“ULAE”).

	Years Ended December 31,					
	2010		2009		2008	
Loss Ratio	89.0	%	91.1	%	64.3	%
Expense Ratio	46.7	%	44.0	%	38.2	%
Combined Ratio	135.7	%	135.1	%	102.5	%

COMPETITION

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.

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. We believe that these aggressive marketplace changes in 2007 forced some carriers to pursue market share based on “best case” pricing models that may ultimately prove unprofitable from an underwriting perspective.

For example, during 2009 we noted that the Florida OIR placed at least four property and casualty insurance companies in some form of receivership while several other Florida domiciled insurance companies have recapitalized in order to remain viable in the Florida market. The insolvency of these companies poses a risk to all other remaining carriers in the state including Federated National and American Vehicle in terms of assessments to support those failed companies. Through December 31, 2010, we are not aware of any such assessments in connection with the takeovers during 2009; however, no guarantee can be made that no assessments will be imposed.

In recent years, approximately two-dozen new homeowner insurance companies received authority by the Florida OIR to commence business as admitted carriers in the state.

In 2006, the state of Florida created the Insurance Capital Build-Up Incentive Program in response to the catastrophic events that occurred during 2004 and 2005. This program provided matching capital funds to any new or existing carrier licensed to write homeowners’ insurance in the state of Florida under certain conditions. This program resulted in a significant erosion of our homeowners’ insurance market since 2007. We did not participate in the Insurance Capital Build-Up Incentive Program. Although our pricing is inevitably influenced to some degree by that of our competitors, we believe that it is generally not in our shareholders’ best interest to compete solely on price.

We face increased competition from existing carriers and new entrants in our niche markets. As mentioned earlier, in an effort to foster competition after the hurricanes of 2004 and 2005, the State of Florida loaned money to multiple carriers with certain debt covenants, including the maintenance of minimum written premium. Our competition has attempted to gain market share through aggressive pricing and generous policy acquisition costs, which has had an adverse affect on our ability to maintain market share. 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. We compete based on underwriting criteria, our distribution network and superior service to our agents and insureds.

In Florida, more than 200 companies are authorized to underwrite homeowners' insurance. National and regional companies that compete with us in the homeowners' market include Castle Key (formerly Allstate Floridian) Indemnity Insurance Company and Fidelity National Insurance Company. In addition to these nationally recognized companies, we also compete with several Florida domestic property and casualty companies such as, but not limited to, Universal Property and Casualty Insurance Company, Royal Palm Insurance Company, St. Johns Insurance Company, Cypress Property and Casualty Insurance Company, and American Strategic Insurance Company.

Companies, which compete with us nationally in the commercial general liability insurance market, include Century Surety Insurance Company, Atlantic Casualty Insurance Company, Colony Insurance Company and Burlington/First Financial Insurance Companies.

Comparable companies in the personal automobile insurance market include Kingsway Amigo Insurance Company, United Automobile Insurance Company, Direct General Insurance Company, and Ocean Harbor Insurance Company, as well as national insurers such as Progressive Casualty Insurance Company and GEICO.

REGULATION

General

We are, or will be, subject to the laws and regulations in Alabama, Arkansas, California, 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. In January 2011, we entered into a Consent Order with the Florida OIR in connection with the approval of the merger of Federated National into American Vehicle. See “Recent Developments – Consent Order”.

An example of such consumer initiatives may be found with Florida’s property insurers operating under a new emergency rule which requires existing premium rates as of January 25, 2007, to remain in effect until a rate filing reflecting the provisions as provided in Florida’s enacted property insurance legislation. The legislation, which among other issues, 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 are aware of the continued financial challenges that face the State of Florida in connection with the current consumer initiatives. The consumer initiatives stem from the catastrophic hurricanes during 2004 and 2005. The financial challenges have affected our business, results of operations and financial condition in the past and there can be no assurance that they will not continue to affect business, results of operations and financial condition in the future. We are unaware of any other jurisdictions with similar consumer initiatives that could have a material adverse effect on our business, results of operations or financial condition.

Most states have also enacted laws which 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. These laws may adversely affect the ability of an insurer to earn a profit on its underwriting operations.

Most states also have insurance laws requiring 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 have recently 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. As discussed above, the consumer initiatives with Florida's property insurers demonstrate the State of Florida's ability to adopt such laws. Also, the Florida legislature may adopt additional laws of this type in the future, which may adversely affect the Company's business.

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.

Most recently the Florida OIR subjected Federated National to a balance sheet audit 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. The previous regulatory examination conducted by the Florida OIR on Federated National covered the three-year period ended on December 31, 2004.

American Vehicle anticipates a regularly scheduled statutory examination by the Florida OIR to occur during 2011 for the five years ended December 31, 2010. The last regulatory examination conducted by the Florida OIR on American Vehicle covered the three-year period ended on December 31, 2005.

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 and American Vehicle to have securities with a fair market value of $1.0 million held in escrow. 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.

As of December 31, 2009, 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, 2009 American Vehicle had cash deposits totaling $409,100 with the State of Alabama, $159,800 with the State of Arkansas and $119,300 with the State of Louisiana.

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% 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% 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 2010, 2009 or 2008, and none are anticipated in 2011 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 and American Vehicle 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).

National Association of Insurance Commissioners ("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 or American Vehicle to cease operations in the event they fail to maintain the required statutory capital.

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

Based upon the 2009 statutory financial statements for Federated National and American Vehicle, statutory surplus exceeded the regulatory action levels established by the NAIC's risk-based capital requirements.

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 222.8%, 245.1 % and 739.4% at December 31, 2010, 2009 and 2008, respectively. American Vehicle's ratio of statutory surplus to its ACL was 373.4%, 426.9% and 402.5% at December 31, 2010, 2009 and 2008, 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, 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 recently approved additional rate increase for our voluntary

property book of homeowners' business, averaging 20.2% statewide, which is expected to gain momentum and accrete throughout 2011. 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, 2008, Federated National was outside NAIC's usual ranges with respect to its tests on two out of thirteen IRIS ratios. There was one exception in connection with change in net written premium and one in connection with two year reserve development to policyholders' surplus.

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. As of December 31, 2008, American Vehicle was outside NAIC's usual range for two of thirteen IRIS ratios. There was one exception in connection with the two year overall operating ratio and one in connection with two year reserve development to policyholders' surplus.

There was no action taken by the Florida OIR in connection with the December 31, 2009 IRIS ratio results. We do not currently believe that the Florida OIR will take any significant action with respect to Federated National or American Vehicle regarding the 2010 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 and American Vehicle are 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 and American Vehicle unless the Florida OIR, upon application, determines otherwise.

Finance Company Regulation

Our financing program remains subject to certain laws governing the operation of premium finance companies. These laws pertain to such matters as books and records that must be kept, forms, licensing, fees and charges. For example, in Florida, the maximum late payment fee Federated Premium may charge for personal line policies is $10 per payment.

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.

Legislation

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.

Florida House Insurance and Banking Subcommittee sponsors of House Bill 803 and House Bill 1243 have been advised that House Leadership is now more inclined to pass a scaled-back omnibus property insurance reform package than what was previously proposed in last year's Senate Bill 2044 which was ultimately vetoed by the former governor of Florida.

A scaled-back omnibus property insurance reform package is expected to contain provisions such as increased capital and surplus, public adjuster reforms, a three-year claim filing deadline and actual cash value versus replacement cost value for dwelling reform. Additionally, we expect Florida legislators to offer changes to sinkhole coverage provisions.

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.

21st Century Holding Company

As of December 31, 2010, Federated National and American Vehicle were 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 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 December 15, 2010, 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, 2010, we had 127 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.

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

Effective January 26, 2011, Federated National merged with and into American Vehicle, and the resulting entity changed its name to “Federated National Insurance Company”.

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.

In 2004 and 2005, the state of Florida experienced nine hurricanes. One of our subsidiaries, Federated National, incurred significant losses relative to its homeowners’ and mobile homeowners’ insurance lines of business in connection with these catastrophic weather events. Aggregate losses in connection with these storms involved over 23,000 claims at a cost in excess of $73.5 million, net of our reinsurance participation.

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.

We have used nearly 100% of 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, 2010 the loss experience (both paid and not yet paid) in connection with Hurricane Wilma which occurred in October 2005 has nearly exhausted the $194.8 million reinsurance coverage which is available to us. If we incur any additional losses relating to Hurricane Wilma which exceed our reinsurance coverage, we will be responsible for paying these claims out of our available operating funds. If any of these payments to settle the Hurricane Wilma claims (which exceed our reinsurance coverage) are material, it will 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.

The state of Florida has a history of exposure to extremely volatile weather related catastrophic events including hurricanes and tornados. The frequency and severity of these events can have a profound impact on our balance sheet and statements of operations and cash flows. Though the Company attempts to mitigate the impact of these events, there can be no assurance that we will be successful.

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. For example, the loss experience incurred (both paid and not yet paid) in connection with Hurricane Wilma in October 2005 has nearly exhausted the $194.8 million reinsurance coverage available. There can be no assurance that we will not exceed the coverage purchased.

As a result of the nine hurricanes experienced in Florida during the fourteen month period between August 2004 and October 2005, and changes in Florida law in 2007 regarding the pricing and availability of reinsurance, we continue to review, and may determine to modify, our reinsurance structure.

Though there has been no occurrence of hurricanes in Florida within the last five hurricane seasons, some weather analysts believe that we have entered a period of greater hurricane activity while others suggest a diminished expectation for the near future. 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.

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.

Insolvency of our primary reinsurer or any of our other current or future reinsurers including the FHCF, or their inability otherwise to pay claims, would increase the claims that we must pay, thereby potentially harming significantly our balance sheet, results of operations and cash flow. In addition, prevailing market conditions have increased the availability and limited the cost of reinsurance, although there can be no assurances that these conditions will persist.

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.

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.

For the 2010-2011 hurricane season, the excess of loss and FHCF treaties will insure 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 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 $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.

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. In this economic climate, there is no assurance that the FHCF will be able to do this.

Please see “Business-Reinsurance” for more information about FHCF.

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. To the extent that our present capital is insufficient to meet future operating requirements and/or cover losses, we may need to raise additional funds through financings or curtail our growth. 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. However, we cannot provide any assurance in that regard, since many factors will affect our capital needs and their amount and timing, 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 had 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.

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 “Recent Developments – 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.

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. For example, in 2007 Florida enacted legislation that required us to charge rates for homeowners insurance that we believe are inadequate to cover the related underwriting risk. This same legislation authorizes a state-owned insurance company to reduce its premium rates and begin competing against private insurers in the Florida residential property insurance market.

Currently the federal government does not directly regulate the insurance business. However, in recent years the state insurance regulatory framework has come under increased federal scrutiny. Congress and some federal agencies from time to time investigate the current condition of insurance regulation in the United States to determine whether to impose federal regulation or to allow an optional federal charter, similar to banks. In addition, 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.

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. All other pricing considerations remaining the same, a newly formed property insurance company would not be subject to the recoupment of previously imposed assessments.

During 2009, we noted that the Florida OIR placed at least four property and casualty insurance companies in some form of receivership while several other Florida domiciled insurance companies have recapitalized in order to remain viable in the Florida market. The insolvency of these companies poses a risk to all other remaining carriers in the state including Federated National and American Vehicle in terms of assessments to support those failed companies. To date we are not aware of any such assessments in connection with the takeovers during 2009; however, no guarantee can be made that no assessments will be imposed.

Future assessments are likely, however 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. Management believes that the financial institution holding the Company's mutual fund money market account is credit worthy and accordingly minimal credit risk exists with respect to those investments.

The Company had approximately $14.2 million and $19.2 million invested in the MTB Prime Money Market-Inst Fund Number 142, for which the NAIC classification is Class 1, as of December 31, 2010 and 2009, respectively. A money market fund is eligible for listing on the Class 1 list if the fund meets the following conditions:

- The fund maintains a rating of "A" or better from Standard and Poor's or a rating of "A" or better from Moody's Investor's Services ("Moody's") or an equivalent or better rating from another NAIC Acceptable Rating Organizations ("ARO");
- The fund maintains a constant net asset value of $1.00 at all times;
- The fund allows a maximum of seven-day redemption of proceeds; and
- The fund invests at least ninety-five percent (95%) of its total assets in any combination of: the United States Government securities listed in Section 14 of the Appendix, securities rated in the highest short term rating category by an NAIC ARO, unrated securities determined by the fund's Board to be of comparable quality, securities of money market funds that are registered investment companies and collateralized repurchase agreements comprised of such obligations at all times. The remaining five percent (5%) may be invested in Second Tier Securities as that phrase is defined by Rule 2a-7 of the Investment Company Act of 1940 (17 CFR 270.2a-7).

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, 2010. 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, 2010, 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.

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 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 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 be 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 companies are subject to minimum capital and surplus requirements, and our failure to meet these requirements could subject us to regulatory action.

Our insurance companies are 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 companies 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 one of our insurance companies 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, 2010, American Vehicle and Federated National were in compliance with the NAIC risk-based capital requirements (see “Business-Regulation” for further discussion).

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 soft 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.

21st Century Holding Company

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.

For example, on March 31, 2010, Demotech reaffirmed Federated National’s FSR of “A” (“Exceptional”) subject to a $10.0 million infusion of capital into Federated National. This infusion was completed effective March 31, 2010 and was in the form of a $5.0 million capital contribution from the Company and a $5.0 million loan from American Vehicle to Federated National evidenced by a $5.0 million subordinated surplus debenture due from Federated National to American Vehicle. On December 15, 2010, Demotech reaffirmed Federated National’s FSR of “A” (“Exceptional”). Effective January 26, 2011, Federated National merged with and into American Vehicle, and the resulting entity changed its name to “Federated National Insurance Company”. In connection with this merger, the Company, Federated National and American Vehicle entered into the Consent Order with the Florida OIR, which includes the stipulation that the above mentioned $5.0 million loan from American Vehicle to Federated National be forgiven.

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 and American Vehicle's products and services through contractual relationships with a network of approximately 4,200 independent agents, of which approximately 400 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.

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.

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 companies depend 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 companies could be materially and adversely affected.

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.

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. We believe that these aggressive marketplace changes in 2007 forced some carriers to pursue market share based on “best case” pricing models that may ultimately prove unprofitable from an underwriting perspective.

For example, during 2009 we noted that the Florida OIR placed at least four property and casualty insurance companies in some form of receivership while several other Florida domiciled insurance companies have recapitalized in order to remain viable in the Florida market. The insolvency of these companies poses a risk to all other remaining carriers in the state including Federated National and American Vehicle in terms of assessments to support those failed companies. Through December 31, 2010, we are not aware of any such assessments in connection with the takeovers during 2009 and prior years; however, no guarantee can be made that no assessments will be imposed.

In recent years, approximately two-dozen new homeowner insurance companies received authority by the Florida OIR to commence business as admitted carriers in the state.

In 2006, the state of Florida created the Insurance Capital Build-Up Incentive Program in response to the catastrophic events that occurred during 2004 and 2005. This program provided matching capital funds to any new or existing carrier licensed to write homeowners' insurance in the state of Florida under certain conditions. This program resulted in a significant erosion of our homeowners' insurance market since 2007. We did not participate in the Insurance Capital Build-Up Incentive Program. Although our pricing is inevitably influenced to some degree by that of our competitors, we believe that it is generally not in our shareholders' best interest to compete solely on price.

We face increased competition from existing carriers and new entrants in our niche markets. As mentioned earlier, in an effort to foster competition after the hurricanes of 2004 and 2005, the State of Florida loaned money to multiple carriers with certain debt covenants, including the maintenance of minimum written premium. Our competition has attempted to gain market share through aggressive pricing and generous policy acquisition costs, which has had an adverse affect on our ability to maintain market share. 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. We compete based on underwriting criteria, our distribution network and superior service to our agents and insureds.

In Florida, more than 200 companies are authorized to underwrite homeowners' insurance. National and regional companies that compete with us in the homeowners' market include Castle Key (formerly Allstate Floridian) Indemnity Insurance Company and Fidelity National Insurance Company. In addition to these nationally recognized companies, we also compete with several Florida domestic property and casualty companies such as, but not limited to, Universal Property and Casualty Insurance Company, Royal Palm Insurance Company, St. Johns Insurance Company, Cypress Property and Casualty Insurance Company, and American Strategic Insurance Company.

Companies, which compete with us nationally in the commercial general liability insurance market, include Century Surety Insurance Company, Atlantic Casualty Insurance Company, Colony Insurance Company and Burlington/First Financial Insurance Companies.

Comparable companies in the personal automobile insurance market include Kingsway Amigo Insurance Company, United Automobile Insurance Company, Direct General Insurance Company, and Ocean Harbor Insurance Company, as well as national insurers such as Progressive Casualty Insurance Company and GEICO.

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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. We believe we have been successful in attracting and retaining key personnel throughout our history. We have employment agreements with select members of our executive management team.

Nevertheless, because of the executive management role and involvement in developing and implementing our current business strategy, 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.

- 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.

- 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).

21st Century Holding Company

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 subsidiaries are 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 2010. Additionally, the January 2011 consent order prohibits the Company from paying dividends. In the first quarter of 2009, we lowered our dividend to $0.06 per share. During 2008 we paid quarterly dividends of $0.18 per share.

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 and American Vehicle are permitted to pay to the parent company.

ITEM 1B UNRESOLVED STAFF COMMENTS

None

ITEM 2 PROPERTIES

Our executive offices are located at 3661 West Oakland Park Boulevard, Lauderdale Lakes, Florida in a 39,250 square feet office facility. All of our operations are consolidated within this facility.

Relative to the Company's commitments stemming from operational matters, we sold our interest in the building housing our operations in Lauderdale Lake on or about March 1, 2006 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 will pay a reduced lease payment for the remainder of the lease. Our lease for this office space expires in December 2011.

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.

ITEM 3 LEGAL PROCEEDINGS

See Item 8 of Part II, "Financial Statements and Supplementary Data – Footnote 10 – Commitments and Contingencies".

ITEM 4 RESERVED

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21st Century Holding Company

PART II

ITEM 5 MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock has been listed for trading on the NASDAQ Global Market, LLC under the symbol "TCHC" since November 5, 1998. The following table sets out the high and low closing sale prices as reported on the NASDAQ Global Market, LLC. These reported prices reflect inter-dealer prices without adjustments for retail markups, markdowns or commissions.

Quarter Ended	High	Low
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
March 31, 2009	$ 5.07	$ 1.63
June 30, 2009	$ 4.20	$ 2.86
September 30, 2009	$ 4.98	$ 3.03
December 31, 2009	$ 4.82	$ 3.78

As of March 11, 2011, there were 29 holders of record of our common stock. We believe that the number of beneficial owners of our common stock is in excess of 3,700.

DIVIDENDS

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 2010. Additionally, the January 2011 consent order prohibits the Company from paying dividends. In the first quarter of 2009, we lowered our dividend to $0.06 per share. During 2008 we paid quarterly dividends of $0.18 per share.

Payment of dividends in the future will depend on the Florida 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 and American Vehicle are 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, 2010. 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.

Equity Compensation Plan Information

Plan category	Number of securities to be	Weighted-average exercise price of	Number of securities

	issued upon exercise of outstanding options, warrants and rights (a)	outstanding options, warrants and rights (b)	remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by stock holders*	664,550	$ 9.62	230,348

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

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For additional information concerning our capitalization please see Footnote 15 to our Consolidated Financial Statements included under Item 8 of this Report on Form 10-K.

ISSUER REPURCHASES

As of January 1, 2010, the Company was authorized to purchase up to an additional $4.8 million of its common stock. During the twelve months ended December 31, 2010, the Company did not repurchase any common stock under the stock repurchase plan announced in 2009 or its prior plan announced in 2007, because the Company suspended the shares purchase program, as directed by the Florida OIR.

SALES OF UNREGISTERED SECURITIES

During 2010, there were no options exercised under our various stock option plans.

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)				
	2010	2009	2008	2007	2006
Balance Sheet Data					
Total assets	$184,049	$202,889	$197,102	$219,361	$207,897
Investments	122,485	114,219	26,065	136,224	124,834
Cash and short term investments	16,206	28,197	124,577	22,524	17,917
Finance contracts, consumer loans and pay advances receivable, net	-	-	-	420	1,831
Total liabilities	126,118	135,447	120,871	138,104	141,704
Unpaid losses and LAE	66,529	70,611	64,775	59,685	39,615
Unearned premiums	47,136	50,857	40,508	56,394	77,829
Total shareholders' equity	57,931	67,442	76,231	81,257	66,193
Book value per share	$7.29	$8.48	$9.51	$10.32	$8.38

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	Years Ended December 31, (Amounts in Thousands except EPS and Dividends)				
	2010	2009	2008	2007	2006
Operations Data:					
Revenue:					
Gross premiums written	$96,410	$104,379	$88,248	$133,591	$152,665
Gross premiums ceded	(52,963)	(56,217)	(34,553)	(44,550)	(67,520)
Net premiums written	43,447	48,162	53,695	89,041	85,145
(Decrease) Increase in prepaid reinsurance premiums	(2,108)	10,163	(4,451)	(11,251)	20,193
Decrease (Increase) in unearned premiums	3,721	(10,349)	15,886	21,435	(15,990)
Net change in prepaid reinsurance premiums and unearned premiums	1,613	(186)	11,435	10,184	4,203
Net premiums earned	45,060	47,976	65,130	99,224	89,348
Commission income	1,388	1,362	1,612	7,214	1,679
Finance revenue	395	294	350	545	1,686
Managing general agent fees	1,609	1,620	1,745	2,035	2,625
Net investment income	3,726	3,397	6,461	8,038	5,933
Net realized investment gains (losses)	6,777	1,117	(10,593)	(145)	1,063
Regulatory assessments recovered	857	2,333	2,104	1,655	132
Other income	792	755	655	642	1,449
Total revenue	60,604	58,854	67,464	119,208	103,915
Expenses:					
Losses and LAE	40,088	43,706	41,869	47,619	44,400
Operating and underwriting expenses	10,835	9,681	7,209	12,758	13,160
Salaries and wages	8,611	7,930	7,428	6,732	7,011
Interest expense	-	-	-	173	656
Policy acquisition costs - amortization	13,025	13,747	14,760	19,420	17,395
Total expenses	72,559	75,064	71,266	86,702	82,622
(Loss) income before provision for income tax (benefit) expense	(11,955)	(16,210)	(3,802)	32,506	21,293
Provision for income tax (benefit) expense	(3,959)	(5,921)	(1,324)	11,226	7,397
Net (loss) income	$(7,996)	$(10,289)	$(2,478)	$21,280	$13,896
Earnings per share data					
Net loss per share - basic	$(1.01)	$(1.29)	$(0.31)	$2.69	$1.84
Net loss per share - diluted	$(1.01)	$(1.29)	$(0.31)	$2.65	$1.72

Dividends paid per share	$0.06	$0.36	$0.72	$0.72	$0.48

21st Century Holding Company
Management's Discussion and Analysis of Financial Condition and Results of Operations

ITEM 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

21st Century Holding Company ("21st Century", "Company", "we", "us") is an insurance holding company, which, through our subsidiaries and our contractual relationships with our independent agents and general agents, controls substantially all aspects of the insurance underwriting, distribution and claims processes. We are authorized to underwrite homeowners' multi-peril ("homeowners"), personal umbrella, commercial general liability, following form commercial excess liability, personal and commercial automobile, fire, allied lines, workers' compensation, business personal property and commercial inland marine insurance. We are authorized to underwrite in various states on behalf of our wholly owned subsidiary, Federated National Insurance Company ("Federated National") and other insurance carriers. Federated National is the resulting entity following the merger of Federated National into our other wholly owned subsidiary, American Vehicle Insurance Company ("American Vehicle"), in January 2011. In connection with this merger, the Company, Federated National and American Vehicle entered into the Consent Order with the Florida Office of Insurance Regulation ("Florida OIR"). See "Recent Developments – Consent Order". 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.

The insurable events during 2010, 2009 and 2008 did not include any weather related catastrophic events such as the well publicized series of hurricanes that occurred in Florida during 2005 and 2004. During 2010, 2009 and 2008 we processed property and liability claims stemming from our homeowners', commercial general liability and private passenger automobile lines of business. Our reinsurance strategy serves to smooth the liquidity requirements imposed by most severe insurable events and for all other insurable events we manage, at a micro and macro perspective, in the normal course of business.

We are not certain how hurricanes and 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 including:

- the quality of the insurable risks underwritten;
- 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.

We continue to manage the foregoing to the extent within our control. Many of the foregoing are partially, or entirely, outside our control.

Federated National is licensed as an admitted carrier in Florida. Through contractual relationships with a network of approximately 4,200 independent agents, of which approximately 400 actively sell and service our products, Federated National is authorized to underwrite homeowners', fire, allied lines and personal automobile insurance in Florida. Effective January 26, 2011, Federated National merged into American Vehicle.

American Vehicle is licensed as an admitted carrier in Florida, and underwrites commercial general liability, and personal and commercial automobile insurance. American Vehicle is also licensed as an admitted carrier in Alabama, Louisiana, Georgia and Texas, and underwrites commercial general liability insurance in those states. American Vehicle operates as a non-admitted carrier in Arkansas, California, Kentucky, Maryland, Missouri, Nevada, Oklahoma, South Carolina, Tennessee and Virginia, and can underwrite commercial general liability insurance in all of these states.

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As part of its approval of the 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”) have agreed to the following:

- The Merged Company shall retain 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 shall not write commercial multi peril policy premium without prior approval from the Florida OIR. The Merged Company currently has no commercial multi peril policy premium in force.

- The Merged Company shall surrender its surety license. The Merged Company currently has no Surety policy premium in force.

- The Merged Company shall not write new commercial habitation condominium associations without prior approval from the Florida OIR. The current commercial habitation book of business is approximately $2.6 million of policy premium, which will be renewed pursuant to normal underwriting guidelines.

- The Merged Company has 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% will be 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, 2010, the Company had approximately 46.5% of its homeowners’ policies located within Tri-County Area.

- The managing general agency fees payable by the Merged Company to Assurance Managing General Agents, Inc. (“Assurance MGA”), the Company’s wholly owned subsidiary, which are currently 6% of gross written premium, will be 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 premium for the first quarter of 2011, 3% of gross written premium for the second quarter of 2011, and 4% of gross written premium thereafter. This will have no impact on the Company’s consolidated financial results.

- The claims service fees payable by the Merged Company to Superior Adjusting, Inc. (“Superior”), another of the Company’s wholly owned subsidiaries, will be reduced from 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 Consent Order continues the prohibition on the Company from the payment of dividends until the Merged Company reports two consecutive quarters of net underwriting income.

- 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.

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

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

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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 2009, 81.2%, 14.6%, 3.4% and 0.8% of the premiums we underwrote were for homeowners', commercial general liability, federal flood, and personal automobile insurance, respectively.

The Company's sale of homeowners' policies decreased $7.9 million, or 9.3%, to $76.8 million in 2010, compared with $84.7 million in 2009, primarily due to the effects of Florida's mandated homeowners' wind mitigation discounts and the 2009 inclusion of $17.9 million from policies we assumed from Citizens Property Insurance Corporation ("Citizens"). The primary factor for the decrease in commercial general liability production is a slowdown in the economy which has a dramatic impact on the artisan contractor portfolio written by American Vehicle.

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

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

Assurance MGA, a wholly owned subsidiary of the Company, acts as Federated National's and American Vehicle's exclusive managing general agent in the state of Florida and is also licensed as a managing general agent in the states of Alabama, Arkansas, 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 a 6% commission fee from its affiliates Federated National and American Vehicle. Effective the fourth quarter of 2010, Assurance MGA entered into a fee modification agreement wherein it will earn varying amounts between 2% and 4%, returning to 6% at an unknown future date.

The homeowner policy provides Assurance MGA the right to cancel any policy within a period of 90 days from the policy's inception with 25 days' notice, or after 90 days from policy inception with 95 days' notice, even if the risk falls within our underwriting criteria.

CRITICAL ACCOUNTING POLICIES

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

The most significant accounting estimates inherent in the preparation of our financial statements include estimates associated with management's evaluation of the determination of (i) liability for unpaid losses and LAE, (ii) the amount and recoverability of amortization of deferred policy acquisition costs ("DPAC"), and (iii) estimates for our reserves with respect to finance contracts, premiums receivable and deferred income taxes. Various assumptions and other factors underlie the determination of these significant estimates, which are described in greater detail at Footnote 2 in this Form 10-K.

Except as described below, we believe that in 2010 there were no significant changes in those critical accounting policies and estimates. Senior management has reviewed the development and selection of our critical accounting policies and estimates and their disclosure in this Form 10-K with the Audit Committee of our Board of Directors.

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

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Accounting for loss contingencies pursuant to Financial Accounting Standards Board ("FASB") issued guidance involves the existence of a condition, situation or set of circumstances involving uncertainty as to possible loss that will ultimately be resolved when one or more future event(s) occur or fail to occur. Additionally, accounting for a loss contingency requires management to assess each event as probable, reasonably possible or remote. Probable is defined as the future event or events are likely to occur. Reasonably possible is defined as the chance of the future event or events occurring is more than remote but less than probable, while remote is defined as the chance of the future event or events occurring is slight. An estimated loss in connection with a loss contingency shall be recorded by a charge to current operations if both of the following conditions are met: First, the amount can be reasonably estimated, and second, the information available prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements. It is implicit in this condition that it is probable that one or more future events will occur confirming the fact of the loss or incurrence of a liability.

FASB issued guidance addresses accounting and reporting for (a) investments in equity securities that have readily determinable fair values and (b) all investments in debt securities. The guidance requires that these securities be classified into one of three categories, Held-to-maturity, Trading, or Available-for-sale securities.

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

The following is an overview of management's loss reserving process

The Company's loss reserves can generally be categorized into two distinct groups. One group is short-tail classes of business consisting principally of property risks in connection with homes and automobiles. The other group is long-tail casualty classes of business which include primarily commercial general liability and to a much lesser extent, homeowner and automobile liability. For operations writing short-tail coverages our loss reserves were generally geared toward determining an expected loss ratio for current business rather than maintaining a reserve for the outstanding exposure. Estimations of ultimate net loss reserves for long-tail casualty classes of business is a more complex process and depends on a number of factors including class and volume of business involved. Experience in the more recent accident years of long-tail casualty classes of business shows limited statistical credibility in reported net losses because a relatively low proportion of net losses would be reported claims and expenses and even smaller percentage would be net losses paid. Therefore, incurred but not yet reported ("IBNR") would constitute a relatively high proportion of net losses.

Additionally, the different methodologies are utilized the same, regardless of the line of business. However, the final selection of ultimate loss and LAE is certain to vary by both line of business and by accident period maturity. There is no prescribed combination of line of business, accident year maturity, and methodologies; consistency in results of the different methodologies and reasonableness of the result are the primary factors that drive the final selection of ultimate loss and LAE.

Methods used to estimate Loss & LAE reserves

The methods we use for our short-tail business do not differ from the methods we use for our long-tail business. The Incurred and Paid Development Methods intrinsically recognize the unique development characteristics contained within the historical experience of each material short-tail and long-tail line of business. The Incurred and Paid Cape Cod Methods reflect similar historical development unique to each material short-tail and long-tail line of business.

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We apply the following general methods in projecting loss and LAE reserves:

- Paid and Incurred Loss Development Method
- Paid and Incurred Cape Cod Method

Description of ultimate loss estimation methods

The estimated Ultimate Loss and Defense & Cost Containment Expense (“DCCE”) is based on an analysis by line of business, coverage and by accident quarter performed using data as of December 31, 2010. The analysis relies primarily on four actuarial methods: Incurred Loss & DCCE Development Method, Paid Loss & DCCE Development Method, Bornhuetter-Ferguson Incurred Method, and Bornhuetter-Ferguson Paid Method. Each method relies on company experience, and, where relevant, the analysis includes comparisons to industry experience. The following is a description of each of these methods:

Incurred Loss & DCCE Development Method – This reserving method is based on the assumption that the historical incurred loss & DCCE development pattern as reflected by the Company is appropriate for estimating the future loss & DCCE development. Incurred paid plus case amounts separated by accident quarter of occurrence and at quarterly evaluations are used in this analysis. Case reserves do not have to be adequately stated for this method to be effective; they only need to have a fairly consistent level of adequacy at all stages of maturity. Historical “age-to-age” loss development factors were calculated to measure the relative development of an accident quarter from one maturity point to the next. Loss & DCCE development factors (“LDF”) are selected based on a review of the historical relationships between incurred loss & DCCE at successive valuations and based on industry patterns. The LDFs are multiplied together to derive cumulative LDF’s that, when multiplied by actual incurred loss & DCCE, produce estimates of ultimate loss & DCCE.

Paid Loss & DCCE Development Method – This method is similar to the Incurred Loss & DCCE Development Method only paid loss & DCCE and paid patterns are substituted for the incurred loss & DCCE and incurred patterns.

Bornhuetter-Ferguson Incurred Method – This reserving method combines estimated initial expected unreported loss & DCCE with the actual loss & DCCE to yield the ultimate loss & DCCE estimate. Expected unreported loss & DCCE are equal to expected total loss & DCCE times the expected unreported percentage of loss & DCCE for each policy year. The incurred loss & DCCE emergence pattern used to determine the unreported percentages in our projections is based on the selected LDF’s from the Incurred Loss & DCCE Development Method described above. The estimate of initial expected total loss & DCCE is based on the historical loss ratio for more mature accident years. While this approach reduces the independence of the Bornhuetter-Ferguson Method from the loss & DCCE development methods for older policy years, it is used primarily for estimating ultimate loss & DCCE for more recent, less mature, policy years.

Bornhuetter-Ferguson Paid Method – This method is similar to the Bornhuetter-Ferguson Incurred Method only paid loss & DCCE and paid patterns are substituted for the incurred loss & DCCE and incurred patterns.

We select an estimate of ultimate loss & DCCE for each accident quarter after considering the results of each projection method for the quarter and the relative maturity of the quarter (the time elapsed between the start of the quarter and December 31, 2010). Reserves for unpaid losses & DCCE for each quarter are the differences between these ultimate estimates and the amount already paid. The reserves for each quarter and each coverage are summed,

and the result is the overall estimate of unpaid losses & DCCE liability for the company.

We also produce an estimate of unpaid Adjusting and Other Expense ("A&O"), as a reserve is required under statutory accounting principles even if this expense has been pre-paid or with an unconsolidated affiliate. Although we do not prepay for A&O, the majority of the A&O incurred is with an affiliated company and eliminated under the accounting principles for consolidation. The unpaid A&O is added to unpaid losses & DCCE, resulting in total unpaid losses and LAE.

The validity of the results from using a loss development approach can be affected by many conditions, such as internal claim department processing changes, a shift between single and multiple claim payments, legal changes, or variations in a company's mix of business from year to year. Also, since the percentage of losses paid for immature years is often low, development factors can be volatile. A small variation in the number of claims paid can have a leveraging effect that could lead to significant changes in estimated ultimate values. Accordingly, our reserves are estimates because there are uncertainties inherent in the determination of ultimate losses. Court decisions, regulatory changes and economic conditions can affect the ultimate cost of claims that occurred in the past as well as create uncertainties regarding future loss cost trends. We compute our estimated ultimate liability using the most appropriate principles and procedures applicable to the lines of business written. However, because the establishment of loss reserves is an inherently uncertain process, we cannot be certain that ultimate losses will not exceed the established loss reserves and have a material adverse effect on our results of operations and financial condition.

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A key assumption underlying the estimation of the reserve for loss and LAE is that past experience serves as the most reliable estimator of future events. This assumption may materially affect the estimates when the insurance market, the regulatory environment, the legal environment, the economic environment, the book of business, the claims handling department, or other factors (known or unknown) have varied over time during the experience period and / or will vary (expectedly or unexpectedly) in the future. Changes in estimates, or differences between estimates and amounts ultimately paid, are reflected in the operating results of the period during which such adjustments are made. Therefore, the ultimate liability for unpaid losses and LAE will likely differ from the amount recorded at December 31, 2010.

The following describes the extent of our procedures for determining the reserve for loss and LAE on both an annual and interim reporting basis:

Annually - Our policy is to select a single point estimate that best reflects our in-house actuarial determination for unpaid losses and LAE. Our independent actuarial firm, examining the exact same data set, will independently select a point estimate which determines a high point and low point range. Both processes rely on objective and subjective determinations. If our point estimate falls within the range determined from the point estimate of our actuary, then the Company's policy has been that no adjustments by management would be required. In consideration thereof, the company does not have a policy for adjusting the liability for unpaid losses and LAE to an amount that is different than an amount set forth within the range determined by our independent actuary, although the reserve level ultimately determined by us may not be the mid-point of our independent actuary's range. Further, there can be no assurances that our actual losses will be within our actuary's range. Our independent actuary's report expressly states that the report is based on assumptions developed from its own analysis and based on information provided by management and that notwithstanding its analysis, there is a significant risk of material adverse deviation from its range.

Interim – During 2010 our interim approach was very similar to the annual process noted above.

A number of other actuarial assumptions are generally made in the review of reserves for each class of business. For the long-tail classes of business, other actuarial assumptions generally are made with respect to the following:

- Loss trend factors which are used to establish expected loss ratios for subsequent accident years based on the projected loss ratio for prior accident years.

- Expected loss ratios for the latest accident year and, in some cases for accident years prior to the latest accident year. The expected loss ratio generally reflects the projected loss ratio from prior accident years, adjusted for the loss trend and the effect of rate changes and other quantifiable factors on the loss ratio.

In practice there are factors that change over time; however, many (such as inflation) are intrinsically reflected in the historical development patterns, and others typically do not materially affect the estimate of the reserve for unpaid losses and LAE. Therefore, no specific adjustments have been incorporated for such contingencies projecting future development of losses and LAE. There are no key assumptions as of December 31, 2010 premised on future emergence inconsistent with historical loss reserve development patterns.

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The table below distinguishes total loss reserves between IBNR, as discussed above, and case estimates for specific claims as established by routine claims management.

Reserves for unpaid loss and LAE net of reinsurance recoverable as of December 31, 2010	Case Loss Reserves	Case LAE Reserves	Total Case Reserves	IBNR Reserves (Including LAE)	Reinsurance Recoverable on Unpaid Loss and Loss Expenses	Net Reserves
			(Dollars in Thousands)			
Homeowners'	$4,829	$975	$5,804	$16,695	$ 5,508	$16,991
Commercial General Liability	5,620	2,610	8,230	27,817	-	36,047
Automobile	3,353	112	3,465	4,366	1,302	6,529
Fire	-	3	3	148	-	151
Inland Marine	-	-	-	1	-	1
Total	$13,802	$3,700	$17,502	$49,027	$ 6,810	$59,719

Reserves for unpaid loss and LAE net of reinsurance recoverable as of December 31, 2009	Case Loss Reserves	Case LAE Reserves	Total Case Reserves	IBNR Reserves (Including LAE)	Reinsurance Recoverable on Unpaid Loss and Loss Expenses	Net Reserves
			(Dollars in Thousands)			
Homeowners'	$7,489	$1,348	$8,837	$21,093	$ 11,666	$18,264
Commercial General Liability	6,312	1,573	7,885	29,578	-	37,463
Automobile	286	188	474	2,888	84	3,278
Fire	-	-	-	11	-	11
Inland Marine	-	-	-	-	-	-
Total	$14,087	$3,109	$17,196	$53,570	$ 11,750	$59,016

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Our reported results, financial position and liquidity would be affected by likely changes in key assumptions that determine our net loss reserves. The table below illustrates the change to equity that would occur as a result of a change in loss and LAE reserves, net of reinsurance.

	Years Ended December 31, 2010		Years Ended December 31, 2009	
Change in loss and LAE reserves, net of reinsurance	Adjusted loss and LAE reserves, net of reinsurance	Percentage change in equity (1)	Adjusted loss and LAE reserves, net of reinsurance	Percentage change in equity (1)
	(Dollars in Thousands)			
-10.0 %	53,747	-20.8 %	53,115	-15.2 %
-7.5 %	55,240	-15.6 %	54,590	-11.4 %
-5.0 %	56,733	-10.4 %	56,066	-7.6 %
-2.5 %	58,226	-5.2 %	57,541	-3.8 %
Base	59,719	-	59,016	-
2.5 %	61,212	5.2 %	60,492	3.8 %
5.0 %	62,705	10.4 %	61,967	7.6 %
7.5 %	64,198	15.6 %	63,443	11.4 %
10.0 %	65,691	20.8 %	64,918	15.2 %

(1) Net of tax

For the year ended December 31, 2010, our actuarial firm determined range of loss and LAE reserves on a net basis range from a low of $55.0 million to a high of $80.1 million, with a best estimate of $63.2 million. The Company’s net loss and LAE reserves are carried at $57.6 million. The Company’s point estimate for its reserves as of December 31, 2010 is 8.7% below our actuary’s best estimate, which reflects management’s current analysis of the status and expected timing of our anticipated claims, our analysis of expected weather patterns in the regions in which we sell policies, our re-focus of our business growth efforts to areas outside of South Florida, and other factors.

We are required to review the contractual terms of all our reinsurance purchases to ensure compliance with FASB issued guidance. The guidance establishes the conditions required for a contract with a reinsurer to be accounted for as reinsurance and prescribes accounting and reporting standards for those contracts. Contracts that do not result in the reasonable possibility that the reinsurer may realize a significant loss from the insurance risk assumed generally do not meet the conditions for reinsurance accounting and must be accounted for as deposits. The guidance also requires us to disclose the nature, purpose and effect of reinsurance transactions, including the premium amounts associated with reinsurance assumed and ceded. It also requires disclosure of concentrations of credit risk associated with reinsurance receivables and prepaid reinsurance premiums.

Please see Footnote 2 of the Notes to Consolidated Financial Statements for additional discussions regarding critical accounting policies.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2010, the FASB issued Accounting Standard Update ("ASU") No. 2010-29: Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations a consensus of the FASB Emerging Issues Task Force. The objective of this update is to address diversity in practice about the interpretation of the pro forma revenue and earnings disclosure requirements for business combinations. Paragraph 805-10-50-2(h) requires a public entity to disclose pro forma information for business combinations that occurred in the current reporting period. The disclosures include pro forma revenue and earnings of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period. If comparative financial statements are presented, the pro forma revenue and earnings of the combined entity for the comparable prior reporting period should be reported as though the acquisition date for all business combinations that occurred during the current year had been as of the beginning of the comparable prior annual reporting period. In practice, some preparers have presented the pro forma information in their comparative financial statements as if the business combination that occurred in the current reporting period had occurred as of the beginning of each of the current and prior annual reporting periods. Other preparers have disclosed the pro forma information as if the business combination occurred at the beginning of the prior annual reporting period only, and carried forward the related adjustments, if applicable, through the current reporting period. The amendments in this update are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The adoption of this update did not have a material impact on the Company's financial statements.

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In October 2010, the FASB issued ASU No. 2010-26: Financial Services – Insurance (Topic 944): Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts, a consensus of FASB Emerging Issues Task Force. The amendments in this update modify the definition of the types of costs incurred by insurance entities that can be capitalized in the acquisition of new and renewal contracts. The amendments in this update specify that the costs must be based on successful efforts (that is, acquiring a new or renewal contract). The amendments also specify that advertising costs should be included as deferred acquisition costs under certain circumstances. The amendments in this update are effective for fiscal years, and interim period within those fiscal years, beginning after December 15, 2011. The amendments in this update should be applied prospectively upon adoption. Retrospective application to all prior periods presented upon the date of adoption also is permitted, but not required. Early adoption is permitted, but only at the beginning of an entity's annual reporting period. The adoption of this update is not expected to have a material impact on the Company's consolidated financial statements.

In February 2010, the FASB issued ASU No. 2010-09: Amendments to Certain Recognition and Disclosure Requirements, an amendment to Topic 855 Subsequent Events, to address potentially conflicting interactions of the requirements in this Topic with the SEC's reporting requirements. This update amends Topic 855 as follows: i) an entity that either is a SEC filer or a conduit bond obligor is required to evaluate subsequent events through the date that the financial statements are issued, if the entity does not meet either of these criteria then it should evaluate subsequent events through the date the financial statements are available to be issued; and ii) an SEC filer is not required to disclose the date through which subsequent events have been evaluated. All amendments in this ASU are effective upon issuance of this ASU, except for the use of the issued date for conduit debt obligors which effective date is for interim and annual periods ending after June 15, 2010. The Company's subsequent events disclosure will reflect the new guidance.

In January 2010, the FASB issued ASU No. 2010-06: Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements. The amendments in ASU 2010-06 require additional disclosures about fair value measurements, including transfers in and out of Levels 1 and 2 and activity in Level 3 on a gross basis, and clarifies certain other existing disclosure requirements including level of disaggregation and disclosures around inputs and valuation techniques. The provisions of the new standards are effective for interim or annual reporting periods beginning after December 15, 2009, except for the additional Level 3 disclosures, which will become effective for fiscal years beginnings after December 15, 2010. These standards are disclosure only in nature and do not change accounting requirements. Accordingly, adoption of the new standard had no impact on the Company's consolidated financial position, results of operations or cash flows.

In May 2009, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 165, "Subsequent Events" ("SFAS No. 165"), which is now part of ASU Topic 855, Subsequent Events. In SFAS No. 165, the FASB establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued. Our adoption of SFAS No. 165 on April 1, 2009 did not have a material impact on the Company's consolidated financial statements.

In April 2009, the FASB issued FSP FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly" ("FSP FAS 157-4"). FSP FAS 157-4 is related to determining fair value when the volume and level of activity for an asset or liability have significantly decreased and identifying transactions that are not orderly. The guidance indicates that if an entity determines that either the volume and/or level of activity for an asset or liability has significantly decreased (from normal conditions for that asset or liability) or price quotations or observable inputs are not associated with orderly transactions, increased analysis and management judgment will be required to estimate fair value. The

guidance is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted and must be applied prospectively. The adoption of FSP FAS 157-4 did not have a material impact on the Company's financial statements or condition.

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In April 2009, the FASB issued FASB Staff Position ("FSP") FAS 115-2 and FSP FAS 124-2, "Recognition and Presentation of Other-Than Temporary Impairments" ("FSP FAS 115-2 and FSP FAS 124-2") related to the recognition and presentation of other-than temporary impairments. In April 2009, the SEC also adopted similar guidance with Staff Accounting Bulletin ("SAB") No. 111 ("SAB 111") on Other-Than-Temporary Impairment. FSP FAS 115-2 and FSP FAS 124-2 establishes a new method of recognizing and reporting other-than-temporary impairments of debt securities and contains additional disclosure requirements related to debt and equity securities. This new accounting guidance establishes a new method of recognizing and reporting other-than-temporary impairments of debt securities and contains additional disclosure requirements related to debt and equity securities. For debt securities, the "ability and intent to hold" provision is eliminated, and impairment is considered to be other-than-temporary if an entity (i) intends to sell the security, (ii) more likely than not will be required to sell the security before recovering its cost, or (iii) does not expect to recover the security's entire amortized cost basis (even if the entity does not intend to sell). This new framework does not apply to equity securities (i.e., impaired equity securities will continue to be evaluated under previously existing guidance). The "probability" standard relating to the collectability of cash flows is eliminated, and impairment is now considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security. The accounting guidance provides that for debt securities which (i) an entity does not intend to sell and (ii) it is not more likely than not that the entity will be required to sell before the anticipated recovery of its remaining amortized cost basis, the impairment is separated into the amount related to estimated credit losses and the amount related to all other factors. The amount of the total impairment related to all other factors is recorded in other comprehensive loss and the amount related to estimated credit loss is recognized as a charge against current period earnings. The new guidance expands disclosure requirements for both debt and equity securities and requires a more detailed, risk-oriented breakdown of security types and related information, and requires that the annual disclosures be made in interim periods. The accounting guidance is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted. At the time of adoption, the Company did not have any Other-Than-Temporary Impairments for debt securities, and, the adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

Other recent accounting pronouncements issued by the FASB, the American Institute of Certified Public Accountants ("AICPA"), and the SEC did not or are not believed by management to have a material impact on the Company's present or future financial statements.

See Note 2(n), "Summary of Significant Accounting Policies – Recent Accounting Pronouncements" in the Notes to the Condensed Consolidated Financial Statements for a discussion of other recent accounting pronouncements and their effect, if any, on the Company.

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ANALYSIS OF FINANCIAL CONDITION
As of December 31, 2010 Compared with December 31, 2009

Total Investments

FASB issued guidance addresses accounting and reporting for (a) investments in equity securities that have readily determinable fair values and (b) all investments in debt securities. FASB issued guidance requires that these securities be classified into one of three categories: (i) held-to-maturity, (ii) trading securities or (iii) available-for-sale.

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

Total Investments increased $8.3 million, or 7.2%, to $122.5 million as of December 31, 2010, compared with $114.2 million as of December 31, 2009.

The debt and equity securities that are available for sale and carried at fair value represent 95% of total investments as of December 31, 2010, compared with 98% as of December 31, 2009.

We did not hold any trading investment securities during 2010.

Below is a summary of net unrealized gains and losses at December 31, 2010 and December 31, 2009 by category.

	Unrealized Gains and (Losses)	
	December 31, 2010	December 31, 2009
	(Dollars in Thousands)	
Debt securities:		
United States government obligations and authorities	$ (192)	$ (120)
Obligations of states and political subdivisions	43	500
Corporate	268	1,742
International	24	-
	143	2,122
Equity securities:		
Common stocks	692	1,128
Total debt and equity securities	$ 835	$ 3,250

The net unrealized gain of $0.8 million is inclusive of $1.7 million of unrealized losses. The $1.7 million of unrealized losses is inclusive of $0.7 million unrealized losses from marketable equity securities and $1.0 million unrealized

losses from debt securities.

The $0.7 million of unrealized losses from marketable equity securities is from common stocks held in diverse industries as of December 31, 2010. The Company evaluated the near-term prospects in relation to the severity and duration of the impairment. Based on this evaluation and the Company's ability and intent to hold these investments for a reasonable period of time sufficient for a forecasted recovery of fair value, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2010.

The $1.0 million of unrealized losses from debt securities is made up of $0.1 million, $0.3 million and $0.6 million from US government, federal agency mortgage-backed securities and corporate bonds respectively. The unrealized losses on the Company's investment in federal agency mortgage-backed securities were caused by interest rate changes. The contractual cash flows of those investments are guaranteed by an agency of the U.S. government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost basis of the Company's investments. Also, the Company does not intend to sell these investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost basis and does not consider these investments to be other-than-temporarily impaired at December 31, 2010.

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The unrealized losses on the Company's investment in corporate bonds relates to $29.0 million invested in bonds across diverse sectors; 83% of these bonds had at least an A rating and the unrealized losses were caused by interest rate changes. The Company does not expect to settle at prices less than the amortized cost basis. Because the Company does not intend to sell these investments and it is not more likely than not that the Company will be required to sell these investments before recovery of the amortized cost basis, it does not consider these investments to be other-than-temporarily impaired at December 31, 2010.

The FASB issued guidance also addresses the determination as to when an investment is considered impaired, whether that impairment is other-than temporary, and the measurement of an impairment loss. The Company's policy for the valuation of temporarily impaired securities is to determine impairment based on the analysis of the following factors.

- rating downgrade or other credit event (eg., failure to pay interest when due);
- length of time and the extent to which the fair value has been less than amortized cost;
- financial condition and near term prospects of the issuer, including any specific events which may influence the operations of the issuer such as changes in technology or discontinuance of a business segment;
- prospects for the issuer's industry segment;
- intent and ability of the Company to retain the investment for a period of time sufficient to allow for anticipated recovery in market value;
- historical volatility of the fair value of the security.

Pursuant to this guidance, the Company records the unrealized losses, net of estimated income taxes that are associated with that part of our portfolio classified as available for sale, through the shareholders' equity account titled "Other Comprehensive Income". Management periodically reviews the individual investments that comprise our portfolio in order to determine whether a decline in fair value below our cost either is other-than temporarily or permanently impaired. Factors used in such consideration include, but are not limited to, the extent and length of time over which the market value has been less than cost, the financial condition and near-term prospects of the issuer and our ability and intent to keep the investment for a period sufficient to allow for an anticipated recovery in market value.

In reaching a conclusion that a security is either other-than-temporarily or permanently impaired we consider such factors as the timeliness and completeness of expected dividends, principal and interest payments, ratings from nationally recognized statistical rating organizations such as Standard and Poor's and Moody's Investors Service, Inc. ("Moody's"), as well as information released via the general media channels. During 2010 and 2009, in connection with this process, we have not charged any net realized investment loss to operations.

As of December 31, 2010, all of our securities are in good standing and not impaired, compared with $0.4 million of securities that were considered impaired as of December 31, 2009.

As of December 31, 2009, all of our securities were in good standing and not impaired as defined by FASB issued guidance, except for our holdings in Blackrock Pfd, Inc., which continued to be impaired by $0.4 million as of December 31, 2009, compared to the total $2.1 million as of December 31, 2008.

The investments held as of December 31, 2010 were comprised mainly of corporate bonds held in various industries, municipal bonds and United States government bonds. As of December 31, 2010, 72% of the debt portfolio is in diverse industries and 28% is in United States government bonds. As of December 31, 2010, approximately 77% of the equity holdings are in equities related to diverse industries and 23% are in mutual funds.

The investments held as of December 31, 2009, were comprised mainly of corporate bonds held in various industries, municipal bonds and United States government bonds. As of December 31, 2009, 89% of the debt portfolio was in diverse industries and 11% was in United States government bonds. As of December 31, 2009, approximately 89% of the equity holdings were in equities related to diverse industries and 11% are in mutual funds.

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As of December 31, 2010, 55.6% of the investment portfolio is in corporate bonds, 2.4% is in obligations of states and political subdivisions, and 27.4% is in United States government bonds. Approximately 1% of the common stock holdings are related to foreign entities.

As of December 31, 2009, 36.9% of the investment portfolio is in corporate bonds, 34.4% was in obligations of states and political subdivisions, and 11.2% was in United States government bonds. Approximately 17.5% of the holdings were in equities related to diverse industries.

The following table summarizes, by type, our investments as of December 31, 2010 and 2009.

	December 31, 2010		December 31, 2009	
	Carrying Amount	Percent of Total	Carrying Amount	Percent of Total
	(Dollars in Thousands)			
Debt securities, at market:				
United States government obligations and authorities	$28,196	23.02 %	$10,152	8.89 %
Obligations of states and political subdivisions	2,963	2.42 %	39,269	34.38 %
Corporate	65,808	53.73 %	42,092	36.85 %
International	1,383	1.13 %	-	0.00 %
	98,350	80.30 %	91,513	80.12 %
Debt securities, at amortized cost:				
Corporate	818	0.67 %	-	0.00 %
United States government obligations and authorities	5,380	4.39 %	2,650	2.32 %
	6,198	5.06 %	2,650	2.32 %
Total debt securities	104,548	85.36 %	94,163	82.44 %
Equity securities, at market:	17,937	14.64 %	20,056	17.56 %
Total investments	$122,485	100.00 %	$114,219	100.00 %

As of December 31, 2010 and 2009, we have classified $6.2 million and $2.7 million, respectively, of our bond portfolio as held-to-maturity. We only classify bonds as held-to-maturity to support securitization of credit requirements. Fully funded trust agreements or outstanding irrevocable letters of credit, used for such purposes, total $3.6 million and $2.8 million for the period ended December 31, 2010 and 2009, respectively.

During 2010, we reclassified $3.1 million of amortized cost to held-to-maturity from available-for-sale to fund trust agreements.

During April 2006, American Vehicle finalized a $15.0 million irrevocable letter of credit in conjunction with the 100% Quota Share Reinsurance Agreement with Republic Underwriters Insurance Company (“Republic”) which was terminated in April 2007. As of December 31, 2007, the letter of credit in favor of Republic totaled $10.0 million. As of December 31, 2008, the letter of credit in favor of Republic totaled $3.0 million. As of December 31, 2009, a letter of credit in favor of Republic totaled $1.0 million. As of December 31, 2010, the letter of credit in favor of Republic was replaced by a fully funded trust agreement that totaled $1.0 million.

Cash and Short-Term Investments

Cash and short-term investments, which include cash, certificates of deposits, and money market accounts, decreased $12.0 million, or 42.5%, to $16.2 million as of December 31, 2010, compared with $28.2 million as of December 31, 2009. The decrease in cash and short-term investments resulted from portfolio reallocation based on improving risk profiles; wherein we decided to increase our exposure to corporate bonds. We evaluate our asset class allocation on an ongoing basis continually adjust based on economic and business risk.

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Prepaid Reinsurance Premiums

Prepaid reinsurance premiums increased $0.1 million, or 0.9%, to $10.4 million as of December 31, 2010, compared with $10.3 million as of December 31, 2009. The change is due to our payments and amortization of prepaid reinsurance premiums associated with our homeowners' insurance book of business. We believe concentrations of credit risk associated with our prepaid reinsurance premiums are not significant.

Premiums Receivable, Net of Allowance for Credit Losses

Premiums receivable, net of allowance for credit losses, decreased $4.7 million, or 45.3%, to $5.6 million as of December 31, 2010, compared with $10.3 million as of December 31, 2009.

Our homeowners' insurance premiums receivable decreased $5.5 million, or 61.2%, to $3.5 million as of December 31, 2010, compared with $9.0 million as of December 31, 2009. The balance at December 31, 2009 included $5.4 million receivable in connection with our Citizens' assumed policies.

Our commercial general liability insurance premiums receivable increased $0.5 million, or 60.6%, to $1.4 million as of December 31, 2010, compared with $0.9 million as of December 31, 2009.

Premiums receivable in connection with our automobile line of business increased $0.3 million, or 75.7%, to $0.8 million as of December 31, 2010, compared with $0.5 million as of December 31, 2009.

The activity in the allowance for credit losses for premiums receivable was as follows.

	Years Ended December 31,	
	2010	2009
	(Dollars in Thousands)	
Allowance for credit losses at beginning of year	$ 24	$ 122
Additions charged to bad debt expense	135	92
Write-downs charged against the allowance	(91)	(190)
Allowance for credit losses at end of year	$ 68	$ 24

Reinsurance Recoverable, Net

Reinsurance recoverable, net, decreased $7.3 million, or 47.5%, to $8.0 million as of December 31, 2010, compared with $15.3 million as of December 31, 2009. The change is due to the payment patterns by our reinsurers, as influenced by the diminishing catastrophe related claims. All amounts are current and deemed collectable. We believe concentrations of credit risk associated with our reinsurance recoverables, net, are not significant.

DPAC

DPAC decreased $0.4 million, or 4.7%, to $7.9 million as of December 31, 2010, compared with $8.3 million as of December 31, 2009. The change is due to decreased homeowners' and commercial general liability written and unearned premium.

An analysis of deferred acquisition costs follows.

	Years Ended December 31,	
	2010	2009
	(Dollars in Thousands)	
Balance, beginning of year	$ 8,267	$ 6,558
Acquisition costs deferred	12,637	15,456
Amortization expense during year	(13,025)	(13,747)
Balance, end of year	$ 7,879	$ 8,267

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Deferred Income Taxes, Net

Deferred income taxes, net, increased $3.2 million, or 69.3%, to $7.9 million as of December 31, 2010, compared with $4.7 million as of December 31, 2009. Deferred income taxes, net, is comprised of approximately $11.2 million and $9.1 million of deferred tax assets, net of approximately $3.3 million and $4.4 million of deferred tax liabilities as of December 31, 2010 and December 31, 2009, respectively.

	Years Ended December 31,	
	2010	2009
	(Dollars in Thousands)	
Deferred tax assets		
Unpaid losses and LAE	$ 2,243	$ 2,315
Unearned premiums	1,663	1,785
Allowance for impairments	-	164
Regulatory assessments	(69)	260
Unearned agent commissions	8	8
Depreciation & amortization	393	367
Reserve for claims settlements	809	809
Capital loss carryover	-	2,112
NOL carryforward	5,702	663
Deferred gain on sale and leaseback	100	288
Stock option expense per ASC 718	379	305
Total deferred tax assets	11,228	9,076
Deferred tax liabilities		
Deferred acquisition costs, net	(2,965)	(3,111)
Allowance for credit losses	(44)	(60)
Discount on advance premiums	11	(7)
Unrealized gain on investment securities	(314)	(1,223)
Total deferred tax liabilities	(3,312)	(4,401)
Net deferred tax asset	$ 7,916	$ 4,675

Income Taxes Receivable

Income taxes receivable decreased $4.7 million, or 66.1%, to $2.4 million as of December 31, 2010, compared with $7.1 million as of December 31, 2009. The change is due to the receipt of our prior year refund, net of our loss as discussed within "Results of Operations- Year Ended December 31, 2010 Compared with Year Ended December 31, 2009".

The Company's consolidated federal income tax returns for 2009, 2008, 2007, 2006 and 2005 are open for review by the Internal Revenue Service ("IRS"). The federal income tax returns for 2003 and 2002 have been examined by the IRS. The IRS concluded its examination for 2003 and 2002 and there were no material changes in the tax liability for those years. The 2004 income tax return remains open due to net operating loss carryforward to open years.

The Florida Department of Revenue examination of the Company's consolidated Florida income tax returns for 2007, 2006, 2005 and 2004 was settled and closed in early November 2010 with no change to tax years 2007, 2006 and

2005. The audit resulted in an immaterial adjustment to the 2004 tax year. The Florida income tax returns for 2008 and 2009 are open for review.

Other Assets

Other assets decreased $1.4 million, or 37.1%, to $2.3 million as of December 31, 2010, compared with $3.7 million as of December 31, 2009. Major components of other assets are shown in the following table; the accrued interest income receivable is primarily investment related.

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	As of December 31,	
	2010	2009
	(Dollars in Thousands)	
Accrued interest income receivable	$ 1,089	$ 1,162
Notes receivable	365	599
Deposits	133	334
Prepaid expenses	376	644
Receivable for investments sold	-	567
Other	347	365
Total	$ 2,310	$ 3,671

Unpaid Losses and LAE

Unpaid losses and LAE decreased $4.1 million, or 5.8%, to $66.5 million as of December 31, 2010, compared with $70.6 million as of December 31, 2009. The composition of unpaid losses and LAE by product line is as follows.

	December 31, 2010			December 31, 2009		
	Case	Bulk	Total	Case	Bulk	Total
	(Dollars in Thousands)			(Dollars in Thousands)		
Homeowners'	$5,825	$16,847	$22,672	$8,705	$19,298	$28,003
Commercial General Liability	8,230	27,819	36,049	7,885	29,346	37,231
Automobile	3,447	4,361	7,808	2,612	2,765	5,377
Total	$17,502	$49,027	$66,529	$19,202	$51,409	$70,611

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 the Company’s 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 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.

The process of determining significant unpaid losses and LAE estimates is fact specific and takes into account factors such as historical experience, current and expected economic conditions, and an actuarial valuation. Management regularly reevaluates these significant factors and makes adjustments where facts and circumstances dictate. In selecting the best estimate, we utilize various actuarial methodologies. Each of these methodologies is designed to forecast the number of claims we will be called upon to pay and the amounts we will pay on average to settle those claims. In arriving at our best estimate, our actuaries consider the likely predictive value of the various loss development methodologies employed in light of underwriting practices, premium rate changes and claim settlement practices that may have occurred, and weight the credibility of each methodology. Our actuarial methodologies take

into account various factors, including, but not limited to, paid losses, liability estimates for reported losses, paid allocated LAE, salvage and other recoveries received, reported claim counts, open claim counts and counts for claims closed with and without payment of loss.

The incurred loss development method relies on the assumption that, at any given state of maturity, ultimate losses can be predicted by multiplying cumulative reported losses (paid losses plus case reserves) by a cumulative development factor. The validity of the results of this method depends on the stability of claim reporting and settlement rates, as well as the consistency of case reserve levels. Case reserves do not have to be adequately stated for this method to be effective; they only need to have a fairly consistent level of adequacy at all stages of maturity. Historical "age-to-age" loss development factors were calculated to measure the relative development of an accident year from one maturity point to the next. We then selected appropriate age-to-age loss development factors based on these historical factors and use the selected factors to project the ultimate losses.

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Unearned Premium

Unearned premiums decreased $3.8 million, or 7.3%, to $47.1 million as of December 31, 2010, compared with $50.9 million as of December 31, 2009. The change was due to a $3.2 million decrease in unearned homeowners' insurance premiums, a $1.6 million decrease in unearned commercial general liability premiums, a $0.2 million increase in unearned flood insurance premiums, and a $0.8 million increase in unearned automobile premiums. Generally, as is in this case, a decrease in unearned premium directly relates to a decrease in written premium on a rolling twelve-month basis. Competition could negatively affect our unearned premium.

Premium Deposits and Customer Credit Balances

Premium deposits and customer credit balances increased $0.3 million, or 11.0%, to $2.4 million as of December 31, 2010, compared with $2.1 million as of December 31, 2009. Premium deposits are monies received on policies not yet in-force as of December 31, 2010.

Bank Overdraft

Bank overdraft decreased $0.9 million, or 9.9%, to $7.4 million as of December 31, 2010, compared with $8.3 million as of December 31, 2009. The bank overdraft relates primarily to losses and LAE disbursements paid but not presented for payment by the policyholder or vendor. The change relates to our payment patterns in relationship to the rate at which those cash disbursements are presented to the bank for payment.

Deferred Gain from Sale of Property

Deferred gain from sale of property decreased $0.5 million, or 49.7%, to $0.5 million as of December 31, 2010, compared with $1.0 million as of December 31, 2009. As required by FASB issued guidance, we are amortizing the deferred gain over the term of the leaseback, which is scheduled to end in December 2011.

Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses decreased $0.4 million, or 17.0%, to $2.2 million as of December 31, 2010, compared with $2.6 million as of December 31, 2009.

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Year Ended December 31, 2010 Compared with Year Ended December 31, 2009

Effective January 26, 2011, Federated National merged with and into American Vehicle, and the resulting entity changed its name to "Federated National Insurance Company".

Gross Premiums Written

Gross premiums written decreased $8.0 million, or 7.6%, to $96.4 million for the year ended December 31, 2010 ("2010"), compared with $104.4 million for the year ended December 31, 2009 ("2009"). The following table denotes gross premiums written by major product line. This decrease reflected primarily a decrease in the sale of homeowners' and commercial general liability policies.

	Years Ended December 31,			
	2010		2009	
	(Dollars in Thousands)			
	Amount	Percentage	Amount	Percentage
Homeowners'	$ 76,844	79.70 %	$ 84,705	81.15 %
Commercial General Liability	11,894	12.34 %	15,279	14.64 %
Federal Flood	3,951	4.10 %	3,559	3.41 %
Automobile	3,721	3.86 %	836	0.80 %
Gross written premiums	$ 96,410	100.00 %	$ 104,379	100.00 %

On September 30, 2009, Federated National announced it received approval from the Florida OIR for a premium rate increase for its voluntary homeowners' program within the state of Florida. The premium rate increase, which averaged approximately 19%, was deployed on policies with effective dates of November 1, 2009 and December 1, 2009, for new and renewals, respectively.

The Company expects the recently approved additional rate increase for our voluntary property book of business, averaging 20.2% statewide, to gain momentum and accrete throughout 2011. On April 16, 2010, Federated National announced it received approval from the Florida OIR for a premium rate increase for its assumed homeowners' program from Citizens within the state of Florida. The premium rate increase, which averaged approximately 15%, was implemented on Citizens take-out policies only with an effective date of July 1, 2010.

We continue to offer premium discounts for wind mitigation efforts by policyholders, as required by Florida law. These discounts have had a significant effect on both written and earned premium. Wind mitigation credits are 26.0% of the pre-credit premium, or $27.3 million, as of December 31, 2010, as compared with 24.2% of the pre-credit premium, or $27.6 million, as of December 31, 2009.

During 2010 and 2009, the change to the cumulative wind mitigation credits afforded our policyholders totaled ($0.3) million and $9.8 million, respectively. As of December 31, 2010, 60.1% of our in-force homeowners' policyholders were receiving wind mitigation credits totaling approximately $27.3 million (a 26.0% reduction of in-force premium), while 56.8% of our in-force homeowners' policyholders were receiving wind mitigation credits totaling approximately $27.6 million, (a 24.2 % reduction of in-force premium), as of December 31, 2009.

The Company’s decrease in the sale of homeowners’ policies by $7.9 million, or 9.3%, to $76.8 million in 2010, compared with $84.7 million in 2009 is gross of reinsurance costs and net of Florida’s mandated homeowners’ wind mitigation discounts. As a result of our expanded underwriting criteria, our in-force homeowners’ policies decreased by approximately 9,500, or approximately 18.0%, to approximately 43,100 as of December 31, 2010, as compared with approximately 52,600 as of December 31, 2009.

As of December 31, 2010, Federated National and American Vehicle were rated by Demotech, Inc. (“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 December 15, 2010, Demotech reaffirmed Federated National’s FSR of “A” (“Exceptional).

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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.

The Company's sale of commercial general liability policies decreased by $3.4 million to $11.9 million in 2010, compared with $15.3 million in 2009. The primary factor for this decrease has been the slowdown in the economy, which had a dramatic impact on the artisan contractor portfolio written by American Vehicle. An additional factor is our decision to restrict underwriting authority within specific commercial general liability classes and geographic areas.

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

	Years Ended December 31,			
	2010		2009	
	Amount	Percentage	Amount	Percentage
	(Dollars in Thousands)			
State				
Alabama	$ 46	0.39 %	$ 76	0.50 %
Arkansas	1	0.01 %	4	0.03 %
California	34	0.29 %	49	0.32 %
Florida	9,972	83.85 %	12,341	80.77 %
Georgia	68	0.57 %	291	1.91 %
Kentucky	-	0.00 %	1	0.00 %
Louisiana	1,094	9.19 %	1,736	11.36 %
Maryland	9	0.07 %	-	0.00 %
South Carolina	1	0.01 %	2	0.01 %
Texas	665	5.59 %	778	5.09 %
Virginia	4	0.03 %	1	0.01 %
Total	$ 11,894	100.00 %	$ 15,279	100.00 %

We are required to report write-your-own flood premiums on a direct and 100% ceded basis.

The Company's sale of auto insurance policies increased to $3.7 million in 2010, compared with $0.8 million in 2009. The Company's sale of auto insurance included new and renewal policies in 2010, but was limited to renewal policies in 2009.

Gross Premiums Ceded

Gross premiums ceded decreased to $53.0 million in 2010, compared with $56.2 million in 2009, due to our decreased cost of reinsurance. Gross premiums ceded under our catastrophe reinsurance program totaled $46.9 million, gross premiums ceded to the write-your-own flood program totaled $4.0 million, gross premiums ceded relating to our commercial automobile program totaled $1.9 million and gross premiums ceded relating to our commercial general

liability program totaled $0.2 million in 2010.

(Decrease) Increase in Prepaid Reinsurance Premiums

The decrease in prepaid reinsurance premiums was $2.1 million in 2010, compared with a $10.2 million increase in 2009. The increased charge to written premium is associated with the timing of our reinsurance payments measured against the term of the underlying reinsurance policies.

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Decrease (Increase) in Unearned Premiums

The decrease in unearned premiums was $3.7 million in 2010, compared with a $10.3 million increase in 2009. The change was due to a $3.1 million decrease in unearned homeowners' insurance premiums, a $1.6 million decrease in unearned commercial general liability premiums, a $0.8 million increase in unearned automobile premiums, net of a $0.2 million increase in unearned flood premiums in 2010. These changes are a result of differences in written premium volume during this period as compared with the same period last year. See "Gross Premiums Written" above.

Net Premiums Earned

Net premiums earned decreased $2.9 million, or 6.1%, to $45.1 million for in 2010, compared with $48.0 million in 2009.

The following table denotes net premiums earned by product line.

	Years Ended December 31,								
	2010				2009				
	Amount		Percentage		Amount		Percentage		
	(Dollars in Thousands)								
Homeowners'	$	30,040	66.67	%	$	28,474	59.35	%	
Commercial General Liability		13,302	29.52	%		19,076	39.76	%	
Automobile		1,718	3.81	%		426	0.89	%	
Net premiums earned	$	45,060	100.00	%	$	47,976	100.00	%	

The change in homeowners' net premiums earned is due to an $8.0 million decrease in gross written premium as discussed, a $5.6 million decrease in gross premiums ceded and a $3.8 million increase in the net change to prepaid reinsurance premiums and unearned premium.

The change in commercial general liability net premiums earned is a result of a $3.4 million decrease in gross written premium, reflecting the impact of the economic slowdown on the artisan contractor portfolio written by American Vehicle and our decision to restrict underwriting authority within specific commercial general liability classes and geographic areas. The change is also a result of a $0.1 million increase in gross premiums ceded and a $2.3 million decrease in the net change to unearned premium.

The change in automobile net premiums earned is a result of a $2.9 million increase in gross written premium as discussed, a $1.9 million increase in gross premiums ceded and a $0.3 million decrease in the change to unearned premium.

Commission Income

Commission income remained unchanged at $1.4 million in 2010, compared with $1.4 million in 2009. The primary sources of our commission income are our managing general agent services, write-your-own flood premiums and our independent insurance agency, Insure-Link, Inc. ("Insure-Link").

Net Investment Income

Net investment income increased $0.3 million, or 9.7%, to $3.7 million in 2010, compared with $3.4 million in 2009. Our investment yield, net and gross of investment expenses, excluding equities and including cash, were 2.5% and 2.7%, respectively, in 2010. Our investment yield, net and gross of investment expenses, excluding equities and including cash, were 2.2% and 2.3%, respectively, in 2009.

Our investment yield, net and gross of investment expenses measured against debt securities, excluding equities and cash, were 3.4% and 3.7%, respectively, in 2010. Our investment yield, net and gross of investment expenses measured against debt securities, excluding equities and cash, were 3.5% and 3.7%, respectively, in 2009.

See also “Analysis of Financial Condition As of December 31, 2010 Compared with December 31, 2009 – Investments” for a further discussion on our investment portfolio.

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Net Realized Investment Gains

Net realized investment gains were $6.8 million in 2010, compared with $1.1 million in 2009. Specifically, net realized gains for equity marketable securities were $2.5 million in 2010 compared with $1.5 million in 2009; and for bonds, net realized gains were $4.3 million in 2010, compared with net realized loss of $0.4 million in 2009. Realized investment gains recognized were higher in 2010 than in 2009 because of the Company's investment in marketable securities in diverse industries and an overweight in corporate bonds. These securities performed well in 2010 and were sold to lock in gains and bolster surplus.

During 2010 and 2009, we did not mark any equity investments to market value pursuant to guidelines prescribed in FASB issued guidance. In reaching a conclusion that a security is either other than temporarily or permanently impaired we consider such factors as the timeliness and completeness of expected dividends, principal and interest payments, ratings from nationally recognized statistical rating organizations such as Standard and Poor's and Moody's, as well as information released via the general media channels.

The table below depicts the net realized investment gains by investment category in 2010 and 2009.

	Years Ended December 31,	
	2010	2009
	(Dollars in Thousands)	
Realized gains:		
Debt securities	$ 4,484	$ 485
Equity securities	4,228	2,159
Total realized gains	8,712	2,644
Realized losses:		
Debt securities	(209)	(825)
Equity securities	(1,726)	(702)
Total realized losses	(1,935)	(1,527)
Net realized gains on investments	$ 6,777	$ 1,117

Other Income

Other income remained unchanged at $0.8 million in 2010, compared with $0.8 million in 2009. The major component of other income in 2010 and 2009 included approximately $0.5 million in partial recognition of our gain on the sale of our Lauderdale Lakes property.

Losses and LAE

Losses and LAE, our most significant expense, represent actual payments made and changes in estimated future payments to be made to or on behalf of our policyholders, including expenses required to settle claims and losses. We revise our estimates based on the results of analysis of estimated future payments to be made. This process assumes that experience, adjusted for the effects of current developments and anticipated trends, is an appropriate basis for predicting future events.

Losses and LAE decreased by $3.6 million, or 8.3%, to $40.1 million in 2010, compared with $43.7 million in 2009. The overall change includes a $1.5 million increase in our homeowners' program and a $6.3 million decrease in our commercial general liability program; these decreases are due to favorable experience in these markets based in part on enhanced underwriting and claim processing techniques. The overall increase also includes a $1.2 million increase in connection with our re-launched automobile program which has experienced adverse development in its initial phase.

We continue to revise our estimates of the ultimate financial impact of claims made resulting from past storms. The revisions to our estimates are based on our analysis of subsequent information that we receive regarding various factors, including: (i) per claim information; (ii) Company and industry historical loss experience; (iii) legislative enactments, judicial decisions, legal developments in the awarding of damages, and (iv) trends in general economic conditions, including the effects of inflation.

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The composition of unpaid losses and LAE by product line is as follows.

	December 31, 2010			December 31, 2009		
	Case	Bulk	Total	Case	Bulk	Total
	(Dollars in Thousands)			(Dollars in Thousands)		
Homeowners'	$5,825	$16,847	$22,672	$8,705	$19,298	$28,003
Commercial General Liability	8,230	27,819	36,049	7,885	29,346	37,231
Automobile	3,447	4,361	7,808	2,612	2,765	5,377
Total	$17,502	$49,027	$66,529	$19,202	$51,409	$70,611

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 the Company's 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 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 our process, reserves were decreased by approximately $4.1 million in 2010. This overall change includes a $5.3 million decrease in our homeowners' program and a $1.2 million decrease in our commercial general liability program; these decreases are due to favorable experience in these markets based in part on enhanced underwriting and claim processing techniques. The overall decrease also includes a $2.4 million increase in connection with our re-launched automobile program which has experienced adverse development in its initial phase.

In accordance with GAAP and for the reasons discussed above, our loss ratio is computed as losses and LAE divided by net premiums earned. A lower loss ratio generally results in higher operating income. Our loss ratio in 2010 was 89.0% compared with 91.1% for the same period in 2009.

The table below reflects the loss ratios by product line.

	Years Ended December 31,			
	2010		2009	
Homeowners'	96.43	%	91.99	%
Commercial General Liability	69.36	%	81.50	%
Automobile	167.34	%	-1.14	%
Fire	9.29	%	18.67	%
Inland Marine	9.82	%	57.50	%
All lines	88.97	%	91.10	%

Operating and Underwriting Expenses

Operating and underwriting expenses increased $1.1 million, or 11.9%, to $10.8 million in 2010, compared with $9.7 million in 2009. The change is primarily due to a $0.4 million increase in actuarial fees, a $0.2 million increase in consulting fees, a $0.2 million increase in licenses and fees, a less than $0.2 million increase in surveys and underwriting reports, and immaterial increases in other expenses.

Salaries and Wages

Salaries and wages increased $0.7 million, or 8.6%, to $8.6 million in 2010, compared with $7.9 million in 2009. The increase is due to staffing for additional lines of business.

The charge to operations for stock-based compensation, in accordance with FASB issued guidance, remained unchanged at approximately $0.4 million in 2010 compared with approximately $0.4 million in 2009.

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Policy Acquisition Costs - Amortization

Policy acquisition costs - amortization, decreased $0.7 million, or 5.2%, to $13.0 million in 2010, compared with $13.7 million in 2009.

Policy acquisition costs - amortization, consists of the actual policy acquisition costs, including commissions, payroll and premium taxes, less commissions earned on reinsurance ceded and policy fees earned.

Provision for Income Tax Benefit

The provision for income tax benefit was $4.0 million in 2010, compared with $5.9 million in 2009. The effective rate for income taxes was 33.1% in 2010 and 36.5% in 2009.

Net Loss

As a result of the foregoing, the Company’s net loss in 2010 was $8.0 million compared with $10.3 million in 2009.

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Results of Operations
Year Ended December 31, 2009 Compared with Year Ended December 31, 2008

Effective January 26, 2011, Federated National merged with and into American Vehicle, and the resulting entity changed its name to “Federated National Insurance Company”.

Gross Premiums Written

Gross premiums written increased $16.2 million, or 18.3%, to $104.4 million for the year ended December 31, 2009 (“2009”), compared with $88.2 million for the year ended December 31, 2008 (“2008”). The following table denotes gross premiums written by major product line.

	Years Ended December 31,			
	2009		2008	
	(Dollars in Thousands)			
	Amount	Percentage	Amount	Percentage
Homeowners'	$ 84,705	81.15 %	$ 60,708	68.79 %
Commercial General Liability	15,279	14.64 %	23,790	26.96 %
Federal Flood	3,559	3.41 %	3,263	3.70 %
Automobile	836	0.80 %	487	0.55 %
Gross written premiums	$ 104,379	100.00 %	$ 88,248	100.00 %

The Florida Legislature required a rate decrease that resulted in an average 15.2% decrease statewide on homeowners' policies that was integrated into our rates on June 1, 2007. The effect of this rate decrease on existing policies and the corresponding premium decrease in direct written premium was fully recognized in policies by May 31, 2008. In addition, a rate decrease of 11.3% statewide for homeowners' policies was approved by the Florida OIR and implemented with an effective date of May 1, 2008 for new business and June 1, 2008 for renewal business for the homeowners' program. The effect of this rate decrease is flowing through the Company’s homeowners’ book of business such that a full impact of the premium decreases on direct written premium was realized by April 2009 for the homeowners' program. These rate decreases have had an adverse effect on gross and earned premium.

We continue to afford premium discounts in response to wind mitigation efforts by policyholders. Such discounts, which were required by the Florida Legislature and became effective on December 15, 2007 for new business and renewal business, have also had a significant effect on both written and earned premium. During 2009 and 2008 wind mitigation credits totaling $9.8 million and $15.3 million were afforded our policyholders, respectively. As of December 31, 2009, 56.8% of our in-force homeowners’ policyholders were receiving wind mitigation credits totaling approximately $27.6 million, (a 24.2% reduction of in-force premium), while 52.1% of our in-force homeowners’ policyholders were receiving wind mitigation credits totaling approximately $17.8 million, (a 22.2% reduction of in-force premium), as of December 31, 2008.

Despite the effects of Florida’s mandated homeowners’ rate reductions and wind mitigation discounts the Company’s sale of homeowners’ policies increased $24.0 million, or 39.5%, to $84.7 million in 2009, compared with $60.7 million in 2008. Included in our sale of homeowners’ policies during 2009, is $17.9 million from policies we assumed from Citizens.

During 2009, the Florida OIR granted Federated National an average statewide increase of 19% for new and renewal policies which were not part of the Citizens assumptions, effective November 1, 2009 and December 1, 2009, respectively.

We are required to report write-your-own flood premiums on a direct and 100% ceded basis for the twelve months ended December 31, 2008 and subsequent periods. Prior to 2008, we reported only the commissions income associated with this program. Commissions in connection with this program totaled $0.1 million, $0.2 million and $0.3 million in 2009, 2008 and 2007.

Federated National and American Vehicle are currently 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 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. However, our Demotech rating could be jeopardized by such other factors including adverse development and various surplus related ratio exceptions. On June 11, 2009, Demotech reaffirmed Federated National’s FSR of “A” (“Exceptional”).

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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.

The Company’s sale of commercial general liability policies decreased by $8.5 million to $15.3 million in 2009, compared with $23.8 million in 2008. The primary factor for the decrease is a slowdown in the economy which has a dramatic impact on the artisan contractor portfolio written by American Vehicle. An additional factor is our decision to restrict underwriting authority within specific commercial general liability classes and geographic areas. The following table sets forth the amounts and percentages of our gross premiums written in connection with our commercial general liability program by state.

	Years Ended December 31,			
	2009		2008	
	Amount	Percentage	Amount	Percentage
	(Dollars in Thousands)			
State				
Alabama	$ 76	0.50 %	$ 117	0.49 %
Arkansas	4	0.03 %	12	0.05 %
California	49	0.32 %	269	1.13 %
Florida	12,341	80.77 %	16,011	67.30 %
Georgia	291	1.91 %	568	2.39 %
Kentucky	1	0.00 %	1	0.00 %
Louisiana	1,736	11.36 %	4,481	18.84 %
Maryland	-	0.00 %	2	0.01 %
South Carolina	2	0.01 %	70	0.29 %
Texas	778	5.09 %	2,252	9.47 %
Virginia	1	0.01 %	7	0.03 %
Total	$ 15,279	100.00 %	$ 23,790	100.00 %

The Company’s sale of auto insurance policies increased by $0.3 million to $0.8 million in 2009, compared with $0.5 million in 2008.

Gross Premiums Ceded

Gross premiums ceded increased to $56.2 million in 2009, compared with $34.6 million in 2008. Gross premiums ceded under our catastrophe reinsurance program totaled $52.5 million and gross premiums ceded to the write-your-own flood program totaled $3.6 million in 2009.

Increase in Prepaid Reinsurance Premiums

The change in prepaid reinsurance premiums was a $10.2 million increase in 2009, compared with a $4.5 million decrease in 2008. This change is primarily associated with the timing of our reinsurance payments measured against the term of the underlying reinsurance policies.

Increase in Unearned Premiums

The change in unearned premiums was a $10.3 million increase in 2009, compared with a $15.9 million decrease in 2008. The change was due to a $13.5 million increase in unearned homeowners' insurance premiums of which $7.4 million is associated with our assumption of policies from Citizens, a $3.8 million decrease in unearned commercial general liability premiums, a $0.4 million increase in unearned automobile premiums, net of a $0.2 million increase in unearned flood premiums in 2009. These changes are a result of differences in written premium volume during this period as compared with the same period last year. See Gross Premiums Written.

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Net Premiums Earned

Net premiums earned decreased $17.1 million, or 26.3%, to $48.0 million in 2009, compared with $65.1 million in 2008. The following table denotes net premiums earned by product line.

	Years Ended December 31,			
	2009		2008	
	Amount	Percentage	Amount	Percentage
	(Dollars in Thousands)			
Homeowners'	$ 28,474	59.35 %	$ 36,415	55.91 %
Commercial General Liability	19,076	39.76 %	27,784	42.66 %
Automobile	426	0.89 %	931	1.43 %
Net premiums earned	$ 47,976	100.00 %	$ 65,130	100.00 %

The change in homeowners' net premiums earned is partially due to a $13.5 million increase in unearned premiums, of which $7.4 million is associated with our assumption of policies from Citizens in December 2009, and a $24.0 million increase in premium volume. Please see above Gross Premiums Ceded discussion.

The change in commercial general liability net premiums earned is a result of decreased premium volume. The primary factor for the decrease in premium volume is a slowdown in the economy which has a dramatic impact on the artisan contractor portfolio written by American Vehicle. An additional factor is our decision to restrict underwriting authority within specific commercial general liability classes and geographic areas.

Commission Income

Commission income decreased $0.2 million, or 15.5%, to $1.4 million in 2009, compared with $1.6 million in 2008. The primary sources of our commission income are in connection with our managing general agent services and our independent insurance agency, Insure-Link.

Finance Revenue

Finance revenue decreased $0.1 million, or 16.1%, to $0.3 million in 2009, compared with $0.4 million in 2008. This is primarily due to the Company's decreased emphasis on automobile insurance and the finance revenue derived from these policies.

Managing General Agent Fees

Managing general agent fees decreased $0.1 million, or 7.2%, to $1.6 million in 2009, compared with $1.7 million in 2008.

Net Investment Income

Net investment income decreased $3.1 million to $3.4 million for 2009, compared with $6.5 million for 2008. Our investment yields net and gross of investment expenses were 2.1% and 2.3% respectively for 2009, compared with 4.1% net of investment expenses for 2008. Our investment yields net and gross of investment expenses measured

against debt securities, excluding cash were 3.5% and 3.7% respectively for 2009. Our net investment income and yields were adversely affected by having an average cash balance of $55.0 million in the prime money market account that provided less than a 1% yield during 2009.

Net investment income on corporate bonds, which generally provide a higher yield than United States government bonds, decreased $1.5 million to $1.6 million for 2009, compared with $3.1 million for 2008. The decrease in corporate bond income was due to our selection of higher quality bonds that reduce overall portfolio risk though offer a lower yield. Municipal bond income increased $0.7 million to $1.4 million for 2009 compared to $0.7 million in 2008. The increase in Municipal bond income was due to the increase in the municipal bond portfolio to $40.0 million in 2009, from approximately $5.0 million in 2008.

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Dividend income decreased $0.3 million to $0.5 million for 2009, compared with $0.8 million for 2008. Short-term income decreased $0.9 million to $0.2 million for 2009, compared with $1.1 million for 2008.

See additional discussion within the above “Analysis of Financial Condition As of December 31, 2009 Compared with December 31, 2008– Investments”.

Net Realized Investment Gains

Net realized investment gains were $1.1 million in 2009, compared with net realized investment losses of $10.6 million in 2008.

During 2009, we did not mark any equity investments to market value pursuant to guidelines prescribed in FASB issued guidance. In reaching a conclusion that a security is either other than temporary or permanently impaired we consider such factors as the timeliness and completeness of expected dividends, principal and interest payments, ratings from nationally recognized statistical rating organizations such as Standard and Poor’s and Moody’s, as well as information released via the general media channels. During 2008 the pretax charge to operations was approximately $9.9 million in connection with our estimates of the net realizable value of these investments.

The table below depicts the net realized investment gains (losses) by investment category in 2009 as compared with 2008.

	Years Ended December 31,	
	2009	2008
	(Dollars in Thousands)	
Realized gains:		
Debt securities	$ 485	$ 770
Equity securities	2,159	544
Total realized gains	2,644	1,314
Realized losses:		
Debt securities	(825)	(854)
Equity securities	(702)	(11,053)
Total realized losses	(1,527)	(11,907)
Net realized gains (losses) on investments	$ 1,117	$ (10,593)

Regulatory Assessments Recovered

Regulatory assessments recovered increased $0.2 million, or 10.9%, to $2.3 million in 2009, compared with $2.1 million in 2008.

Other Income

Other income increased $0.1 million, or 15.4%, to $0.8 million in 2009, compared with $0.7 million in 2008.

Major components of other income in 2009 and 2008 included approximately $0.5 million in partial recognition of our gain on the sale of our Lauderdale Lakes property.

Losses and LAE

Losses and LAE, our most significant expense, represent actual payments made and changes in estimated future payments to be made to or on behalf of our policyholders, including expenses required to settle claims and losses. We revise our estimates based on the results of analysis of estimated future payments to be made. This process assumes that experience, adjusted for the effects of current developments and anticipated trends, is an appropriate basis for predicting future events.

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Losses and LAE increased by $1.8 million, or 4.4%, to $43.7 million for 2009, compared with $41.9 million for 2008. The overall change includes a $4.5 million increase in our homeowners' program, a $6.0 million decrease in our commercial general liability program and a $3.3 million increase in connection with our automobile program.

We continue to revise our estimates of the ultimate financial impact of past storms. The revisions to our estimates are based on our analysis of subsequent information that we receive regarding various factors, including: (i) per claim information; (ii) company and industry historical loss experience; (iii) legislative enactments, judicial decisions, legal developments in the awarding of damages, and (iv) trends in general economic conditions, including the effects of inflation.

The composition of unpaid losses and LAE by product line is as follows.

	December 31, 2009			December 31, 2008		
	Case	Bulk	Total	Case	Bulk	Total
	(Dollars in Thousands)			(Dollars in Thousands)		
Homeowners'	$8,705	$19,298	$28,003	$8,048	$19,678	$27,726
Commercial General Liability	7,885	29,346	37,231	7,531	26,998	34,529
Automobile	2,612	2,765	5,377	657	1,863	2,520
Total	$19,202	$51,409	$70,611	$16,236	$48,539	$64,775

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 the Company's 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 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 our process, reserves were increased by approximately $5.8 million during 2009.

In accordance with GAAP, our loss ratio is computed as losses and LAE divided by net premiums earned. A lower loss ratio generally results in higher operating income. Our loss ratio for 2009 was 91.1% compared with 64.3% for 2008. The table below reflects the loss ratios by product line.

	Years Ended December 31,	
	2009	2008
Homeowners'	91.99%	56.20%
Commercial General Liability	81.50%	77.00%
Automobile	-1.14%	1.80%
Fire	18.67%	0.00%
Inland Marine	57.50%	0.00%
All lines	91.10%	64.28%

For further discussion, see Footnote 7 to the Consolidated Financial Statements included under Part II, Item 8, of this Report.

Operating and Underwriting Expenses

Operating and underwriting expenses increased $2.5 million, or 34.3%, to $9.7 million for 2009, compared with $7.2 million for 2008.

The change is partially due to the addition of Insure-Link, created to serve as an independent insurance agency, for which operating and underwriting expenses increased to $1.1 million for the twelve months ended December 31, 2009, compared with $0.1 million for the twelve months ended December 31, 2008. Additionally, assessments paid, investment fees and bad debt expense increased a net total $1.5 million for the twelve months ended December 31, 2009, compared with the twelve months ended December 31, 2008.

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Salaries and Wages

Salaries and wages increased $0.5 million, or 6.8%, to $7.9 million for 2009, compared with $7.4 million for 2008.

The charge to operations for stock based compensation, in accordance with the provisions of FASB issued guidance, was approximately $0.4 million during 2009 compared with approximately $0.5 million for 2008.

Policy Acquisition Costs, Net of Amortization

Policy acquisition costs, net of amortization decreased $1.1 million, or 6.9%, to $13.7 million for 2009, compared with $14.8 million for 2008. Policy acquisition costs, net of amortization, consists of the actual policy acquisition costs, including commissions, payroll and premium taxes, less commissions earned on reinsurance ceded and policy fees earned. The change is due to increased homeowner's written premium and the less than 20% related commissions, net of decreased commercial general liability premium and the approximately 25% related commissions.

Provision for Income Tax Benefit

The provision for income tax benefit was $5.9 million for 2009, compared with $1.3 million for 2008. The effective rate for income taxes was 36.5% for 2009, compared with 34.8% for 2008.

Net Loss

As a result of the foregoing, the Company's net loss for 2009 was $10.3 million, compared with $2.5 million for 2008.

CONTRACTUAL OBLIGATIONS

A summary of long-term contractual obligations as of December 31, 2010 follows. The amounts represent estimates of gross undiscounted amounts payable over time.

			(Dollars in Thousands)			
Contractual Obligations	Total	2011	2012	2013	2014	Thereafter
Unpaid Losses and LAE	$66,529	$39,492	$15,907	$7,318	$2,555	$1,257
Operating leases	732	732	-	-	-	-
Total	$67,261	$40,224	$15,907	$7,318	$2,555	$1,257

LIQUIDITY AND CAPITAL RESOURCES

In 2010, our primary sources of capital included proceeds from the sale of investment securities, decreased reinsurance recoverable, net, decreased premiums receivable, decreased income taxes recoverable, amortization of investment premium discount, net, decreased other assets, non-cash compensation and decreased policy acquisition costs, net of amortization. Also contributing to our liquidity was increased premium deposits and customer credit balances, depreciation and amortization, a tax benefit related to non-cash compensation and a provision for credit losses, net. Because we are a holding company, we are largely dependent upon fees and commissions from our subsidiaries for cash flow.

In 2010, 2009 and 2008, operations used net operating cash flow of $6.5 million, $11.6 million and $1.5 million, respectively.

In 2010, operations generated $19.8 million of gross cash flow, due to a $7.3 million decrease in reinsurance recoverable, a $4.7 million decrease in premiums receivable, a $4.7 million decrease in income taxes recoverable, $1.0 million of amortization of investment discount, a $0.9 million decrease in various other assets, $0.4 million of non-cash compensation, a $0.4 million decrease in policy acquisition costs, net of amortization, a $0.2 million increase in premium deposits and customer credit balances and $0.2 million of depreciation and amortization.

In 2010, operations used $26.3 million of gross cash flow primarily due to $6.8 million of net realized investment gains, a $4.1 million decrease in unpaid losses and LAE, a $3.7 million decrease in unearned premiums, a $2.3 million decrease in deferred income tax expense, a $0.8 million decrease in bank overdraft, a $0.4 million decrease in accounts payable and accrued expenses, $0.1 million increase in prepaid reinsurance premiums, a less than $0.1 million decrease in the provision for uncollectible premiums receivable and all in conjunction with a net loss of $8.0 million.

In 2010 and 2009, net cash used in investing activities was $5.1 million and $82.7 million, respectively, compared with net cash provided by investment activities of $107.9 million in 2008. Our available for sale investment portfolio is highly liquid as it consists entirely of readily marketable securities. In 2010, investing activities generated $149.0 million and used $154.1 million.

In 2010, net financing activities used $0.4 million, as compared with $2.0 million and $4.3 million in 2009 and 2008, respectively. In 2010, the sources of cash in connection with financing activities included a less than $0.1 million tax benefit related to non-cash compensation. The uses of cash in connection with financing activities included $0.5 million in dividends paid.

We offer direct billing in connection with our automobile and homeowner programs. Direct billing is an agreement in which the insurance company accepts from the insured, as a receivable, a promise to pay the premium, as opposed to requiring the full amount of the policy at policy inception, either directly from the insured or from a premium finance company. 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 our current capital resources will be sufficient to meet currently anticipated working capital requirements. There can be no assurances, however, that such will be the case. We continue to evaluate our liquidity and the possibility that we may require additional working capital.

Federated National’s and American Vehicle’s statutory capital surplus levels as of December 31, 2010 were approximately $18.7 million and $22.0 million, respectively, and their statutory net losses in 2010 were $12.0 million and $1.6 million, respectively.

As of December 31, 2010, 2009, and 2008, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as “structured finance” or “special purpose” entities, which were established for the purpose of facilitating off-balance-sheet arrangements or other contractually narrow or limited purposes. As such, management believes that we currently are not exposed to any financing, liquidity, market or credit risks that could arise if we had engaged in transactions of that type requiring disclosure herein.

IMPACT OF INFLATION AND CHANGING PRICES

The consolidated financial statements and related data presented herein have been prepared in accordance with GAAP, which requires the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation. Our primary assets and liabilities are monetary in nature. As a result, interest rates have a more significant impact on performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or with the same magnitude as the inflationary effect on the cost of paying losses and LAE.

Insurance premiums are established before we know the amount of losses and LAE and the extent to which inflation may affect such expenses. Consequently, we attempt to anticipate the future impact of inflation when establishing rate levels. While we attempt to charge adequate premiums, we may be limited in raising premium levels for competitive and regulatory reasons. Inflation also affects the market value of our investment portfolio and the investment rate of return. Any future economic changes that result in prolonged and increasing levels of inflation could cause increases in the dollar amount of incurred losses and LAE and thereby materially adversely affect future liability requirements.

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SELECTED QUARTERLY FINANCIAL DATA (Unaudited)

	Year Ended December 31, 2010 (Dollars in Thousands except EPS)			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue:				
Net premiums earned	$11,016	$10,892	$11,621	$11,531
Other revenue	4,764	4,142	3,858	2,780
Total revenue	15,780	15,034	15,479	14,311
Expenses:				
Losses and LAE	9,063	10,196	8,669	12,160
Other expenses	8,249	8,224	8,601	7,397
Total expenses	17,312	18,420	17,270	19,557
Loss before provision for income tax benefit	(1,532)	(3,386)	(1,791)	(5,246)
Provision for income tax benefit	(605)	(1,037)	(523)	(1,794)
Net loss	$(927)	$(2,349)	$(1,268)	$(3,452)
Basic net loss per share	$(0.12)	$(0.30)	$(0.16)	$(0.43)
Fully diluted net loss per share	$(0.12)	$(0.30)	$(0.16)	$(0.43)
Weighted average number of common shares outstanding	7,946	7,946	7,946	7,946
Weighted average number of common shares outstanding (assuming dilution)	7,946	7,946	7,946	7,946

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21st Century Holding Company
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	Year Ended December 31, 2009 (Dollars in Thousands except EPS)			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue:				
Net premiums earned	$13,905	$14,264	$9,511	$10,296
Other revenue	1,719	2,864	3,368	2,927
Total revenue	15,624	17,128	12,879	13,223
Expenses:				
Losses and LAE	8,873	8,974	11,119	14,740
Other expenses	6,570	7,119	8,158	9,511
Total expenses	15,443	16,093	19,277	24,251
Income (loss) before provision for income tax expense (benefit)	181	1,035	(6,398)	(11,028)
Provision for income tax expense (benefit)	(122)	250	(2,403)	(3,646)
Net income (loss)	$303	$785	$(3,995)	$(7,382)
Basic net income (loss) per share	$0.04	$0.10	$(0.50)	$(0.93)
Fully diluted net income (loss) per share	$0.04	$0.10	$(0.50)	$(0.93)
Weighted average number of common shares outstanding	8,014	8,014	8,014	7,968
Weighted average number of common shares outstanding (assuming dilution)	8,014	8,014	8,014	7,968

OFF BALANCE SHEET TRANSACTIONS

For the years ended December 31, 2010 and 2009, there were no off balance sheet transactions.

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21st Century Holding Company

ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Our investment objective is to maximize total rate of return after federal income taxes while maintaining liquidity and minimizing risk. Our current investment policy limits investment in non-investment grade debt securities (including high-yield bonds), and limits total investments in preferred stock, common stock and mortgage notes receivable. We also comply with applicable laws and regulations, which further restrict the type, quality and concentration of investments. In general, these laws and regulations permit investments, within specified limits and subject to certain qualifications, in federal, state and municipal obligations, corporate bonds, preferred and common equity securities and real estate mortgages.

Our investment policy is established by the Board of Directors Investment Committee and is reviewed on a regular basis. Pursuant to this investment policy, as of December 31, 2010, approximately 87% of investments were in debt securities and cash and cash equivalents, which are considered to be either held until maturity or available for sale, based upon our estimates of required liquidity. Approximately 94% of the debt securities are considered available for sale and are marked to market. We may in the future consider additional debt securities to be held to maturity and carried at amortized cost. We do not use any swaps, options, futures or forward contracts to hedge or enhance our investment portfolio.

The table below sets forth investment results for the periods indicated.

	Years Ended December 31,		
	2010	2009	2008
	(Dollars in Thousands)		
Interest on debt securities	$ 3,224	$ 2,718	$ 4,619
Dividends on equity securities	491	466	770
Interest on cash and cash equivalents	11	213	1,072
Total investment income	$ 3,726	$ 3,397	$ 6,461
Net realized gains (losses)	$ 6,777	$ 1,117	$ (10,593)

The following table summarizes, by type, our investments as of December 31, 2010 and 2009.

	December 31, 2010		December 31, 2009	
	Carrying Amount	Percent of Total	Carrying Amount	Percent of Total
	(Dollars in Thousands)			
Debt securities, at market:				
United States government obligations and authorities	$28,196	23.02 %	$10,152	8.89 %
Obligations of states and political subdivisions	2,963	2.42 %	39,269	34.38 %
Corporate	65,808	53.73 %	42,092	36.85 %
International	1,383	1.13 %	-	0.00 %
	98,350	80.30 %	91,513	80.12 %
Debt securities, at amortized cost:				
Corporate	818	0.67 %	-	0.00 %
United States government obligations and authorities	5,380	4.39 %	2,650	2.32 %

	6,198	5.06	%	2,650	2.32	%
Total debt securities	104,548	85.36	%	94,163	82.44	%
Equity securities, at market:	17,937	14.64	%	20,056	17.56	%
Total investments	$122,485	100.00	%	$114,219	100.00	%

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Debt securities are carried on the balance sheet at market. At December 31, 2010 and 2009, debt securities had the following quality ratings by Moody's and for securities not assigned a rating by Moody's, Standard and Poor's Company or Fitch ratings were used.

	December 31, 2010		December 31, 2009	
	Carrying Amount	Percent of Total	Carrying Amount	Percent of Total
	(Dollars in Thousands)			
AAA	$ 43,533	41.64 %	$ 40,390	42.90 %
AA	8,995	8.60 %	18,619	19.77 %
A	39,079	37.38 %	24,286	25.79 %
BBB	11,125	10.64 %	9,954	10.57 %
Not rated	1,816	1.74 %	914	0.97 %
	$ 104,548	100.00 %	$ 94,163	100.00 %

The following table summarizes, by maturity, the debt securities as of December 31, 2010 and 2009.

	December 31, 2010		December 31, 2009	
	Carrying Amount	Percent of Total	Carrying Amount	Percent of Total
	(Dollars in Thousands)			
Matures In:				
One year or less	$ 13,267	12.69 %	$ 1,615	1.72 %
One year to five years	50,149	47.96 %	50,781	53.93 %
Five years to 10 years	29,979	28.68 %	27,178	28.86 %
More than 10 years	11,153	10.67 %	14,589	15.49 %
Total debt securities	$ 104,548	100.00 %	$ 94,163	100.00 %

At December 31, 2010, the weighted average maturity of the debt portfolio was approximately 5.5 years.

The following table provides information about the financial instruments as of December 31, 2010 that are sensitive to changes in interest rates. The table presents principal cash flows and the related weighted average interest rate by expected maturity date based upon par values.

	2011	2012	2013	2014	2015	Thereafter	Total	Carrying Amount
	(Dollars in Thousands)							
Principal amount by expected maturity:								
United States government obligations and authorities	$5,709	$2,875	$2,250	$500	$-	$4,988	$16,322	$16,495
Obligations of states and political	-	300	350	-	-	2,205	2,855	2,963

subdivisions								
Corporate securities	6,724	8,761	3,262	7,376	1,380	30,142	57,645	63,577
International securities	650	-	49	350	-	250	1,299	1,383
Collateralized mortgage obligations	-	260	4,952	4,494	3,592	6,109	19,407	20,130
Equity securities, at market	-	-	-	-	-	-	-	17,937
All investments	$13,083	$12,196	$10,863	$12,720	$4,972	$43,694	$97,528	$122,485
Weighted average interest rate by expected maturity:								
United States government obligations and authorities	1.45 %	3.35 %	3.63 %	1.75 %	0.00 %	3.86 %	2.83 %	
Obligations of states and political subdivisions	0.00 %	5.50 %	2.04 %	0.00 %	0.00 %	6.12 %	5.55 %	
Corporate securities	3.54 %	3.93 %	3.45 %	5.46 %	4.68 %	6.59 %	5.46 %	
International securities	6.98 %	0.00 %	2.25 %	4.20 %	0.00 %	5.75 %	5.82 %	
Collateralized mortgage obligations	0.00 %	4.50 %	5.30 %	4.81 %	4.31 %	4.40 %	4.71 %	
Equity securities, at market	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	
All investments	2.80 %	3.84 %	4.28 %	5.05 %	4.41 %	5.94 %	4.88 %	

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ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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21st Century Holding Company and Subsidiaries

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of 21st Century Holding Company

We have audited the accompanying consolidated balance sheets of 21st Century Holding Company as of December 31, 2010 and 2009, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2010. 21st Century Holding Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of 21st Century Holding Company as of December 31, 2010 and 2009, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America.

De Meo Young McGrath

Boca Raton, FL

March 31, 2011

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21st Century Holding Company and Subsidiaries

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2010 AND 2009

	Period Ending	
	December 31, 2010	December 31, 2009
ASSETS	(Dollars in Thousands)	
Investments		
Debt maturities, available for sale, at fair value	$98,350	$ 91,513
Debt maturities, held to maturity, at amortized cost	6,198	2,650
Equity securities, available for sale, at fair value	17,937	20,056
Total investments	122,485	114,219
Cash and short term investments	16,206	28,197
Prepaid reinsurance premiums	10,416	10,319
Premiums receivable, net of allowance for credit losses of $68 and $24, respectively	5,639	10,311
Reinsurance recoverable, net	8,038	15,302
Deferred policy acquisition costs	7,879	8,267
Deferred income taxes, net	7,916	4,675
Income taxes receivable	2,393	7,069
Property, plant and equipment, net	767	859
Other assets	2,310	3,671
Total assets	$184,049	$ 202,889
LIABILITIES AND SHAREHOLDERS' EQUITY		
Unpaid losses and LAE	$66,529	$ 70,611
Unearned premiums	47,136	50,857
Premiums deposits and customer credit balances	2,364	2,129
Bank overdraft	7,430	8,251
Deferred gain from sale of property	506	1,006
Accounts payable and accrued expenses	2,153	2,593
Total liabilities	126,118	135,447
Shareholders' equity:		
Common stock, $0.01 par value. Authorized 25,000,000 shares; issued and outstanding 7,946,384 and 7,953,384, respectively.	79	80
Preferred stock, $0.01 par value. Authorized 1,000,000 shares; none issued or outstanding	-	-
Additional paid-in capital	50,654	50,185
Accumulated other comprehensive income	520	2,026
Retained earnings	6,678	15,151
Total shareholders' equity	57,931	67,442
Total liabilities and shareholders' equity	$184,049	$ 202,889

See accompanying notes to consolidated financial statements.

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21st Century Holding Company and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

	Twelve Months Ended December 31,		
	2010	2009	2008
	(Dollars in Thousands except EPS and share and dividend data)		
Revenue:			
Gross premiums written	$ 96,410	$ 104,379	$ 88,248
Gross premiums ceded	(52,963)	(56,217)	(34,553)
Net premiums written	43,447	48,162	53,695
(Decrease) Increase in prepaid reinsurance premiums	(2,108)	10,163	(4,451)
Decrease (Increase) in unearned premiums	3,721	(10,349)	15,886
Net change in prepaid reinsurance premiums and unearned premiums	1,613	(186)	11,435
Net premiums earned	45,060	47,976	65,130
Commission income	1,388	1,362	1,612
Finance revenue	395	294	350
Managing general agent fees	1,609	1,620	1,745
Net investment income	3,726	3,397	6,461
Net realized investment gains (losses)	6,777	1,117	(10,593)
Regulatory assessments recovered	857	2,333	2,104
Other income	792	755	655
Total revenue	60,604	58,854	67,464
Expenses:			
Losses and LAE	40,088	43,706	41,869
Operating and underwriting expenses	10,835	9,681	7,209
Salaries and wages	8,611	7,930	7,428
Policy acquisition costs - amortization	13,025	13,747	14,760
Total expenses	72,559	75,064	71,266
Loss before provision for income tax benefit	(11,955)	(16,210)	(3,802)
Provision for income tax benefit	(3,959)	(5,921)	(1,324)
Net loss	$ (7,996)	$ (10,289)	$ (2,478)
Net loss per share - basic	$ (1.01)	$ (1.29)	$ (0.31)
Net loss per share - diluted	$ (1.01)	$ (1.29)	$ (0.31)

Weighted average number of common shares outstanding - basic	7,946,384	8,002,365	7,979,436
Weighted average number of common shares outstanding - diluted	7,946,384	8,002,365	7,979,436
Dividends paid per share	$ 0.06	$ 0.36	$ 0.72

See accompanying notes to consolidated financial statements.

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21st Century Holding Company and Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)
YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

	Comprehensive Income	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Deficit	Retained Earnings	Total Shareholder's Equity
	(Dollars in Thousands)					
Balance as of December 31, 2007		$79	$48,240	$ (2,596)	$35,534	$ 81,256
Net loss	$ (2,478)				(2,478)	(2,478)
Cash dividends					(5,697)	(5,697)
Treasury stock acquired			(144)			(144)
Stock options exercised		1	1,335			1,337
Shares based compensation			547			547
Net unrealized change in investments, net of tax effect of $794	1,409			1,409		1,409
Comprehensive income	$ (1,069)					
Balance as of December 31, 2008		$80	$49,979	$ (1,187)	$27,359	$ 76,231
Net loss	$ (10,289)				(10,289)	(10,289)
Cash dividends					(1,920)	(1,920)
Treasury stock acquired		(1)	(288)			(289)
Shares based compensation			493			493
Net unrealized change in investments, net of tax effect of $1,939	3,214			3,214		3,214
Comprehensive income	$ (7,075)					
Balance as of December 31, 2009		$79	$50,185	$ 2,025	$15,151	$ 67,440
Net loss	$ (7,996)				(7,996)	(7,996)
Cash dividends					(477)	(477)
Treasury stock acquired						
Shares based compensation			469			469
	(1,505)			(1,505)		(1,505)

Net unrealized change in investments, net of tax effect of $909						
Comprehensive income	$ (9,501)					
Balance as of December 31, 2010		$79	$50,654	$ 520	$6,678	$ 57,931

See accompanying notes to consolidated financial statements.

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21st Century Holding Company and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

	For the Years Ended December 31,		
	2010	2009	2008
	(Dollars in Thousands)		
Cash flow from operating activities:			
Net loss	$(7,996)	$(10,289)	$(2,478)
Adjustments to reconcile net loss to net cash used by operating activities:			
Amortization of investment premium discount, net	1,039	642	223
Depreciation and amortization of property plant and equipment, net	221	188	290
Net realized investment (gains) losses	(6,777)	(1,117)	10,593
Provision (recovery) for credit losses, net	23	30	(2)
(Recovery) provision for uncollectible premiums receivable	(44)	97	157
Non-cash compensation	431	333	365
Changes in operating assets and liabilities:			
Premiums receivable	4,716	(7,055)	287
Prepaid reinsurance premiums	(96)	(4,783)	2,934
Reinsurance recoverable, net	7,264	1,578	6,055
Income taxes recoverable	4,676	(4,794)	(2,275)
Deferred income tax expense, net of other comprehensive income	(2,332)	1,916	(3,685)
Policy acquisition costs, net of amortization	388	(1,709)	2,400
Premium finance contracts receivable	-	-	222
Other assets	837	(1,710)	144
Unpaid losses and LAE	(4,081)	5,835	5,098
Unearned premiums	(3,721)	10,343	(15,886)
Premium deposits and customer credit balances	234	429	(1,061)
Income taxes payable	-	-	(4,226)
Bank overdraft	(821)	(442)	(1)
Accounts payable and accrued expenses	(440)	(1,106)	(646)
Net cash used by operating activities	(6,479)	(11,614)	(1,494)
Cash flow (used) provided by investing activities:			
Proceeds from sale of investment securities	149,025	59,227	156,674
Purchases of investment securities available for sale	(153,969)	(141,753)	(48,707)
Purchases of property and equipment	(130)	(193)	(99)
Net cash (used) provided by investing activities	(5,074)	(82,719)	107,869
Cash flow used by financing activities:			
Exercised stock options	-	-	1,337
Dividends paid	(477)	(1,920)	(5,697)
Acquisition of common Stock	-	(288)	(144)
Tax benefit related to non-cash compensation	39	160	182
Net cash used by financing activities	(438)	(2,048)	(4,322)
Net (decrease) increase in cash and short term investments	(11,991)	(96,380)	102,053
Cash and short term investments at beginning of period	28,197	124,577	22,524
Cash and short term investments at end of period	$16,206	$28,197	$124,577

See accompanying notes to consolidated financial statements.

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21st Century Holding Company and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

	For the Years Ended December 31,		
(continued)	2010	2009	2008
	(Dollars in Thousands)		
Supplemental disclosure of cash flow information:			
Cash paid during the period for:			
Income taxes	$-	$178	$8,800
Non-cash investing and finance activities:			
Accrued dividends payable	$-	$477	$1,443

See accompanying notes to consolidated financial statements.

21st Century Holding Company and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2010

(1) ORGANIZATION AND BUSINESS

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

21st Century is an insurance holding company, which, through our subsidiaries and our contractual relationships with our independent agents and general agents, controls substantially all aspects of the insurance underwriting, distribution and claims processes. We are authorized to underwrite homeowners', personal umbrella, commercial general liability, following form commercial excess liability, personal and commercial automobile, fire, allied lines, workers' compensation, business personal property and commercial inland marine insurance. We are authorized to underwrite in various states on behalf of our wholly owned subsidiary, Federated National and other insurance carriers. Federated National is the resulting entity following the merger of Federated National into our other wholly owned subsidiary, American Vehicle, in January 2011. In connection with this merger, the Company, Federated National and American Vehicle entered into the Consent Order with the Florida OIR. See "Subsequent Events" footnote 23. 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.

The insurable events during 2010, 2009 and 2008 did not include any weather related catastrophic events such as the well publicized series of hurricanes that occurred in Florida during 2005 and 2004. During 2010, 2009 and 2008 we processed property and liability claims stemming from our homeowners', commercial general liability and private passenger automobile lines of business. Our reinsurance strategy serves to smooth the liquidity requirements imposed by most severe insurable events and for all other insurable events we manage, at a micro and macro perspective, in the normal course of business.

We are not certain how hurricanes and other insurable events will affect our future results of operations and liquidity. Loss and LAE are affected by a number of factors including the following.

- the quality of the insurable risks underwritten;
- 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.

We continue to manage the foregoing to the extent within our control. Many of the foregoing are partially, or entirely, outside our control.

Federated National is licensed as an admitted carrier in Florida. Through contractual relationships with a network of approximately 4,200 independent agents, of which approximately 400 actively sell and service our products, Federated National is authorized to underwrite homeowners', fire, allied lines and personal automobile insurance in Florida. Effective January 26, 2011, Federated National merged into American Vehicle.

American Vehicle is licensed as an admitted carrier in Florida, and underwrites commercial general liability, and personal and commercial automobile insurance. American Vehicle is also licensed as an admitted carrier in Alabama, Louisiana, Georgia and Texas, and underwrites commercial general liability insurance in those states. American Vehicle operates as a non-admitted carrier in Arkansas, California, Kentucky, Maryland, Missouri, Nevada, Oklahoma, South Carolina, Tennessee and Virginia, and can underwrite commercial general liability insurance in all of these states.

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

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

During 2007 American Vehicle applied for and was granted, by the Florida OIR in 2008, a license to underwrite commercial multi-peril and inland marine lines of business as an admitted carrier. We believe these new lines of authority will bode well with American Vehicle's customers. Operations under American Vehicle's newly granted lines of authority began in 2009.

During 2008 Federated National applied for and was granted, by the Florida OIR, a license to underwrite fire and allied lines insurance as an admitted carrier. Operations under Federated National's allied lines began in 2008 as a cedant for the insurance policies it underwrites to the federal flood program. Operations under Federated National's granted fire line of business began in 2009.

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 2009, 81.2%, 14.6%, 3.4% and 0.8% of the premiums we underwrote were for homeowners', commercial general liability, federal flood, and personal automobile insurance, respectively.

The Company's sale of homeowners' policies decreased $7.9 million, or 9.3%, to $76.8 million in 2010, compared with $84.7 million in 2009, primarily due to the effects of Florida's mandated homeowners' wind mitigation discounts and the 2009 inclusion of $17.9 million from policies we assumed from Citizens. The primary factor for the decrease in commercial general liability production is a slowdown in the economy which has a dramatic impact on the artisan contractor portfolio written by American Vehicle.

Our business, results of operations and financial condition are subject to fluctuations due to a variety of factors. Abnormally high severity or frequency of claims in any period could have a material adverse effect on our business, results of operations and financial condition. 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. We internally process claims made by our insureds through our wholly owned claims adjusting company, Superior.

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. As this occurs, we will seek to replicate our distribution network in those states. For example, American Vehicle became an admitted insurer in the state of Georgia during the quarter ended September 30, 2010. 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.

Assurance MGA, a wholly owned subsidiary of the Company, acts as Federated National's and American Vehicle's exclusive managing general agent in the state of Florida and is also licensed as a managing general agent in the states

of Alabama, Arkansas, 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 a 6% commission fee from its affiliates Federated National and American Vehicle. Effective the fourth quarter of 2010, Assurance MGA entered into a fee modification agreement wherein it will earn varying amounts between 2% and 4%, returning to 6% at an unknown future date.

21st Century Holding Company and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2010

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES

(a) CASH AND SHORT TERM INVESTMENTS

We consider all short-term highly liquid investments with original maturities of less than three months to be short term investments.

(b) INVESTMENTS

Our investment securities have been classified as either available-for-sale or held to maturity in response to our liquidity needs, changes in market interest rates and asset-liability management strategies, among other reasons. Investments available-for-sale are stated at fair value on the balance sheet. Investments designated as held to maturity are stated at amortized cost on the balance sheet. Unrealized gains and losses are excluded from earnings and are reported as a component of other comprehensive income within shareholders' equity, net of related deferred income taxes.

A decline in the fair value of an available-for-sale security below cost that is deemed other than temporary results in a charge to income, resulting in the establishment of a new cost basis for the security. Premiums and discounts are amortized or accreted, respectively, over the life of the related debt security as an adjustment to yield using a method that approximates the effective interest method. Dividends and interest income are recognized when earned. Realized gains and losses are included in earnings and are derived using the specific-identification method for determining the cost of securities sold.

(c) PREMIUM REVENUE

Premium revenue on all lines is earned on a pro-rata basis over the life of the policies. Unearned premiums represent the portion of the premium related to the unexpired policy term.

(d) DEFERRED ACQUISITION COSTS

Deferred acquisition costs primarily represent commissions paid to outside agents at the time of policy issuance (to the extent they are recoverable from future premium income) net of ceded premium commission earned from reinsurers, salaries and premium taxes net of policy fees, and are amortized over the life of the related policy in relation to the amount of premiums earned. The method followed in computing deferred acquisition costs limits the amount of such deferred costs to their estimated realizable value, which gives effect to the premium to be earned, related investment income, unpaid losses and LAE and certain other costs expected to be incurred as the premium is earned. There is no indication that these costs will not be fully recoverable in the near term.

(e) PREMIUM DEPOSITS

Premium deposits represent premiums received primarily in connection with homeowner policies that are not yet effective. We take approximately 30 working days to issue the policy from the date the cash and policy application are received.

(f) UNPAID LOSSES AND LAE

Unpaid losses and LAE are determined by establishing liabilities in amounts estimated to cover incurred losses and LAE. Such liabilities are determined based upon our assessment of claims pending and the development of prior years' loss liability. These amounts include liabilities based upon individual case estimates for reported losses and LAE and estimates of such amounts that are IBNR. Changes in the estimated liability are charged or credited to operations as the losses and LAE are settled.

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.

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.

Accounting for loss contingencies pursuant to FASB issued guidance involves the existence of a condition, situation or set of circumstances involving uncertainty as to possible loss that will ultimately be resolved when one or more future event(s) occur or fail to occur. Additionally, accounting for a loss contingency requires management to assess each event as probable, reasonably possible or remote. Probable is defined as the future event or events are likely to occur. Reasonably possible is defined as the chance of the future event or events occurring is more than remote but less than probable, while remote is defined as the chance of the future event or events occurring is slight. An estimated loss in connection with a loss contingency shall be recorded by a charge to current operations if both of the following conditions are met: First, the amount can be reasonably estimated, and second, the information available prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements. It is implicit in this condition that it is probable that one or more future events will occur confirming the fact of the loss or incurrence of a liability.

We do not discount unpaid losses and LAE for financial statement purposes.

(g) FINANCE REVENUE

Interest and service income, resulting from the financing of insurance premiums, is recognized using a method that approximates the effective interest method. Late charges are recognized as income when chargeable.

(h) PREMIUMS RECEIVABLE, NET OF ALLOWANCE FOR CREDIT LOSSES

Provisions for credit losses are provided in amounts sufficient to maintain the allowance for credit losses at a level considered adequate to cover anticipated losses. Generally, accounts that are over 90 days old are written off to the allowance for credit losses. We have been increasing our reliance on direct billing of our policyholders for their insurance premiums. 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, either directly from the insured or from a premium finance company. We manage the credit risk associated with our direct billing program through our integrated computer system which allows us to monitor the equity in the unearned premium to the underlying policy. Underwriting criteria are designed with down payment requirements and monthly payments that create policyholder equity, also called unearned premium, in the insurance policy. The equity in the policy is collateral for the extension of credit to the insured.

(i) MANAGING GENERAL AGENT (“MGA”) FEES

If all the costs substantially associated with the MGA contracts, which do not involve affiliated insurers, are incurred during the underwriting process, then the MGA fees and the related acquisition costs are recognized at the time the policy is underwritten, net of estimated cancellations. If the MGA contract requires significant involvement subsequent to the completion of the underwriting process, then the MGA fees and related acquisition costs are deferred and recognized over the life of the policy. Included in MGA Fees are policy fees charged by the insurance

companies and passed through to Assurance MGA. Policy fees are discussed below.

(j) POLICY FEES

Policy fees represent a $25 non-refundable application fee for insurance coverage, which are intended to reimburse us for the costs incurred to underwrite the policy. The fees and related costs are recognized when the policy is underwritten. These fees are netted against underwriting costs and are included as a component of deferred acquisition costs.

21st Century Holding Company and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2010

(k) REINSURANCE

We recognize the income and expense on reinsurance contracts principally on a pro-rata basis over the term of the reinsurance contracts or until the reinsurers maximum liability is exhausted, whichever comes first. We are reinsured under separate reinsurance agreements for the different lines of business underwritten. Reinsurance contracts do not relieve us from our obligations to policyholders. We continually monitor our reinsurers to minimize our exposure to significant losses from reinsurer insolvencies. We only cede risks to reinsurers whom we believe to be financially sound. At December 31, 2010, all reinsurance recoverables are considered current and deemed collectable.

(l) INCOME TAXES

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss, capital loss and tax-credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income or expense in the period that includes the enactment date.

(m) CONCENTRATION OF CREDIT RISK

Financial instruments, which potentially expose us to concentrations of credit risk, consist primarily of investments, premiums receivable, amounts due from reinsurers on paid and unpaid losses and finance contracts. We have not experienced significant losses related to premiums receivable from individual policyholders or groups of policyholders in a particular industry or geographic area. We believe no credit risk beyond the amounts provided for collection losses is inherent in our premiums receivable or finance contracts. In order to reduce credit risk for amounts due from reinsurers, we seek to do business with financially sound reinsurance companies and regularly review the financial strength of all reinsurers used. Additionally, our credit risk in connection with our reinsurers is mitigated by the establishment of irrevocable clean letters of credit in favor of Federated National.

(n) RECENT ACCOUNTING PRONOUNCEMENTS

In December 2010, the FASB issued Accounting Standard Update (“ASU”) No. 2010-29: Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations a consensus of the FASB Emerging Issues Task Force. The objective of this update is to address diversity in practice about the interpretation of the pro forma revenue and earnings disclosure requirements for business combinations. Paragraph 805-10-50-2(h) requires a public entity to disclose pro forma information for business combinations that occurred in the current reporting period. The disclosures include pro forma revenue and earnings of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period. If comparative financial statements are presented, the pro forma revenue and earnings of the combined entity for the comparable prior reporting period should be reported as though the acquisition date for all business combinations that occurred during the current year had been as of the beginning of the comparable prior annual reporting period. In practice, some preparers have presented the pro forma information in their comparative financial statements as if the business combination that occurred in the current reporting period had occurred as of the beginning of each of the current and prior annual reporting periods. Other

preparers have disclosed the pro forma information as if the business combination occurred at the beginning of the prior annual reporting period only, and carried forward the related adjustments, if applicable, through the current reporting period. The amendments in this update are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The adoption of this update did not have a material impact on the Company’s financial statements.

In January 2010, the FASB issued ASU No. 2010-06: Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements. The amendments in ASU 2010-06 require additional disclosures about fair value measurements, including transfers in and out of Levels 1 and 2 and activity in Level 3 on a gross basis, and clarifies certain other existing disclosure requirements including level of disaggregation and disclosures around inputs and valuation techniques. The provisions of the new standards are effective for interim or annual reporting periods beginning after December 15, 2009, except for the additional Level 3 disclosures, which will become effective for fiscal years beginnings after December 15, 2010. These standards are disclosure only in nature and do not change accounting requirements. Accordingly, adoption of the new standard had no impact on the Company’s consolidated financial position, results of operations or cash flows.

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In June 2009, the FASB issued FASB Statement No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162 ("SFAS No. 168") related to accounting standards codification and the hierarchy of GAAP. This guidance provides for the FASB Accounting Standards Codification (the "Codification") to become the single official source of authoritative, nongovernmental United States GAAP. The Codification did not change GAAP but reorganized the literature. The guidance is effective for interim and annual periods ending after September 15, 2009.

In May 2009, the FASB issued FASB Statement No. 165, "Subsequent Events" ("SFAS No. 165"), which is now part of ASU Topic 855, Subsequent Events. The objective of the guidance is to establish general standards of accounting for disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. In particular, the guidance sets forth:

1. the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements,

2. the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and,

3. the disclosures that an entity should make about events or transactions that occurred after the balance sheet date.

In accordance with this guidance, an entity should apply the requirements to interim or annual financial periods ending after June 15, 2009. The adoption of this guidance did not have a material impact on the Company's financial statements or condition.

In April 2009, the FASB issued FASB Staff Position ("FSP") FAS 115-2 and FSP FAS 124-2, "Recognition and Presentation of Other-Than Temporary Impairments" ("FSP FAS 115-2 and FSP FAS 124-2") related to the recognition and presentation of other-than temporary impairments. In April 2009, the SEC also adopted similar guidance with Staff Accounting Bulletin ("SAB") No. 111 ("SAB 111") on Other-Than-Temporary Impairment. FSP FAS 115-2 and FSP FAS 124-2 establishes a new method of recognizing and reporting other-than-temporary impairments of debt securities and contains additional disclosure requirements related to debt and equity securities. This new accounting guidance establishes a new method of recognizing and reporting other-than-temporary impairments of debt securities and contains additional disclosure requirements related to debt and equity securities. For debt securities, the "ability and intent to hold" provision is eliminated, and impairment is considered to be other-than-temporary if an entity (i) intends to sell the security, (ii) more likely than not will be required to sell the security before recovering its cost, or (iii) does not expect to recover the security's entire amortized cost basis (even if the entity does not intend to sell). This new framework does not apply to equity securities (i.e., impaired equity securities will continue to be evaluated under previously existing guidance). The "probability" standard relating to the collectability of cash flows is eliminated, and impairment is now considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security. The accounting guidance provides that for debt securities which (i) an entity does not intend to sell and (ii) it is not more likely than not that the entity will be required to sell before the anticipated recovery of its remaining amortized cost basis, the impairment is separated into the amount related to estimated credit losses and the amount related to all other factors. The amount of the total impairment related to all other factors is recorded in other comprehensive loss and the amount related to estimated credit loss is recognized as a charge against current period earnings. The new guidance expands disclosure requirements for both debt and equity securities and requires a more detailed, risk-oriented breakdown of security

types and related information, and requires that the annual disclosures be made in interim periods. The accounting guidance is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted. At the time of adoption, the Company did not have any Other-Than-Temporary Impairments for debt securities, and, the adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

Other recent accounting pronouncements issued by the FASB, the American Institute of Certified Public Accountants ("AICPA"), and the SEC did not or are not believed by management to have a material impact on the Company's present or future financial statements.

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21st Century Holding Company and Subsidiaries
Notes to Consolidated Financial Statements
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(o) USE OF ESTIMATES

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

Similar to other property and casualty insurers, our liability for unpaid losses and LAE, although supported by actuarial projections and other data, is ultimately based on management's reasoned expectations of future events. Although considerable variability is inherent in these estimates, we believe that this liability is adequate. Estimates are reviewed regularly and adjusted as necessary. Such adjustments are reflected in current operations. In addition, the realization of our deferred income tax assets is dependent on generating sufficient future taxable income. It is reasonably possible that the expectations associated with these accounts could change in the near term and that the effect of such changes could be material to the Consolidated Financial Statements.

(p) OPERATIONAL RISKS

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

Effective January 26, 2011, Federated National merged with and into American Vehicle, and the resulting entity changed its name to “Federated National Insurance Company”.

- Our financial condition could be adversely affected by the occurrence of natural and man-made disasters.
- We have used nearly 100% of 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.
- 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 face a risk of non-collectibility of reinsurance, which could materially and adversely affect our business, results of operations and/or financial condition.
- 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.
- We may require additional capital in the future which may not be available or only available on unfavorable terms.
- Our business is heavily regulated, and changes in regulation may reduce our profitability and limit our growth.

- We may experience financial exposure from climate change.

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

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

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

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

- 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.

- 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.

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

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

- Our insurance companies are subject to minimum capital and surplus requirements, and our failure to meet these requirements could subject us to regulatory action.

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

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

- 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.

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

- 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.

- 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.

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

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

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

-

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.

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, bylaws and Florida law may discourage takeover attempts and may result in entrenchment of management.
- 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.

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(q) FAIR VALUE

The fair value of our investments is estimated based on prices published by financial services or quotations received from securities dealers and is reflective of the interest rate environment that existed as of the close of business on December 31, 2010 and 2009. Changes in interest rates subsequent to December 31, 2010 may affect the fair value of our investments. Refer to Footnote 3(a) of the Notes to Consolidated Financial Statements for details.

The carrying amounts for the following financial instrument categories approximate their fair values at December 31, 2010 and 2009 because of their short-term nature: cash and short term investments, premiums receivable, finance contracts, due from reinsurers, revolving credit outstanding, bank overdraft, accounts payable and accrued expenses.

(r) STOCK OPTION PLANS

During the year ended December 31, 2010, the Company had two stock-based employee compensation plans, which are described later in Footnote 15, Stock Compensation Plans. Prior to January 1, 2006, we accounted for the plans under the recognition and measurement provisions of stock-based compensation using the intrinsic value method prescribed by the Accounting Principles Board (“APB”) and related Interpretation, as permitted by FASB issued guidance. Under these provisions, no stock-based employee compensation cost was recognized in the Statement of Operations as all options granted under those plans had an exercise price equal to or less than the market value of the underlying common stock on the date of grant.

Effective January 1, 2006, the Company adopted the fair value recognition provisions of FASB issued guidance using the modified-prospective-transition method. Under that transition method, compensation costs recognized during 2010, 2009 and 2008 include:

- Compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of FASB issued guidance, and

- Compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair-value estimated in accordance with the provisions of FASB issued guidance. Results for prior periods have not been restated, as not required to be by the pronouncement.

(s) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost less accumulated depreciation. Depreciation on property, plant and equipment is calculated on a straight-line basis over the following estimated useful lives: building and improvements - 30 years and furniture and fixtures - 7 years. We capitalize betterments and any other expenditure in excess of $500 if the asset is expected to have a useful life greater than one year. The carrying value of property, plant and equipment is periodically reviewed based on the expected future undiscounted operating cash flows of the related item. Based upon our most recent analysis, we believe that no impairment of property, plant and equipment exists at December 31, 2010.

(t) RECLASSIFICATIONS

Certain 2009 and 2008 financial statement amounts have been reclassified to conform to the 2010 presentations.

(u) GOODWILL AND INTANGIBLE ASSETS

During 2009, the Company purchased one intangible asset totaling $0.1 million. In accordance with FASB issued guidance, the accounting for the recognized intangible asset was based on its useful life to the Company. The useful life of the intangible asset was the period over which it was expected to contribute directly or indirectly to the future cash flows of the Company. The intangible asset had a definite finite life ranging from six to twelve months, and was amortized accordingly.

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(3) INVESTMENTS

FASB issued guidance addresses accounting and reporting for (a) investments in equity securities that have readily determinable fair values and (b) all investments in debt securities. The guidance requires that these securities be classified into one of three categories, Held-to-maturity, Trading, or Available-for-sale securities.

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

Total Investments increased $8.3 million, or 7.2%, to $122.5 million as of December 31, 2010, compared with $114.2 million as of December 31, 2009.

The debt and equity securities that are available for sale and carried at fair value represent 95% of total investments as of December 31, 2010, compared with 98% as of December 31, 2009.

We did not hold any trading investment securities during 2010.

Additional provisions contained in FASB issued guidance addresses the determination as to when an investment is considered impaired, whether that impairment is other-than temporary, and the measurement of an impairment loss. The Company's policy for the valuation of temporarily impaired securities is to determine impairment based on the analysis of the following factors.

- rating downgrade or other credit event (eg., failure to pay interest when due);
- length of time and the extent to which the fair value has been less than amortized cost;
- financial condition and near term prospects of the issuer, including any specific events which may influence the operations of the issuer such as changes in technology or discontinuance of a business segment;
- prospects for the issuer's industry segment;
- intent and ability of the Company to retain the investment for a period of time sufficient to allow for anticipated recovery in market value;
- historical volatility of the fair value of the security.

Pursuant to this guidance, the Company records the unrealized losses, net of estimated income taxes that are associated with that part of our portfolio classified as available for sale, through the shareholders' equity account titled

"Other Comprehensive Income". Management periodically reviews the individual investments that comprise our portfolio in order to determine whether a decline in fair value below our cost either is other-than temporarily or permanently impaired. Factors used in such consideration include, but are not limited to, the extent and length of time over which the market value has been less than cost, the financial condition and near-term prospects of the issuer and our ability and intent to keep the investment for a period sufficient to allow for an anticipated recovery in market value.

In reaching a conclusion that a security is either other-than-temporarily or permanently impaired we consider such factors as the timeliness and completeness of expected dividends, principal and interest payments, ratings from nationally recognized statistical rating organizations such as Standard and Poor's and Moody's as well as information released via the general media channels. During 2010 and 2009, in connection with this process, we have not charged any net realized investment loss to operations.

As of December 31, 2010, all of our securities are in good standing and not impaired, compared with $0.4 million of securities that were considered impaired as of December 31, 2009.

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As of December 31, 2009, all of our securities were in good standing and not impaired as defined by FASB issued guidance, except for our holdings in Blackrock Pfd, Inc., which continued to be impaired by $0.4 million as of December 31, 2009, compared to the total $2.1 million as of December 31, 2008.

The investments held as of December 31, 2010 were comprised mainly of corporate bonds held in various industries, municipal bonds and United States government bonds. As of December 31, 2010, 72% of the debt portfolio is in diverse industries and 28% is in United States government bonds. As of December 31, 2010, approximately 77% of the equity holdings are in equities related to diverse industries and 23% are in mutual funds.

The investments held as of December 31, 2009, were comprised mainly of corporate bonds held in various industries, municipal bonds and United States government bonds. As of December 31, 2009, 89% of the debt portfolio was in diverse industries and 11% was in United States government bonds. As of December 31, 2009, approximately 89% of the equity holdings were in equities related to diverse industries and 11% are in mutual funds.

As of December 31, 2010, 55% of the investment portfolio was in corporate bonds, 7% is in obligations of states and political subdivisions, and 24% is in United States government bonds. Approximately 10% of the common stock holdings are related to foreign entities.

As of December 31, 2009, 36.9% of the investment portfolio was in corporate bonds, 34.4% was in obligations of states and political subdivisions, and 11.2% was in United States government bonds. Approximately 17.5% of the holdings were in equities related to diverse industries.

As of December 31, 2010 and 2009, we have classified $6.2 million and $2.7 million, respectively, of our bond portfolio as held-to-maturity. We only classify bonds as held-to-maturity to support securitization of credit requirements. Fully funded trust agreements or outstanding irrevocable letters of credit, used for such purposes, total $3.6 million and $2.8 million for the period ended December 31, 2010 and 2009, respectively.

During 2010, we reclassified $3.1 million of amortized cost to held-to-maturity from available-for-sale to fund trust agreements.

During April 2006, American Vehicle finalized a $15.0 million irrevocable letter of credit in conjunction with the 100% Quota Share Reinsurance Agreement with Republic Underwriters Insurance Company (“Republic”) which was terminated in April 2007. As of December 31, 2007, the letter of credit in favor of Republic totaled $10.0 million. As of December 31, 2008, the letter of credit in favor of Republic totaled $3.0 million. As of December 31, 2009, a letter of credit in favor of Republic totaled $1.0 million. As of December 31, 2010, the letter of credit in favor of Republic was replaced by a fully funded trust agreement that totaled $1.0 million.

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(a) DEBT AND EQUITY SECURITIES

The following table summarizes, by type, our investments as of December 31, 2010 and 2009.

	December 31, 2010		December 31, 2009	
	Carrying Amount	Percent of Total	Carrying Amount	Percent of Total
	(Dollars in Thousands)			
Debt securities, at market:				
United States government obligations and authorities	$28,196	23.02 %	$10,152	8.89 %
Obligations of states and political subdivisions	2,963	2.42 %	39,269	34.38 %
Corporate	65,808	53.73 %	42,092	36.85 %
International	1,383	1.13 %	-	0.00 %
	98,350	80.30 %	91,513	80.12 %
Debt securities, at amortized cost:				
Corporate	818	0.67 %	-	0.00 %
United States government obligations and authorities	5,380	4.39 %	2,650	2.32 %
	6,198	5.06 %	2,650	2.32 %
Total debt securities	104,548	85.36 %	94,163	82.44 %
Equity securities, at market:	17,937	14.64 %	20,056	17.56 %
Total investments	$122,485	100.00 %	$114,219	100.00 %

The following table shows the realized gains (losses) for debt and equity securities for the years ended December 31, 2010 and 2009.

	Years Ended December 31,			
	2010		2009	
	Gains (Losses)	Fair Value at Sale	Gains (Losses)	Fair Value at Sale
	(Dollars in Thousands)			
Debt securities	$4,484	$98,318	$485	$28,882
Equity securities	4,228	27,898	2,159	12,463
Total realized gains	8,712	126,216	2,644	41,345
Debt securities	(209)	12,295	(825)	9,637
Equity securities	(1,726)	8,715	(702)	5,780
Total realized losses	(1,935)	21,010	(1,527)	15,417
Net realized gains on investments	$6,777	$147,226	$1,117	$56,762

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A summary of the amortized cost, estimated fair value, gross unrealized gains and losses of debt and equity securities at December 31, 2010 and 2009 is as follows.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(Dollars in Thousands)		
December 31, 2010				
Debt Securities - Available-For-Sale:				
United States government obligations and authorities	$28,389	$191	$384	$28,196
Obligations of states and political subdivisions	2,920	49	6	2,963
Corporate	65,540	850	581	65,809
International	1,358	25	1	1,382
	$98,207	$1,115	$972	$98,350
Debt Securities - Held-To-Maturity:				
United States government obligations and authorities	$5,381	$212	$20	$5,573
Corporate	818	1	3	816
	$6,199	$213	$23	$6,389
Equity securities - common stocks	$17,245	$1,425	$733	$17,937
December 31, 2009				
Debt Securities - Available-For-Sale:				
Obligations of states and political subdivisions	$49,041	$695	$315	$49,421
Corporate	40,350	1,798	56	42,092
	$89,391	$2,493	$371	$91,513
Debt Securities - Held-To-Maturity:				
United States government obligations and authorities	$2,650	$148	$5	$2,793
Corporate	-	-	-	-
	$2,650	$148	$5	$2,793
Equity securities - common stocks	$18,927	$1,840	$711	$20,056

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The table below reflects our unrealized investment losses by investment class, aged for length of time in an unrealized loss position.

	Unrealized (Losses)	Less than 12 months	12 months or longer
		(Dollars in Thousands)	
Debt securities:			
United States government obligations and authorities	$ (384)	$ (384)	$ -
Obligations of states and political subdivisions	(6)	(6)	-
Corporate	(581)	(581)	-
International	(1)	(1)	-
	(972)	(972)	-
Equity securities:			
Common stocks	(733)	(435)	(298)
Total debt and equity securities	$ (1,705)	$ (1,407)	$ (298)

Below is a summary of debt securities at December 31, 2010 and 2009 by contractual or expected maturity periods. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 31, 2010		December 31, 2009	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
		(Dollars in Thousands)		
Due in one year or less	$ 13,231	$ 13,268	$ 1,602	$ 1,615
Due after one through five years	49,982	50,360	49,821	50,885
Due after five through ten years	30,066	29,971	26,177	27,217
Due after ten years	11,127	11,140	14,441	14,589
Total	$ 104,406	$ 104,739	$ 92,041	$ 94,306

United States Treasury notes with a book value of $1,036,000 and $1,041,000, both maturing in 2012, were on deposit with the Florida OIR as of December 31, 2010, as required by law for American Vehicle and Federated National respectively, and are included with other investments held until maturity. These same United States Treasury notes had a book value of $1,039,000 and $1,045,000, respectively, as of December 31, 2009.

The table below sets forth investment results for the periods indicated.

	Years Ended December 31,		
	2010	2009	2008
		(Dollars in Thousands)	

Interest on debt securities	$ 3,224	$ 2,718	$ 4,619
Dividends on equity securities	491	466	770
Interest on cash and cash equivalents	11	213	1,072
Total investment income	$ 3,726	$ 3,397	$ 6,461
Net realized gains (losses)	$ 6,777	$ 1,117	$ (10,593)

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Proceeds from sales of debt and equity securities in 2010, 2009 and 2008 were approximately $149.0 million, $59.2 million and $150.3 million, respectively.

A summary of net realized investment gains (losses) and increases in net unrealized gains (losses) follows.

	Years Ended December 31,		
	2010	2009	2008
	(Dollars in Thousands)		
Net realized gains (losses)			
Debt securities	$4,275	$(340)	$(84)
Equity securities	2,502	1,457	(10,509)
Total	$6,777	$1,117	$(10,593)
Net unrealized gains (losses)			
Debt securities	$143	$2,122	$(1,084)
Equity securities	692	1,128	(819)
Total	$835	$3,250	$(1,903)

(4) FINANCE CONTRACTS RECEIVABLE

Below is a summary of the components of the finance contracts receivable balance.

	Years Ended December 31,	
	2010	2009
	(Dollars in Thousands)	
Finance contracts receivable	$ 287	$ 300
Less:		
Unearned income	(4)	(8)
Allowance for credit losses	(29)	(29)
Finance contracts, net of allowance for credit losses	$ 254	$ 263

The activity in the allowance for credit losses was as follows.

	Years Ended December 31,	
	2010	2009
	(Dollars in Thousands)	
Allowance for credit losses at beginning of year	$ 29	$ 25
Recoveries credited against the allowance	(23)	(26)
Additions charged to bad debt expense	23	30
Allowance for credit losses at end of year	$ 29	$ 29

As security, Federated Premium retains a contractual right, if a premium installment is not paid when due, to cancel the insurance policy and to receive the unearned premium from the insurer.

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(5) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following.

	Years Ended December 31,	
	2010	2009
	(Dollars in Thousands)	
Building and improvements	$ 254	$ 602
Furniture and fixtures	3,703	3,314
Property, plant and equipment, gross	3,957	3,916
Accumulated depreciation	(3,190)	(3,057)
Property, plant and equipment, net	$ 767	$ 859

Depreciation of property, plant, and equipment was $221,494, $188,424 and $290,417 during 2010, 2009 and 2008, respectively.

(6) REINSURANCE

We reinsure (cede) a portion of written premiums on an excess of loss or a quota-share basis to nonaffiliated insurance companies in order to limit our loss exposure. To the extent that reinsuring companies are unable to meet their obligations assumed under these reinsurance agreements, we remain primarily liable to our policyholders.

The impact of the excess of loss reinsurance treaties on the financial statements is as follows.

	Years Ended December 31,		
	2010	2009	2008
	(Dollars in Thousands)		
Premium written			
Direct and Assumed	$ 96,410	$ 104,379	$ 88,248
Ceded	(52,963)	(56,217)	(34,553)
	$ 43,447	$ 48,162	$ 53,695
Premiums earned			
Direct and Assumed	$ 100,131	$ 94,030	$ 104,135
Ceded	(55,071)	(46,054)	(39,005)
	$ 45,060	$ 47,976	$ 65,130
Losses and LAE incurred			
Direct and Assumed	$ 42,723	$ 54,204	$ 46,762
Ceded	(2,635)	(10,498)	(4,893)
	$ 40,088	$ 43,706	$ 41,869

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	As of December 31, 2010	2009
	(Dollars in Thousands)	
Unpaid losses and LAE, net		
Direct and Assumed	$ 66,529	$ 70,611
Ceded	(6,810)	(11,594)
	$ 59,719	$ 59,017
Unearned premiums		
Direct and Assumed	$ 47,136	$ 50,857
Ceded	(24,680)	(26,788)
	$ 22,456	$ 24,069

The Company holds collateral under related reinsurance agreements in the form of fully funded trust agreements totaling $3.6 million that can be drawn on for amounts that remain unpaid for more than 120 days.

The impact of the quota-share reinsurance treaties on the financial statements is as follows.

	As of December 31, 2010	2009
	(Dollars in Thousands)	
Transatlantic Reinsurance Company (A+ A.M. Best rated)		
Reinsurance recoverable on paid losses and LAE	$ 1	$ -
Unpaid losses and LAE	38	72
	$ 39	$ 72

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(7) UNPAID LOSSES AND LAE

The liability for unpaid losses and LAE is determined on an individual-case basis for all incidents reported. The liability also includes amounts for unallocated expenses, anticipated future claim development and IBNR.

Activity in the liability for unpaid losses and LAE is summarized as follows.

	Years Ended December 31, (Dollars in Thousands)		
	2010	2009	2008
Balance at January 1	$ 70,610	$ 64,775	$ 59,685
Less reinsurance recoverables	(11,594)	(12,713)	(20,134)
Net balance at January 1	$ 59,016	$ 52,062	$ 39,551
Incurred related to			
Current year	$ 37,288	$ 41,988	$ 37,398
Prior years	2,800	1,718	4,471
Total incurred	$ 40,088	$ 43,706	$ 41,869
Paid related to			
Current year	$ 15,077	$ 18,478	$ 13,277
Prior years	24,308	18,274	16,080
Total paid	$ 39,385	$ 36,752	$ 29,357
Net balance at year-end	$ 59,719	$ 59,016	$ 52,062
Plus reinsurance recoverables	6,810	11,595	12,713
Balance at year-end	$ 66,529	$ 70,611	$ 64,775

Based upon consultations with our independent actuarial consultants and their statement of opinion on losses and LAE, we believe that the liability for unpaid losses and LAE is adequate to cover all claims and related expenses which may arise from incidents reported.

As a result of our review of liability for losses and LAE, which includes a re-evaluation of the adequacy of reserve levels for prior year's claims, we increased the liability for losses and LAE for claims occurring in prior years by $2.8 million, $1.7 million and $4.5 million for the years ended December 31, 2010, 2009 and 2008, respectively.

We continue to revise our estimates of the ultimate financial impact of claims made resulting from past storms. The revisions to our estimates are based on our analysis of subsequent information that we receive regarding various factors, including: (i) per claim information; (ii) Company and industry historical loss experience; (iii) legislative enactments, judicial decisions, legal developments in the awarding of damages, and (iv) trends in general economic conditions, including the effects of inflation.

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For the year ended December 31, 2010, our actuarial firm determined range of loss and LAE reserves on a net basis range from a low of $55.0 million to a high of $80.1 million, with a best estimate of $63.2 million. The Company's net loss and LAE reserves are carried at $57.6 million. The Company's point estimate for its reserves as of December 31, 2010 is 8.7% below our actuary's best estimate, which reflects management's current analysis of the status and expected timing of our anticipated claims, our analysis of expected weather patterns in the regions in which we sell policies, our re-focus of our business growth efforts to areas outside of South Florida, and other factors.

The following is an overview of management's loss reserving process

The Company's loss reserves can generally be categorized into two distinct groups. One group is short-tail classes of business consisting principally of property risks in connection with homes and automobiles. The other group is long-tail casualty classes of business which include primarily commercial general liability and to a much lesser extent, homeowner and automobile liability. For operations writing short-tail coverages our loss reserves were generally geared toward determining an expected loss ratio for current business rather than maintaining a reserve for the outstanding exposure. Estimations of ultimate net loss reserves for long-tail casualty classes of business is a more complex process and depends on a number of factors including class and volume of business involved. Experience in the more recent accident years of long-tail casualty classes of business shows limited statistical credibility in reported net losses because a relatively low proportion of net losses would be reported claims and expenses and even smaller percentage would be net losses paid. Therefore, incurred but not yet reported ("IBNR") would constitute a relatively high proportion of net losses.

Additionally, the different methodologies are utilized the same, regardless of the line of business. However, the final selection of ultimate loss and LAE is certain to vary by both line of business and by accident period maturity. There is no prescribed combination of line of business, accident year maturity, and methodologies; consistency in results of the different methodologies and reasonableness of the result are the primary factors that drive the final selection of ultimate loss and LAE.

Methods used to estimate Loss & LAE reserves

The methods we use for our short-tail business do not differ from the methods we use for our long-tail business. The Incurred and Paid Development Methods intrinsically recognize the unique development characteristics contained within the historical experience of each material short-tail and long-tail line of business. The Incurred and Paid Cape Cod Methods reflect similar historical development unique to each material short-tail and long-tail line of business.

We apply the following general methods in projecting loss and LAE reserves:

- Paid and Incurred Loss Development Method
- Paid and Incurred Cape Cod Method

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Description of ultimate loss estimation methods

The estimated Ultimate Loss and Defense & Cost Containment Expense ("DCCE") is based on an analysis by line of business, coverage and by accident quarter performed using data as of December 31, 2010. The analysis relies primarily on four actuarial methods: Incurred Loss & DCCE Development Method, Paid Loss & DCCE Development Method, Bornhuetter-Ferguson Incurred Method, and Bornhuetter-Ferguson Paid Method. Each method relies on company experience, and, where relevant, the analysis includes comparisons to industry experience. The following is a description of each of these methods:

Incurred Loss & DCCE Development Method – This reserving method is based on the assumption that the historical incurred loss & DCCE development pattern as reflected by the Company is appropriate for estimating the future loss & DCCE development. Incurred paid plus case amounts separated by accident quarter of occurrence and at quarterly evaluations are used in this analysis. Case reserves do not have to be adequately stated for this method to be effective; they only need to have a fairly consistent level of adequacy at all stages of maturity. Historical "age-to-age" loss development factors were calculated to measure the relative development of an accident quarter from one maturity point to the next. Loss & DCCE development factors ("LDF") are selected based on a review of the historical relationships between incurred loss & DCCE at successive valuations and based on industry patterns. The LDFs are multiplied together to derive cumulative LDF's that, when multiplied by actual incurred loss & DCCE, produce estimates of ultimate loss & DCCE.

Paid Loss & DCCE Development Method – This method is similar to the Incurred Loss & DCCE Development Method only paid loss & DCCE and paid patterns are substituted for the incurred loss & DCCE and incurred patterns.

Bornhuetter-Ferguson Incurred Method – This reserving method combines estimated initial expected unreported loss & DCCE with the actual loss & DCCE to yield the ultimate loss & DCCE estimate. Expected unreported loss & DCCE are equal to expected total loss & DCCE times the expected unreported percentage of loss & DCCE for each policy year. The incurred loss & DCCE emergence pattern used to determine the unreported percentages in our projections is based on the selected LDF's from the Incurred Loss & DCCE Development Method described above. The estimate of initial expected total loss & DCCE is based on the historical loss ratio for more mature accident years. While this approach reduces the independence of the Bornhuetter-Ferguson Method from the loss & DCCE development methods for older policy years, it is used primarily for estimating ultimate loss & DCCE for more recent, less mature, policy years.

Bornhuetter-Ferguson Paid Method – This method is similar to the Bornhuetter-Ferguson Incurred Method only paid loss & DCCE and paid patterns are substituted for the incurred loss & DCCE and incurred patterns.

We select an estimate of ultimate loss & DCCE for each accident quarter after considering the results of each projection method for the quarter and the relative maturity of the quarter (the time elapsed between the start of the quarter and December 31, 2010). Reserves for unpaid losses & DCCE for each quarter are the differences between these ultimate estimates and the amount already paid. The reserves for each quarter and each coverage are summed, and the result is the overall estimate of unpaid losses & DCCE liability for the company.

We also produce an estimate of unpaid Adjusting and Other Expense ("A&O"), as a reserve is required under statutory accounting principles even if this expense has been pre-paid or with an unconsolidated affiliate. Although we do not prepay for A&O, the majority of the A&O incurred is with an affiliated company and eliminated under the accounting principles for consolidation. The unpaid A&O is added to unpaid losses & DCCE, resulting in total unpaid losses and LAE.

The validity of the results from using a loss development approach can be affected by many conditions, such as internal claim department processing changes, a shift between single and multiple claim payments, legal changes, or variations in a company's mix of business from year to year. Also, since the percentage of losses paid for immature years is often low, development factors can be volatile. A small variation in the number of claims paid can have a leveraging effect that could lead to significant changes in estimated ultimate values. Accordingly, our reserves are estimates because there are uncertainties inherent in the determination of ultimate losses. Court decisions, regulatory changes and economic conditions can affect the ultimate cost of claims that occurred in the past as well as create uncertainties regarding future loss cost trends. We compute our estimated ultimate liability using the most appropriate principles and procedures applicable to the lines of business written. However, because the establishment of loss reserves is an inherently uncertain process, we cannot be certain that ultimate losses will not exceed the established loss reserves and have a material adverse effect on our results of operations and financial condition.

A key assumption underlying the estimation of the reserve for loss and LAE is that past experience serves as the most reliable estimator of future events. This assumption may materially affect the estimates when the insurance market, the regulatory environment, the legal environment, the economic environment, the book of business, the claims handling department, or other factors (known or unknown) have varied over time during the experience period and / or will vary (expectedly or unexpectedly) in the future. Changes in estimates, or differences between estimates and amounts ultimately paid, are reflected in the operating results of the period during which such adjustments are made. Therefore, the ultimate liability for unpaid losses and LAE will likely differ from the amount recorded at December 31, 2010.

The following describes the extent of our procedures for determining the reserve for loss and LAE on both an annual and interim reporting basis:

Annually - Our policy is to select a single point estimate that best reflects our in-house actuarial determination for unpaid losses and LAE. Our independent actuarial firm, examining the exact same data set, will independently select a point estimate which determines a high point and low point range. Both processes rely on objective and subjective determinations. If our point estimate falls within the range determined from the point estimate of our actuary, then the Company's policy has been that no adjustments by management would be required. In consideration thereof, the company does not have a policy for adjusting the liability for unpaid losses and LAE to an amount that is different than an amount set forth within the range determined by our independent actuary, although the reserve level ultimately determined by us may not be the mid-point of our independent actuary's range. Further, there can be no assurances that our actual losses will be within our actuary's range. Our independent actuary's report expressly states that the report is based on assumptions developed from its own analysis and based on information provided by management and that notwithstanding its analysis, there is a significant risk of material adverse deviation from its range.

Interim – During 2010 our interim approach was very similar to the annual process noted above.

A number of other actuarial assumptions are generally made in the review of reserves for each class of business. For the long-tail classes of business, other actuarial assumptions generally are made with respect to the following:

- Loss trend factors which are used to establish expected loss ratios for subsequent accident years based on the projected loss ratio for prior accident years.

- Expected loss ratios for the latest accident year and, in some cases for accident years prior to the latest accident year. The expected loss ratio generally reflects the projected loss ratio from prior accident years, adjusted for the loss trend and the effect of rate changes and other quantifiable factors on the loss ratio.

In practice there are factors that change over time; however, many (such as inflation) are intrinsically reflected in the historical development patterns, and others typically do not materially affect the estimate of the reserve for unpaid losses and LAE. Therefore, no specific adjustments have been incorporated for such contingencies projecting future development of losses and LAE. There are no key assumptions as of December 31, 2010 premised on future emergence inconsistent with historical loss reserve development patterns.

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(8) INCOME TAXES

A summary of the provision for income tax expense is as follows.

	Years Ended December 31,		
	2010	2009	2008
	(Dollars in Thousands)		
Federal			
Current	$ (1,701)	$ (7,906)	$ 2,032
Deferred	(1,928)	2,358	(3,091)
Provision for Federal income tax benefit	(3,629)	(5,548)	(1,059)
State			
Current	-	-	264
Deferred	(330)	(373)	(529)
Provision for state income tax benefit	(330)	(373)	(265)
Provision for income tax benefit	$ (3,959)	$ (5,921)	$ (1,324)

The actual income tax expense differs from the "expected" income tax expense (computed by applying the combined applicable effective federal and state tax rates to income before provision for income tax expense) as follows.

	Years Ended December 31,		
	2010	2009	2008
	(Dollars in Thousands)		
Computed expected tax benefit, at federal rate	$ (4,065)	$ (5,512)	$ (1,303)
State tax, net of federal deduction benefit	(434)	(588)	(139)
Tax-exempt interest	(211)	(398)	(212)
Dividend received deduction	(99)	(94)	(156)
Stock option expense and other permanent differences	114	173	(15)
Intercompany	223	-	313
Other	513	498	188
Provision for income tax benefit	$ (3,959)	$ (5,921)	$ (1,324)

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Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of our net deferred tax asset are as follows.

	Years Ended December 31,	
	2010	2009
	(Dollars in Thousands)	
Deferred tax assets		
Unpaid losses and LAE	$ 2,243	$ 2,315
Unearned premiums	1,663	1,785
Allowance for impairments	-	164
Regulatory assessments	(69)	260
Unearned agent commissions	8	8
Depreciation & amortization	393	367
Reserve for claims settlements	809	809
Capital loss carryover	-	2,112
NOL carryforward	5,702	663
Deferred gain on sale and leaseback	100	288
Stock option expense per ASC 718	379	305
Total deferred tax assets	11,228	9,076
Deferred tax liabilities		
Deferred acquisition costs, net	(2,965)	(3,111)
Allowance for credit losses	(44)	(60)
Discount on advance premiums	11	(7)
Unrealized gain on investment securities	(314)	(1,223)
Total deferred tax liabilities	(3,312)	(4,401)
Net deferred tax asset	$ 7,916	$ 4,675

Based upon the results of our analysis and the application of ASC 740-10, we have determined that all material tax positions meet the recognition threshold and can be considered as highly certain tax positions. This is based on clear and unambiguous tax law, and we are highly confident that the full amount of each tax position will be sustained upon possible examination. Accordingly, the full amount of the tax positions will be recognized in the financial statements.

The Company has recorded a net deferred tax asset of $7.9 million and $4.7 million as of December 31, 2010 and 2009, respectively. Realization of net deferred tax asset is dependent on generating sufficient taxable income in future periods. Management believes that it is more likely than not that the deferred tax assets will be realized and as such no valuation allowance has been recorded against the net deferred tax asset. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. At December 31, 2010 and 2009, based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences. When assessing the need for valuation allowances, the Company considers future taxable income and ongoing prudent and feasible tax planning strategies. Should a change in circumstances lead to a change in judgment about the realizability of deferred tax assets in future years, the Company would record valuation allowances as deemed appropriate in the period that the change

in circumstances occurs, along with a corresponding increase or charge to net income. The resolution of tax reserves and changes in valuation allowances could be material to the Company's results of operations for any period, but is not expected to be material to the Company's financial position.

The Company's consolidated federal income tax returns for 2009, 2008, 2007, 2006 and 2005 are open for review by the Internal Revenue Service ("IRS"). The federal income tax returns for 2003 and 2002 have been examined by the IRS. The IRS concluded its examination for 2003 and 2002 and there were no material changes in the tax liability for those years. The 2004 income tax return remains open due to net operating loss carryforward to open years.

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The Florida Department of Revenue examination of the Company's consolidated Florida income tax returns for 2007, 2006, 2005 and 2004 was settled and closed in early November 2010 with no change to tax years 2007, 2006 and 2005. The audit resulted in an immaterial adjustment to the 2004 tax year. The Florida income tax returns for 2008 and 2009 are open for review.

(9) REGULATORY REQUIREMENTS AND RESTRICTIONS

Effective January 26, 2011, Federated National merged with and into American Vehicle, and the resulting entity changed its name to "Federated National Insurance Company".

To retain our certificate of authority, the Florida Insurance Code (the "Code") requires Federated National and American Vehicle to maintain capital and surplus equal to the greater of 10% of their liabilities or a statutory minimum capital and surplus as defined in the Code. Federated National and American Vehicle are required to have a minimum capital surplus of $4.0 million. At December 31, 2010, 2009 and 2008, Federated National's statutory capital surplus was $18.7 million, $21.0 million and $31.5 million, respectively. At December 31, 2010, 2009 and 2008, American Vehicle had statutory capital surplus of $21.9 million, $25.8 million and $25.1 million, respectively.

The insurance companies are also required to adhere to prescribed premium-to-capital surplus ratios. As of December 31, 2010, 2009 and 2008, both Federated National and American Vehicle were in compliance with the prescribed premium-to-surplus ratio.

We had bonds with a carrying value of approximately $2.0 million pledged to the Florida OIR, as of December 31, 2010 and 2009, in accordance with regulatory requirements.

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% 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% 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 2010, 2009 or 2008, and none are anticipated in 2011. 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 in excess of the amount available, to be paid by Federated National and American Vehicle 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.

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Insurance holding company regulations govern the amount that non-insurance company subsidiaries (Assurance MGA, Superior and any other affiliate) may charge any of the insurance companies for service (e.g., management fees and commissions).

In order to enhance the regulation of insurer solvency, the National Association of Insurance Commissioners ("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 or American Vehicle to cease operations in the event they fail to maintain the required statutory capital.

Based upon the 2010 and 2009 statutory financial statements for Federated National and American Vehicle, statutory surplus exceeded the regulatory action levels established by the NAIC's risk-based capital requirements.

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 222.8%, 245.1 % and 739.4% at December 31, 2010, 2009 and 2008, respectively. American Vehicle's ratio of statutory surplus to its ACL was 373.4%, 426.9% and 402.5% at December 31, 2010, 2009 and 2008, respectively.

Federated National's regularly scheduled statutory examination for the five years ended December 31, 2009 was performed by the Florida OIR during 2010, and there were no material findings by the independent auditors in connection with this examination. American Vehicle's regularly scheduled statutory examination for the five years ended December 31, 2010 will be performed by the Florida OIR during 2011. We may be the subject of additional targeted examinations or analysis. These examinations or analysis may result in one or more corrective orders being issued by the Florida OIR.

The NAIC has also developed Insurance Regulatory Information Systems ("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, 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 recently approved additional rate increase for our voluntary property book of homeowners' business, averaging 20.2% statewide, which is expected to gain momentum and accrete throughout 2011. 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, 2008, Federated National was outside NAIC's usual ranges with respect to its tests on two out of thirteen IRIS ratios. There was one exception in connection with change in net written premium and one in connection with two year reserve development to policyholders' surplus.

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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. As of December 31, 2008, American Vehicle was outside NAIC's usual range for two of thirteen IRIS ratios. There was one exception in connection with the two year overall operating ratio and one in connection with two year reserve development to policyholders' surplus.

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

The table below reflects the range and test results for both Federated National and American Vehicle for the years ended December 31, 2010 and 2009, respectively.

IRIS Ratios	Unusual Values Equal to Or		Federated National		American Vehicle	
	Over	Under	2010	2009	2010	2009
Gross Premiums to Policyholders' Surplus	900	0	446	426	67	64
Net Premium to Policyholders' Surplus	300	0	168	159	62	63
Change in Net Writings	33	(33)	(6)	10	(16)	(35) *
Surplus Aid to Policyholders' Surplus	15	0	1	0	0	0
Two-year Overall Operating Ratio	100	0	160 *	126 *	122 *	117 *
Investment Yield	7	3	2 *	2 *	3 *	3 *
Gross Change in Policyholders' Surplus	50	(10)	(11) *	(33) *	(15) *	3
Net Change in Adjusted Policyholders' Surplus	25	(10)	999 *	(33) *	999 *	3
Liabilities to Liquid Assets	105	0	83	101	71	68
Gross Agents' Balance to Policyholders' Surplus	40	0	1	17	4	4
One-Year Reserve Development to Policyholders' Surplus	20	0	10	(5)	3	8
Two-Year Reserve Development to Policyholders' Surplus	20	0	4	8	14	19
Estimated Current Reserve Deficiency to Policyholders' Surplus	25	0	(11)	(44)	(56)	(66)

* indicates an unusual value

GAAP differs in some respects from reporting practices prescribed or permitted by the Florida OIR. Federated National's statutory capital and surplus was $18.7 million and $21.0 million as of December 31, 2010 and 2009, respectively. Federated National's statutory net loss was $12.0 million, $12.2 million and $2.2 million for the years ended December 31, 2010, 2009 and 2008, respectively. Federated National’s statutory non-admitted assets were approximately $3.1 million and $1.7 million as of December 31, 2010 and 2009, respectively.

American Vehicle’s statutory capital and surplus was $21.9 million and $25.8 million as of December 31, 2010 and 2009, respectively. American Vehicle’s statutory net income (loss) was approximately $1.6 million, ($1.1) million and ($2.4) million for the years ended December 31, 2010, 2009 and 2008, respectively. American Vehicle’s statutory non-admitted assets were approximately $5.6 million and $0.9 million as of December 31, 2010 and 2009, respectively.

(10) COMMITMENTS AND CONTINGENCIES

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

(A) Insured Claim Activity

We are involved in claims and legal actions arising in the ordinary course of business. The amount of liability for these claims and lawsuits is uncertain. Revisions to our estimates are based on our analysis of subsequent information that we receive regarding various factors, including: (i) per claim information; (ii) company and industry historical loss experience; (iii) legislative enactments, judicial decisions, legal developments in the awarding of damages; and (iv) trends in general economic conditions, including the effects of inflation. Management revises its estimates based on the results of its analysis. This process assumes that experience, adjusted for the effects of current developments and anticipated trends, is an appropriate basis for estimating the ultimate settlement of all claims. There is no precise method for subsequently evaluating the impact of any specific factor on the adequacy of the reserves, because the eventual redundancy or deficiency is affected by multiple factors. In the opinion of management, the ultimate disposition of these matters may have a material adverse effect on our consolidated financial position, results of operations, or liquidity.

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

The Company also faces, in the ordinary course of business, lawsuits that seek damages beyond policy limits, commonly known as bad faith claims. During 2010, one such suit was brought against one of the Company's Affiliates. This suit was dismissed and the dismissal is currently under appeal. In the opinion of management, the ultimate disposition of this matter will not have a material adverse effect on our financial condition or results of operations. The Company continually evaluates potential liabilities and reserves for litigation of these types using the criteria established by FASB issued guidance. Under this guidance, reserves for a loss are recorded if the likelihood of occurrence is probable and the amount can be reasonably estimated. If a loss, while not probable, is judged to be reasonably possible, management will make an estimate of a possible range of loss or state that an estimate cannot be made. Management considers each legal action using this guidance and records reserves for losses as warranted.

(B) Assessment Related Activity

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

As a direct premium writer in the state of Florida, we are required to participate in certain insurer solvency associations under Florida Statutes Section 631.57(3) (a), administered by FIGA. Participation in these pools is based on our written premium by line of business to total premiums written statewide by all insurers. Participation 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 or 2010. 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 are not charged to operations, in contrast, GAAP treatment is to charge current operations for the assessments. Through policyholder surcharges, as approved by the Florida OIR, we have since recouped $7.1 million in connection with these assessments.

The State Board of Administration ("SBA") and the FHCF Financing Corporation agreed to a resolution that would authorize the issuance and sale of FHCF post-event revenue bonds not to exceed $710 million. The proceeds of the bonds would be used for the reimbursement of insurance companies for additional claims due to hurricanes during the 2005 season. These bonds will have fixed interest rates, be exempt from federal income taxes and be secured by not yet implemented emergency assessments and reimbursement premiums. The inability to issue these bonds could result in the FHCF's need to accelerate additional assessments. We have not recorded any liability in connection with this initiative.

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

During a subsequent regularly scheduled meeting on or about December 18, 2006, Citizens Board determined an additional 2004 plan year deficit existed in the High Risk Account. Citizens decided that a $515 million Regular Assessment was in the best interest of Citizens and consistent with Florida Statutes. On this basis, Citizens certified for a Regular Assessment. Federated National's participation in this assessment totaled $0.3 million.

Pursuant to Florida Statutes Section 627.3512, Federated National has since recouped the assessments by adding a surcharge to policies. Provisions contained in our excess of loss reinsurance policies provided for participation of our reinsurers totaling $1.8 million of the $2.3 million in assessments. There was no assessment made during the years 2007-2010.

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

Florida OIR issued an Order April 29, 2010, levying an increase to the emergency assessment to 1.3% from 1.0%, of direct written premium on all property and casualty lines of business written in the state of Florida for the benefit of the FHCF. The assessment was approved by the Florida SBA to fund FHCF losses stemming from the 2005 hurricane season. This order requires insurers to begin collecting the emergency assessment for policies issued or renewed on or after January 1, 2011. The FHCF emergency assessment will be remitted to the administrator of the assessment as collected and therefore accounted for in a manner such that amounts collected or receivable are not recorded as revenues and amounts due or paid are not expensed. Previously and still in effect, the Florida OIR issued a similar order dated January 11, 2007, levying an emergency assessment of 1.4% of direct written premium on all property and casualty lines of business written in the state of Florida for the benefit of Citizens' High Risk Account. This order requires insurers to collect the emergency assessment for policies issued or renewed on or after July 1, 2007. Similar to the FHCF assessment discussed above, the Citizens emergency assessment is remitted to the administrator of the assessment as collected and therefore accounted for in a manner such that amounts collected or receivable are not recorded as revenues and amounts due or paid are not expensed.

Federated National and American Vehicle are also required to participate in an insurance apportionment plan under Florida Statutes Section 627.351, which is referred to as a JUA Plan. The JUA Plan provides for the equitable apportionment of any profits realized, or losses and expenses incurred, among participating automobile insurers. In the event of an underwriting deficit incurred by the JUA Plan which is not recovered through the policyholders in the JUA Plan, such deficit shall be recovered from the companies participating in the JUA Plan in the proportion that the net direct written premiums of each such member during the preceding calendar year bear to the aggregate net direct premiums written in this state by all members of the JUA Plan. Neither Federated National nor American Vehicle was assessed by the JUA Plan during 2010, 2009 or 2008. Future assessments by this association are undeterminable at this time.

(C) Operational Matters

The Company's consolidated federal income tax returns for 2009, 2008, 2007, 2006 and 2005 are open for review by the IRS. The federal income tax returns for 2003 and 2002 have been examined by the IRS. The IRS concluded its examination for 2003 and 2002 and there were no material changes in the tax liability for those years. The 2004 income tax return remains open due to net operating loss carryforward to open years.

The Florida Department of Revenue examination of the Company's consolidated Florida income tax returns for 2007, 2006, 2005 and 2004 was settled and closed in early November 2010 with no change to tax years 2007, 2006 and

2005. The audit resulted in an immaterial adjustment to the 2004 tax year. The Florida income tax returns for 2008 and 2009 are open for review.

The Company has recorded a net deferred tax asset of $7.9 million and $4.7 million as of December 31, 2010 and 2009, respectively. The realization of a net deferred tax asset is dependent on generating sufficient taxable income in future periods. Management believes that it is more likely than not that the deferred tax assets will be realized and as such no valuation allowance has been recorded against the net deferred tax asset. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. At December 31, 2010 and 2009, based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences. When assessing the need for valuation allowances, the Company considers future taxable income and ongoing prudent and feasible tax planning strategies. Should a change in circumstances lead to a change in judgment about the realizability of deferred tax assets in future years, the Company would record valuation allowances as deemed appropriate in the period that the change in circumstances occurs, along with a corresponding increase or charge to net income. The resolution of tax reserves and changes in valuation allowances could be material to the Company’s results of operations for any period, but is not expected to be material to the Company’s financial position.

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

From July 27, 2007 to August 7, 2007, several securities class action lawsuits were filed against the Company and certain of its executive officers in the United States District Court for the Southern District of Florida ("District Court") on behalf of all persons and entities (the "plaintiffs") who purchased the Company's securities during the various class periods specified in the complaints. A consolidated amended complaint ("Class Litigation") was filed on behalf of the class on January 22, 2008, Case No. 07-61057. The complaint alleged that the defendants made false and misleading statements and failed to accurately project the Company's business and financial performance during the putative class period. The plaintiffs sought an unspecified amount of damages and claim violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5. On March 18, 2008, a verified shareholder derivative complaint Case No. 08-cv-60374 ("Derivative Litigation") was filed against certain current or former officers and directors of the Company in the District Court.

On November 7, 2008, the District Court granted in part and denied in part the Company's motion to dismiss the consolidated class litigation with leave to amend by December 8, 2009 or the allegations dismissed would be deemed dismissed with prejudice without further order of the District Court. Lead plaintiffs did not seek to amend the consolidated complaint and the defendants answered. On July 29, 2008, the District Court granted the defendant's motion to dismiss the plaintiff's shareholder derivative complaint without prejudice. On August 27, 2009, the derivative plaintiff filed an amended shareholder derivative complaint. On March 30, 2009, following various motions by the parties, the District Court entered an order granting defendant's renewed motion to stay the shareholder derivative action pending resolution of the class action.

On September 4, 2009, a stipulation of settlement ("Stipulation of Settlement") was submitted to the Court by lead plaintiffs, the derivative plaintiff and the defendants, setting forth the terms of a settlement of the Class Litigation and Derivative Litigation ("Settlement Agreement") which proposed that a payment of $2.4 million be made to the lead plaintiffs and the derivative plaintiff. The Stipulation of Settlement contains no admission of liability or wrongdoing by the Company or its officers and directors. The Company's insurance carriers agreed to fund the $2.4 million settlement payment. The Stipulation of Settlement was preliminarily approved by the Court on October 19, 2009.

At a settlement hearing held on January 29, 2010, the District Court approved the terms of the Stipulation of Settlement. On March 15, 2010, counsel for Plaintiffs acknowledged receipt of $2.4 million in settlement funds paid under the Company's directors' and officers' insurance policy.

(11) LEASES

Relative to the Company's commitments stemming from operational matters, we sold our interest in the building housing our operations in Lauderdale Lake on or about March 1, 2006 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 will pay a reduced lease payment for the remainder of the lease. Our lease for this office space expires in December 2011.

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

Fiscal Year	Lease payments (Dollars in Thousands)
2011	732
Total	$ 732

Rent expense was $0.7 million in 2010 and $0.6 million in 2009 and 2008.

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(12) RELATED PARTY TRANSACTIONS

One of our directors is a partner at a law firm that handles some of the Company's claims litigation. Fees paid to this law firm amounted to approximately $40,000, $90,000 and $145,000 in 2010, 2009 and 2008, respectively, and is included in LAE.

(13) NET LOSS PER SHARE

Net loss per share is computed by dividing net loss by the weighted average number of shares of common stock and common stock equivalents outstanding during the periods presented.

In accordance with GAAP, net loss per share is antidilutive; therefore the basic and diluted loss per share is the same.

A summary of the numerator and denominator of the basic and fully diluted 2010, 2009 and 2008 net loss per share is presented below.

	Loss (Numerator)	Shares Outstanding (Denominator) (Amounts in Thousands)	Per-share Amount
For the year ended December 31, 2010			
Basic net loss per share	$ (7,996)	7,946	$ (1.01)
Fully diluted loss per share	$ (7,996)	7,946	$ (1.01)
For the year ended December 31, 2009			
Basic net loss per share	$ (10,289)	8,002	$ (1.29)
Fully diluted loss per share	$ (10,289)	8,002	$ (1.29)
For the year ended December 31, 2008			
Basic net loss per share	$ (2,478)	7,979	$ (0.31)
Fully diluted loss per share	$ (2,478)	7,979	$ (0.31)

(14) SEGMENT INFORMATION

FASB issued guidance requires that the amount reported for each segment item be based on what is used by the chief operating decision maker in formulating a determination as to how many resources to assign to a segment and how to appraise the performance of that segment. The term chief operating decision maker may apply to the chief executive officer or chief operating officer or to a group of executives. Note: The term of chief operating decision maker may apply to a function and not necessarily to a specific person. This is a management approach rather than an industry approach in identifying segments. The segments are based on the Company's organizational structure, revenue sources, nature of activities, existence of responsible managers, and information presented to the Board of Directors.

If any one of the following exists, a segment must be reported on.

- Revenue, including unaffiliated and inter-segment sales or transfers, is 10% or more of total revenue of all operating segments.

- Operating profit or loss is 10% or more of the greater, in absolute amount, of the combined operating profit (or loss) of all industry segments with operating profits (or losses).
- Identifiable assets are 10% or more of total assets of all operating segments.

Operating segments that are not reportable should be combined and disclosed in the ‘‘all other’’ category. Disclosure should be made of the sources of revenue for these segments.

Accordingly, we have no segment information to report.

(15) STOCK COMPENSATION PLANS

We implemented a stock option plan in September 1998, which expired in September 2008, and provided for the granting of stock options to officers, key employees and consultants. The objectives of this plan included attracting and retaining the best personnel, providing for additional performance incentives, and promoting our success by providing employees the opportunity to acquire common stock. Options outstanding under this plan were granted at prices either equal to or above the market value of the stock on the date of grant, typically vest over a four-year or five-year period and expire six or ten years after the grant date. Under this plan, we were authorized to grant options to purchase up to 900,000 common shares, and, as of December 31, 2010 and December 31, 2009, we had outstanding exercisable options to purchase 89,750 and 124,599 shares, respectively.

In 2001, we implemented a franchisee stock option plan that was terminated during September 2008, and provided for the granting of stock options to individuals purchasing Company owned agencies that were then converted to franchised agencies. The purpose of the plan was to advance our interests by providing an additional incentive to encourage managers of Company owned agencies to purchase the agencies and convert them to franchises. Options outstanding under the plan were granted at prices, which were above the market value of the stock on the date of grant, vested over a ten-year period, and expired ten years after the grant date. Under this plan, we were authorized to grant options to purchase up to 988,500 common shares, and, as of December 31, 2010 and December 31, 2009, we had no outstanding exercisable options to purchase shares.

In 2002, we implemented the 2002 Stock Option Plan. The purpose of this plan is to advance our interests by providing an additional incentive to attract, retain and motivate highly qualified and competent persons who are key to the Company, including employees, consultants, independent contractors, officers and directors. Our success is largely dependent upon their efforts and judgment; therefore, by authorizing the grant of options to purchase common stock, we encourage stock ownership. Options outstanding under the plan were granted at prices either equal to or above the market value of the stock on the date of grant, typically vest over a five-year period, and expire six or ten years after the grant date. Under this plan, we are authorized to grant options to purchase up to 1,800,000 common shares, and, as of December 31, 2010 and December 31, 2009, we had outstanding exercisable options to purchase 574,800 and 736,951 shares, respectively.

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Activity in our stock option plans for the period from January 1, 2008 to December 31, 2010 is summarized below.

	1998 Plan		2002 Plan	
	Number of Shares	Weighted Average Option Exercise Price	Number of Shares	Weighted Average Option Exercise Price
Outstanding at January 1, 2008	152,599	$ 14.92	660,309	$ 13.78
Granted	4,500	$ 8.67	162,500	$ 8.92
Exercised	(13,500)	$ 6.67	(141,458)	$ 8.81
Cancelled	(13,500)	$ 10.03	(23,200)	$ 12.60
Outstanding at January 1, 2009	130,099	$ 16.07	658,151	$ 13.69
Granted	-	$ -	147,000	$ 4.37
Exercised	-	$ -	-	$ -
Cancelled	(5,500)	$ 20.23	(68,200)	$ 11.58
Outstanding at January 1, 2010	124,599	$ 15.88	736,951	$ 12.03
Granted	-	$ -	109,500	$ 3.59
Exercised	-	$ -	-	$ -
Cancelled	(34,849)	$ 23.74	(271,651)	$ 14.78
Outstanding at December 31, 2010	89,750	$ 12.83	574,800	$ 9.12

Options outstanding as of December 31, 2010 are exercisable as follows.

	1998 Plan		2002 Plan	
Options Exercisable at:	Number of Shares	Weighted Average Option Exercise Price	Number of Shares	Weighted Average Option Exercise Price
December 31, 2010	53,650	$ 12.83	272,308	$ 9.12
December 31, 2011	17,700	$ 12.83	108,359	$ 9.12
December 31, 2012	17,700	$ 12.83	85,133	$ 9.12
December 31, 2013	700	$ 12.83	53,400	$ 9.12
December 31, 2014	-	$ 12.83	34,000	$ 9.12
Thereafter	-	$ 12.83	21,600	$ 9.12
Total options exercisable	89,750		574,800	

Prior to January 1, 2006, we accounted for the plans under the recognition and measurement provisions of stock-based compensation using the intrinsic value method prescribed by the APB and related Interpretation, as permitted by FASB issued guidance. Under these provisions, no stock-based employee compensation cost was recognized in the Statement of Operations as all options granted under those plans had an exercise price equal to or less than the market value of the underlying common stock on the date of grant.

Upon the exercise of options, the Company issues authorized shares.

Effective January 1, 2006, the Company adopted the fair value recognition provisions of FASB issued guidance using the modified-prospective-transition method. Under that transition method, compensation costs recognized during 2010 and 2009 include the following.

- Compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of FASB issued guidance, and

- Compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair-value estimated in accordance with the provisions of FASB issued guidance. Results for prior periods have not been restated, as not required to be by the pronouncement.

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As a result of adopting FASB issued guidance on January 1, 2006, the Company’s loss from continuing operations before provision for income tax benefit and net loss for 2010 are higher by approximately $395,000 and $246,000, respectively, than if it had continued to account for share-based compensation under APB guidance.

As a result of adopting FASB issued guidance on January 1, 2006, the Company’s loss from continuing operations before provision for income tax benefit and net loss for 2009 are higher by approximately $425,000 and $265,000, respectively, than if it had continued to account for share-based compensation under APB guidance.

Basic and diluted loss per share for 2010 would have been $0.98, if the Company had not adopted FASB issued guidance, compared with reported basic and diluted loss per share of $1.01.

Basic and diluted loss per share for 2009 would have been $1.25, if the Company had not adopted FASB issued guidance, compared with reported basic and diluted loss per share of $1.29.

Because the change in income taxes payable includes the effect of excess tax benefits, those excess tax benefits also must be shown as a separate operating cash outflow so that operating cash flows exclude the effect of excess tax benefits. FASB issued guidance requires the cash flows resulting from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows.

The weighted average fair value of options granted during 2010, 2009 and 2008 estimated on the date of grant using the Black-Scholes option-pricing model was $1.54 to $1.81; $0.61 to $1.29 and $0.59 to $3.63, respectively.

The fair value of options granted is estimated on the date of grant using the following assumptions.

	December 31, 2010	December 31, 2009	December 31, 2008
Dividend yield	1.78% - 5.80%	5.90% - 17.30%	5.50% - 17.30%
Expected volatility	73.13% - 82.36%	57.54% - 82.65%	54.65% - 58.20%
Risk-free interest rate	0.99% - 1.33%	1.22% - 1.50%	0.98% - 2.95%
Expected life (in years)	3.06 - 3.78	3.45 - 4.16	2.69 - 4.16

Summary information about the Company’s stock options outstanding at December 31, 2010 follows.

	Range of Exercise Price	Outstanding at December 31, 2010	Weighted Average Contractual Periods in Years	Weighted Average Exercise Price	Exercisable at December 31, 2010
1998 Plan	$ 6.67 - $16.59	89,750	2.69	$ 12.83	53,650
2002 Plan	$ 3.03 - $18.21	574,800	4.08	$ 9.12	272,308

(16) EMPLOYEE BENEFIT PLAN

We have established a profit sharing plan under Section 401(k) of the Internal Revenue Code. This plan allows eligible employees, except key and highly compensated employees, to contribute up to 100 percent of their

compensation not to exceed statutory limits. The Company match totaled $0.1 million during each of the years 2010, 2009 and 2008. The Company matches 50% up to 6% of employee contributions which vest incrementally over five years of service.

(17) ACQUISITIONS

We made no acquisitions during 2010 or 2009.

Effective January 26, 2011, Federated National merged with and into American Vehicle, and the resulting entity changed its name to “Federated National Insurance Company”. See "Recent Developments – Consent Order”.

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(18) COMPREHENSIVE LOSS

For the years ended December 31, 2010, 2009 and 2008, comprehensive loss consisted of the following.

	Years Ended December 31,		
	2010	2009	2008
	(Dollars in Thousands)		
Net loss	$(7,996)	$(10,289)	$(2,478)
Change in net unrealized (losses) gains on investments available for sale	(2,415)	5,153	2,203
Comprehensive (loss) before tax	(10,411)	(5,136)	(275)
Income tax benefit (expense) related to items of other comprehensive loss	909	(1,939)	(794)
Comprehensive loss	$(9,502)	$(7,075)	$(1,069)

(19) AUTHORIZATION OF PREFERRED STOCK

Our Amended and Restated Articles of Incorporation authorize the issuance of one million shares 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. We have not issued preferred shares as of December 31, 2010.

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(20) 21ST CENTURY HOLDING COMPANY

21st Century (the parent company only) has no long term obligations, guarantees or material contingencies as of December 31, 2010. The following summarizes the major categories of the parent company's financial statements.

Condensed Balance Sheets	Period Ending December 31,	
ASSETS	2010	2009
	(Dollars in Thousands)	
Cash and short term investments	$ 3,202	$ 6,188
Investments and advances to subsidiaries	59,708	54,684
Deferred income taxes receivable	7,916	4,675
Income taxes receivable	7,326	4,256
Property, plant and equipment, net	194	466
Other assets	4,316	4,617
Total assets	$ 82,662	$ 74,886
LIABILITIES AND SHAREHOLDERS' EQUITY		
Dividends payable	-	477
Other liabilities	913	1,588
Total liabilities	913	2,065
Shareholders' equity:		
Common stock	79	80
Additional paid-in capital	45,250	45,250
Accumulated other comprehensive income	410	(968)
Retained earnings	36,010	28,459
Total shareholders' equity	81,749	72,821
Total liabilities and shareholders' equity	$ 82,662	$ 74,886

Condensed Statements of Operations	Years Ended December 31,		
	2010	2009	2008
	(Dollars in Thousands)		
Revenue:			
Management fees from subsidiaries	$ 1,669	$ 1,628	$ 1,615
Equity in income of subsidiaries	(10,080)	(13,934)	2,938
Net investment income (loss)	2	(75)	(3,623)
Other income	518	623	600
Total revenue	(7,891)	(11,758)	1,530
Expenses:			
Advertising	-	1	3
Salaries and wages	1,930	1,892	2,424
Legal fees	19	387	697

Other expenses	2,114	2,172	2,208
Total expenses	4,063	4,452	5,332
Loss before provision for income tax benefit	(11,955)	(16,210)	(3,802)
Provision for income tax benefit	(3,959)	(5,921)	(1,324)
Net loss	$ (7,996)	$ (10,289)	$ (2,478)

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Condensed Statements of Cash Flow

	Years Ended December 31,		
	2010	2009	2008
	(Dollars in Thousands)		
Cash flow from operating activities:			
Net loss	$(7,996)	$(10,289)	$(2,478)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Equity in loss of subsidiaries	5,055	13,934	(3,012)
Depreciation and amortization of property plant and equipment, net	12,834	22,305	30
Deferred income tax expense (benefit)	3,241	(5,769)	2,890
Income tax (payable) recoverable	-	(8,695)	2,069
Change in dividends payable	(477)	(966)	(32)
Non-cash compensation	431	333	365
Changes in operating assets and liabilities:			
Deferred gain on sale of assets	(500)	(488)	(503)
Other assets	(301)	(8,210)	(24)
Other liabilities	(675)	(773)	(718)
Net cash provided by (used in) operating activities	11,612	1,382	(1,413)
Cash flow (used in) provided by investing activities:			
(Purchases of) proceeds from investment securities available for sale	(5,024)	170	3,892
Increased capital of subsidiaries	(5,025)	-	(75)
Cash flow (used in) provided by investing activities:	(10,049)	170	3,817
Net cash (used in) provided by financing activities:			
Dividends paid	(477)	(1,920)	(5,697)
Stock options exercised	-	-	1,337
Tax benefit related to non-cash compensation	39	160	182
Acquisition of common stock	-	(288)	(144)
Advances (to) from subsidiaries	(4,110)	4,196	2,075
Net cash (used in) provided by financing activities:	(4,548)	2,148	(2,247)
Net (decrease) increase in cash and short term investments	(2,985)	3,700	157
Cash and short term investments at beginning of year	6,189	2,489	2,332
Cash and short term investments at end of year	$3,204	$6,189	$2,489

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(21) SCHEDULE VI – SUPPLEMENTAL INFORMATION CONCERNING PROPERTY-CASUALTY INSURANCE OPERATIONS

	Loss and LAE - Current Year	Loss and LAE - Prior year	Amortization of deferred policy acquisition expenses	Paid losses and LAE expenses	Net premiums written
	(Dollars in Thousands)				
2010	$37,288	$2,800	$ 13,025	$15,077	$43,447
2009	$41,988	$1,718	$ 13,747	$18,478	$48,162
2008	$37,397	$4,471	$ 14,760	$13,277	$53,695

Affiliation with registrant	Deferred policy acquisition costs	Reserves for losses and LAE	Discount, if any, deducted from previous column	Unearned premiums	Net premiums earned
	(Dollars in Thousands)				
Consolidated Property and Casualty Subsidiaries					
2010	$7,879	$66,529	$-	$47,136	$45,060
2009	$8,267	$70,611	$-	$50,857	$47,976
2008	$6,558	$64,775	$-	$40,508	$65,130

(22) FAIR VALUE DISCLOSURE

In April 2009, the FASB issued accounting guidance that if an entity determines that either the volume and/or level of activity for an investment security has significantly decreased (from normal conditions for that investment security) or price quotations or observable inputs are not associated with orderly transactions, increased analysis and management judgment will be required to estimate fair value. This guidance was effective for interim and annual periods ending after June 15, 2009, with early adoption permitted. This guidance was applied prospectively. The adoption of this guidance did not have an impact on the Company’s financial statements or condition.

In October 2008, the FASB issued accounting guidance to clarify the application of GAAP in determining fair value of financial instruments in a market that is not active. The guidance was effective upon issuance, including prior periods for which financial statements had not been issued. Our adoption of this guidance does not have a material effect on our financial position, results of operations, cash flows or disclosures.

In September 2006, FASB issued accounting guidance that defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for an asset or liability in an orderly transaction between market participants on the measurement date. This guidance also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The guidance also categorizes assets and liabilities at fair value into one of three different levels depending on the observation of the inputs employed in the measurement, as follows:

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

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

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

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

Assets measured at fair value on a recurring basis are presented in accordance with this guidance are as follows.

	As of December 31, 2010			
	Level 1	Level 2	Level 3	Total
	(Dollars in Thousands)			
Debt securities:				
United States government obligations and authorities	$-	$28,196	$-	$28,196
Obligations of states and political subdivisions	-	2,963	-	2,963
Corporate	65,809	-	-	65,809
International	-	1,382	-	1,382
	65,809	32,541	-	98,350
Equity securities:				
Common stocks	17,937	-	-	17,937
	17,937	-	-	17,937
Total debt and equity securities	$83,746	$32,541	$-	$116,287

(23) SUBSEQUENT EVENTS

Effective January 26, 2011, Federated National merged with and into American Vehicle, and the resulting entity changed its name to “Federated National Insurance Company”. See "Recent Developments – Consent Order”.

21st Century Holding Company and Subsidiaries

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

None

ITEM 9A CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2010.

Management's Report on Internal Control over Financial Reporting

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

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control — Integrated Framework issued by the COSO.

Based on the results of this evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2010 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with GAAP. We reviewed the results of management's assessment with the Company's Audit Committee.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the year ended December 31, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness

Our management and our audit committee do not expect that our disclosure controls and procedures or internal control over financial reporting will prevent all errors or all instances of fraud. A control system, no matter how well designed

and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of the control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provided absolute assurance that all control gaps and instances of fraud have been detected. These inherent limitations include the realities that judgments and decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and any design may not succeed in achieving its stated goals under all potential future conditions.

ITEM 9B OTHER INFORMATION

None

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PART III

ITEM 10 DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The following table sets forth certain information with respect to our executive officers and directors as of March 31, 2011:

Name	Age	Position with the Company
Michael H. Braun	43	Chief Executive Officer, President, Class I Director
Peter J. Prygelski, III (2)	42	Chief Financial Officer, Treasurer, Class I Director
Bruce F. Simberg (2)(3)(4)*	62	Chairman, Class II Director
Richard W. Wilcox, Jr. (1)(3)*(4)	69	Class II Director
Carl Dorf (1)(2)*(3)(4)	70	Class III Director
Charles B. Hart, Jr. (2)(4)	72	Class III Director
Jenifer G. Kimbrough (1)*(3)(4)	39	Class I Director

* Current Committee Chairman
(1) Audit Committee Member
(2) Investment Committee Member
(3) Compensation Committee Member
(4) Nominating Committee Member

Our Articles of Incorporation provide that our Board of Directors shall consist of three classes of directors, as nearly equal in number as possible, designated Class I, Class II and Class III, and provides that the exact number of directors comprising our Board of Directors will be determined from time to time by resolution adopted by the Board. At each annual meeting of shareholders, successors to the class of directors whose term expires at that annual meeting are elected for a three-year term. The current term of the Class III directors terminates as of the date of our 2011 annual meeting. The current term of the Class II directors terminates on the date of our 2012 annual meeting and the current term of the Class I directors terminates on the date of our 2013 annual meeting.

The standing committees of the Board of Directors in 2010 were the Audit Committee, the Compensation Committee, the Nominating Committee and the Investment Committee. Charters for the Audit, Compensation and Nominating Committees are available upon the Company's website at www.21stcenturyholding.com. The charter of the Audit, Compensation and Nominating Committees is also available in print to any shareholder who requests it from our Corporate Secretary.

Audit Committee

As of December 31, 2010, the Audit Committee was composed of Jenifer G. Kimbrough, who served as the Chairman of the Audit Committee, Richard W. Wilcox, Jr. and Carl Dorf. Each member was determined to be independent as defined by the listing rules of The Nasdaq Stock Market ("Nasdaq Rules") and SEC rules for Audit Committee

membership. Ms. Kimbrough has been determined by the Board to be a "financial expert," as that term is defined in the applicable rules and regulations of the Exchange Act.

Pursuant to its written charter, the duties and responsibilities of the Audit Committee include, but are not limited to, (a) the appointment of the independent certified public accountants and any termination of such engagement, (b) reviewing the plan and scope of independent audits, (c) reviewing significant accounting and reporting policies and operating controls, (d) having general responsibility for all related auditing and financial statement matters, and (e) reporting its recommendations and findings to the full Board of Directors. The Audit Committee pre-approves all auditing services and permitted non-audit services (including the fees and terms thereof) to be performed by the independent accountants, subject to the de minimus exceptions for non-audit services described in Section 10A(i)(1)(B) of the Exchange Act that are approved by the Audit Committee prior to the completion of the audit.

To ensure prompt handling of unexpected matters, the Audit Committee delegates to the Chair the authority to amend or modify the list of approved permissible non-audit services and fees. The Chair will report action taken to the Audit Committee at the next committee meeting.

The Chief Financial Officer is responsible for tracking all independent auditor fees against the budget for such services and report at least annually to the Audit Committee.

Compensation Committee
As of December 31, 2010, the Company's Compensation Committee was composed of Carl Dorf, Richard W. Wilcox, Jr., Bruce F. Simberg and Jenifer G. Kimbrough. Each member is independent as defined by the Nasdaq Rules. Mr. Wilcox currently serves as the Chairman. The Compensation Committee performs the duties and responsibilities pursuant to its charter, which includes reviewing and approving the compensation of the Company's executive officers.

Nominating Committee
As of December 31, 2010, the Company's Nominating Committee was composed of Bruce F. Simberg, Jenifer G. Kimbrough, Carl Dorf, Charles B. Hart, Jr. and Richard W. Wilcox, Jr. Each member is independent as defined by the Nasdaq Rules. Mr. Simberg serves as the Chairman.

The Nominating Committee will consider candidates for director who are recommended by its members, by other Board members and by management of the Company. The Nominating Committee will consider nominees recommended by our shareholders if the shareholder submits the nomination in compliance with the advance notice, information and other requirements described in our bylaws and applicable securities laws. The Nominating Committee evaluates director candidates recommended by shareholders in the same way that it evaluates candidates recommended by its members, other members of the Board, or other persons. The Nominating Committee considers all aspects of a candidate's qualifications in the context of the needs of the Company at that point in time with a view to creating a Board with a diversity of experience and perspectives. Among the qualifications, qualities and skills of a candidate considered important by the Nominating Committee is a person with strength of character, mature judgment, familiarity with the Company's business and industry, independent of thought and an ability to work collegially.

Shareholders who wish to recommend nominees to the Nominating Committee should submit their recommendation in writing to the Secretary of the Company at its executive offices pursuant to the requirements contained in Article III, Section 13 of the Company's Bylaws. This section provides that the notice shall include: (a) as to each person who the shareholder proposed to nominate for election, (i) name, age, business address and residence address of the person, (ii) the principal occupation or employment of the person, (iii) the class and number of shares of capital stock of the Company which are beneficially owned by the person, (iv) the consent of each nominee to serve as a director of the Company if so elected and (v) any other information relating to the person that is required to be disclosed in solicitation for proxies for the election of directors pursuant to Rule 14A under the Exchange Act; and (b) as to the shareholder giving the notice, the name and record address of the shareholder, and (ii) the class and number of shares of capital stock of the Company which are beneficially owned by the shareholder. The Company may require any proposed nominee to furnish such other information as may reasonably be required by the Company to determine the eligibility of such proposed nominee to serve as a director of the Company.

Investment Committee
As of December 31, 2010, the Company's Investment Committee was composed Peter J. Prygelski, III, Bruce F. Simberg, Carl Dorf and Charles B. Hart, Jr. The Investment Committee manages our investment portfolio pursuant to

its adopted Investment Policy Statement. Mr. Dorf serves as the Chairman.

Corporate Governance/Code of Conduct

We have adopted a Code of Conduct for all employees, officers and directors of the Company. A copy of our Code of Conduct policy is available on our web site at www.21stcenturyholding.com.

The following is a brief account of the business experience of each director and executive officer of the Company.

Michael H. Braun was appointed Chief Executive Officer of TCHC in July 2008 and President in June 2009, and was elected to the Board of Directors in December 2005. Previously, Mr. Braun was Chief Operating Officer (COO), where he was responsible for the company's day-to-day operations and strategic product portfolio. Mr. Braun has also served as President of American Vehicle Insurance Company, formerly known as Federated National Insurance Company ("American Vehicle"), a subsidiary of TCHC, since September 2003, a position that he continues to hold. Previously, he held key management positions within American Vehicle, responsible for operations, marketing and underwriting. Prior to joining TCHC, Mr. Braun was Managing Partner for an independent chain of insurance agencies, which was acquired by the Company in 1998.

Peter J. Prygelski, III was named Chief Financial Officer in June 2007 after serving as an independent director from January 2004 through June 2007. Mr. Prygelski was re-nominated to the Board in June 2008 and has served as a director since that time. Mr. Prygelski has spent his entire career in the financial services industry. He spent twelve (12) years at American Express in various capacities, including Director of Internal Audit and Assistant General Auditor of American Express Centurion Bank. In this capacity, Mr. Prygelski was responsible for the monitoring of internal controls for a bank with $45 billion in assets, and assessing and mitigating operational, reputational, regulatory and strategic risk. After leaving American Express, he spent the next three (3) years at Ernst & Young and Deloitte and Touche. At both firms, Mr. Prygelski served as a senior manager responsible for these firms' financial services practices in the southeastern U.S. He managed teams that provided Fortune 500 companies with consulting services in CFO organization, internal audit, risk management, board of directors and corporate governance.

Bruce F. Simberg has served as a director of the Company since January 1998. Mr. Simberg has been a practicing attorney since October 1975, most recently as managing partner of Conroy, Simberg, Ganon, Krevans, Abel, Lurvey, Morrow & Schefer, P.A. ("Conroy Simberg"), a law firm in Ft. Lauderdale, Florida founded by him, since October 1979.

Richard W. Wilcox, Jr. has served as a director of the Company since January 2003. Mr. Wilcox has been in the insurance industry for more than forty (40) years. In 1963, Mr. Wilcox started an insurance agency that eventually developed into a business generating $10 million in annual revenue. In 1991, Mr. Wilcox sold his agency to Hilb, Rogal and Hamilton Company ("HRH") of Fort Lauderdale, for which he retained the position of President through 1998. In 1998, HRH of Fort Lauderdale merged with Poe and Brown of Fort Lauderdale, and Mr. Wilcox served as the Vice President of Poe and Brown until 1999, when he retired. Mr. Wilcox holds a Professional Director Certification from the American College of Corporate Directors, a national public company director education and credentialing organization.

Carl Dorf has served as a director of the Company since August 2001. Since April 2001, Mr. Dorf has been the principal of Dorf Asset Management, LLC, and is responsible for all investment decisions made by that company. From January 1991 to February 2001, Mr. Dorf served as the Fund Manager of ING Pilgrim Bank and Thrift Fund. Prior to his experience at Pilgrim, Mr. Dorf was a principal in Dorf & Associates, an investment management company.

Charles B. Hart, Jr. has served as a director of the Company since March 2002. Mr. Hart has more than forty (40) years of experience in the insurance industry. From 1973 to 1999, Mr. Hart served as President of Public Assurance Group and as General Manager of Operations for Bristol West Insurance Services. Since 1999, Mr. Hart has acted as an insurance consultant.

Jenifer G. Kimbrough has served as a director of the Company since April 2009. Ms. Kimbrough has served as the Vice President of Compliance, Assurance and Process Improvement for Surgical Care Affiliates since March 2010, prior to which Ms. Kimbrough served as the Vice President of Assurance and Process Improvement. Prior to 2007, Ms. Kimbrough was the Senior Vice President of Investor Relations at Regions Financial Corporation. From 1993 to 2003, Ms. Kimbrough served as an Audit Senior Manager at Ernst & Young LLP. Ms. Kimbrough received her certification as a certified public accountant from the Alabama State Board of Public Accountancy in 1994. Ms. Kimbrough is an active member of several societies, including: American Woman's Society of CPAs, Institute of Internal Auditors, Alabama State Society of CPAs and American Institute of CPAs. Additionally, she recently served on the AICPA Women's Initiative Executive Committee and as National President of the AWSCPA.

Skills and Qualifications of the Board

The Company believes that its Board as a whole should encompass a range of talent, skill, diversity, and expertise enabling it to provide sound guidance with respect to the Company's operations, regulatory requirements and interests. The Company's policy is to have at least a majority of Directors qualify as "independent" under the Nasdaq Rules. The Nominating Committee identifies candidates for election to the Board of Directors; reviews their skills, characteristics and experience; and recommends nominees for director to the Board for approval. The Nominating Committee's Charter provides that the Board of Directors as a whole should be diverse and consist of individuals with various and relevant career experience, relevant technical skills, industry knowledge and experience, financial expertise and local or community ties. Minimum individual requirements include strength of character, mature judgment, familiarity with the Company's business and industry, independence of thought and an ability to work collegially.

The Board believes that the qualifications of the directors, as set forth in their biographies above and briefly summarized in this section, provides them with the qualifications and skills to serve as a director of the Company. Mr. Braun, Mr. Prygelski, Mr. Hart and Mr. Wilcox each have operational experience in the insurance industry, serving as senior executives of insurance companies. Mr. Simberg has extensive experience handling litigation defense matters for insurance companies and Mr. Dorf has a strong background in investment management issues. Four (4) of our five (5) independent directors have served as a director of the Company for more than five (5) years and have gained in-depth knowledge of the Company and the insurance industry through this service: In addition, Mr. Prygelski and Ms. Kimbrough each have strong backgrounds in finance and accounting matters.

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The Board also believes that each of the directors has other key attributes that are important to an effective Board: integrity and demonstrated high ethical standards; sound judgment; analytical skills; the ability to engage management and each other in a constructive and collaborative fashion, and the commitment to devote significant time and energy to service on the Board and its Committees.

The Nominating Committee annually reviews the appropriate skills and characteristics required of Board members in the context of the current composition of the Board, the operating requirements of the Company, and the long-term interests of its shareholders. In conducting this assessment, the Committee considers the factors described above and additional factors as the committee deems appropriate given the current needs of the Company.

Subsidiary Presidents

James Gordon Jennings, III (age 53) has served as the President of Assurance Managing General Agents, Inc. since May 2008 and as the Company's Vice President of Risk Management since April 2008. He was employed from 1990 through 2000 by American Vehicle, one of our wholly owned subsidiaries, where he was involved in all aspects of property and casualty insurance. Mr. Jennings served as our Controller from May 2000 through August 2002, as our Chief Financial Officer from August 2002 through June 2007, and as our Chief Accounting Officer from June 2007 through March 2008. Mr. Jennings', formerly a certified public accountant, also holds a Certificate in General Insurance and an Associate in Insurance Services as designated by the Insurance Institute of America.

C. Brian Turnau (age 44) has served as the President of Superior Adjusting, Inc. since July 2006. Mr. Turnau served as the Litigation Manager of Superior from June 2000 until his promotion to President. He has over nine years experience in the insurance industry. Prior to joining the Company, Mr. Turnau worked for private practice insurance defense litigation law firms for over fifteen years. Mr. Turnau earned his Bachelor of Arts degree in History in 1989 from Washington and Lee University. He currently serves on the Board of Directors of the Florida High School for Accelerated Learning, a nonprofit charter school that serves the needs of underprivileged students.

Christopher Clouse (age 43) has served as the President of Insure-Link, Inc. since its incorporation in March 2008. Mr. Clouse has over 22 years of experience in the insurance industry and has maintained a Florida General Lines Insurance License since 1991. He also carries a 2-14 Life including Variable Annuity License, 1-20 Florida Surplus Lines License and is an Accredited Advisor in Insurance (AAI) as designated by The Institutes. Prior to joining the company Mr. Clouse served as an agent and/or managing agent for several private agencies with a primary focus on personal lines of insurance including homeowners, auto and flood insurance.

Stephen C. Young (age 36) has served as President of Federated Premium Finance, Inc., a wholly-owned subsidiary of the Company, from January 1998 through the present date and as the Company's President from June 2007 through June 2009. Mr. Young has served as Vice President of Operations of the Company since June 2009, and previously from June 2006 through May 2007.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires that our executive officers, directors, and persons who own more than 10% of a registered class of our equity securities to file reports of beneficial ownership and certain changes in beneficial ownership with the SEC and to furnish us with copies of those reports. To our knowledge, based solely on a review of the copies of such reports furnished to us or written representations that no other reports were required, we believe that during the year ended December 31, 2010, our officers, directors and greater than 10% shareholders timely filed all reports required by Section 16(a).

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ITEM 11 EXECUTIVE COMPENSATION

Summary Compensation Table

The following Summary Compensation table sets forth information regarding compensation earned by, awarded to or paid to our Chief Executive Officer and President, Chief Financial Officer, as well as our former President, for the year ended December 31, 2010. We refer to these officers as our Named Executive Officers in other parts of this Form 10-K. We currently do not have any other individual employee of the Company designated as an executive officer.

SUMMARY COMPENSATION

Name and Principal Position	Year	Salary (1)	Bonus	Stock Awards	Option Awards (2)	Non-Equity Incentive Plan Compensation	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation (3)	Total
Michael H. Braun Chief Executive Officer, President (4)	2010	$ 229,824	$ -	--	$ 27,179	--	--	$ 28,009	$ 285,012
	2009	$ 214,000	$ 12,500	--	$ 24,444	--	--	$ 17,601	$ 268,545
Peter J. Prygelski, III Chief Financial Officer, Treasurer (5)	2010	$ 192,946	$ -	--	$ 27,179	--	--	$ 31,782	$ 251,907
	2009	$ 180,000	$ 10,500	--	$ 0	--	--	$ 25,727	$ 216,227

(1) The Compensation Committee approved a $22,000 increase in the annual salary payable Mr. Braun and an $18,000 increase in the annual salary payable to Mr. Prygelski in March 2010.

(2) This amount reflects the aggregate grant date fair value computed in accordance with FASB ASC Topic 718. Assumptions used in the calculation of this amount are included in footnote 15 to the Company's audited financial statements for fiscal years ended December 31, 2010 and December 31, 2009, respectively.

(3) See table "All Other Compensation" for an itemized disclosure of this element of compensation.

(4) Mr. Braun has served as our Chief Executive Officer since July 1, 2008, President since June 2, 2009, President of Federated National Insurance Company since September 2003 and the President of American Vehicle Insurance Company since December 2010.

(5) Mr. Prygelski has served as our Chief Financial Officer since June 25, 2007 and Treasurer since February 20, 2008. Prior to this time, he served as an outside director of the Company from January 2004 through June 25, 2007.

ALL OTHER COMPENSATION

Name	Year	Auto	Club Member Fees	Insurance Benefits (1)	Contribution to 401(k) (2)	All Other Compensation	Total
Michael H.	2010	$ 9,750	--	$ 12,386	$ 5,873		$ 28,009
Braun	2009	$ 8,853	--	$ 2,128	$ 6,620		$ 17,601
Peter J.	2010	$ 6,000	$ 5,351	$ 14,536	$ 5,895		$ 31,782
Prygelski, III	2009	$ 6,000	$ 8,575	$ 5,280	$ 5,872		$ 25,727

(1) Represents premiums for life, medical and dental insurance.
(2) Represents matching contributions made by the Company to the Named Executive Officer's 401(k) plan.

Employment Agreements

Michael H. Braun
We entered into an amended and restated employment agreement with Michael H. Braun, the Company's Chief Executive Officer and President, effective as of June 22, 2009. Under his agreement, Mr. Braun is entitled to receive an annual salary of $214,000 and a $500 monthly automobile allowance. The employment agreement is effective through July 1, 2012 and Mr. Braun is also entitled to receive such bonuses and increases as may be awarded by the Board of Directors. It also contains customary confidentiality and non-solicitation provisions. Additionally, we entered into a non-compete agreement with Mr. Braun effective December 19, 2005. The non-compete agreement prohibits Mr. Braun from directly or indirectly competing with us for a period of one (1) year after the termination of his employment for any reason. If Mr. Braun's employment with the Company is terminated, he is entitled to certain payments set forth in "Potential Payments on Termination or Change of Control" on page 130.

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Peter J. Prygelski, III

We entered into an amended and restated employment agreement with Peter J. Prygelski, III, the Company's Chief Financial Officer and Treasurer, effective as of June 22, 2009. Under his agreement, Mr. Prygelski is entitled to receive an annual salary of $180,000 and a $500 monthly automobile allowance. The amended and restated employment agreement is effective through July 1, 2012, which was amended from the original employment agreement date effective through June 25, 2010. Mr. Prygelski is also entitled to receive such bonuses and increases as may be awarded by the Board of Directors. It also contains customary confidentiality and non-solicitation provisions. Additionally, we entered into a non-compete agreement and an annual review agreement with Mr. Prygelski effective June 25, 2007. The non-compete agreement prohibits Mr. Prygelski from directly or indirectly competing with us for a period of one year after the termination of his employment for any reason. If Mr. Prygelski's employment with the Company is terminated, he is entitled to certain payments set forth in "Potential Payments on Termination or Change of Control" on page 130.

Grants of Plan Based Awards

The following Grants of Plan-Based Awards table provides information regarding stock options granted to Named Executive Officers during 2010:

GRANTS OF PLAN-BASED AWARDS

Name	Grant Date	All Other Option Awards Number of Securities Underlying Options	Exercise or Base Price of Option Awards	Grant Date Fair Value of Stock and Option Awards(1)
Michael H. Braun	03/03/2010	15,000	$ 4.36	$ 27,178.50
Peter J. Prygelski, III	03/03/2010	15,000	$ 4.36	$ 27,178.50

(1) This amount reflects the aggregate grant date fair value computed in accordance with FASB ASC Topic 718. Assumptions used in the calculation of this amount are included in footnote 15 to the Company's audited financial statements for fiscal year ended December 31, 2010.

All grants of stock options referenced in the above table were made under the 2002 Stock Option Plan.

1998 Stock Option Plan and 2002 Stock Option Plan

Our 1998 Stock Option Plan (the "1998 Plan") and 2002 Stock Option Plan ("the 2002 Plan"), (collectively the "Option Plans") are administered by the Compensation Committee. The objectives of the Option Plans include attracting, motivating and retaining key personnel and promoting our success by linking the interests of our employees, directors and consultants with our success.

The Option Plans permit the granting of incentive stock options, which are options that comply with the requirements of Section 422 of the Internal Revenue Code, and non-statutory options that do not meet the requirements of Section 422. Incentive stock options may only be granted to our employees. Non-statutory stock options may be granted to anyone who is eligible to participate in the plan and provides valuable service to the company, including employees, directors, and consultants. Both incentive stock options and non-statutory stock options have been granted under the Option Plans.

Options Available for Issuance

There were 900,000 shares of common stock authorized for issuance upon exercise of options granted under the 1998 Plan and 1,800,000 under the 2002 Plan. As of December 31, 2010, we do not have any options available for grant under the 1998 Plan and 230,348 options are available for grant under the 2002 Plan, respectively. The options to be delivered under the Plans will be made available, at the discretion of the Compensation Committee, from authorized but unissued shares or outstanding options that expire or are cancelled. If shares covered by an option cease to be issuable for any reason, such number of shares will no longer count against the shares authorized under the plan and may again be granted under the plan.

Term of Options

The term of each option is typically six (6) or ten (10) years from the date of the grant of the option, unless a different period is established for incentive stock options or the Compensation Committee establishes a different period.

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Vesting Schedule
Options granted under our Option Plans, unless waived or modified in a particular option agreement or by action of the Compensation Committee, typically vest according to the following schedule:

Vesting Schedule

From the Grant Date	Portion of Grant Vested
Less than 1 year	0%
1 year	20%
2 years	40%
3 years	60%
4 years	80%
5 years	100%

Options granted under the Option Plans require that the recipient of a grant be continuously employed or otherwise provide services to us or our subsidiaries. Failure to be continuously employed or in another service relationship, generally results in the forfeiture of options not vested at the time the employment or other service relationship ends. Termination of a recipient's employment or other service relationship for cause generally results in the forfeiture of all of the recipients unexercised options.

Adjustments in Our Capital Structure
The number and kind of shares available for grants under our Option Plans and any outstanding options under the plans, as well as the exercise price of outstanding options, will be subject to adjustment by the Compensation Committee in the event of any merger, consolidation, reorganization, stock split, stock dividend or other event causing a capital adjustment affecting the number of outstanding shares of common stock. In the event of a business combination or in the event of a sale of all or substantially all of our assets, the Compensation Committee may cash out some or all of the unexercised, vested options under the plan, or allow some or all of the options to remain outstanding, subject to certain conditions. Unless otherwise provided in individual option agreements, the vesting of outstanding options will not accelerate in connection with a business combination or in the event of a sale of all or substantially all of our assets.

Administration
The Compensation Committee has full discretionary authority to determine all matters relating to options granted under the Option Plans. The Compensation Committee has granted limited authority to executive management members to grant options to eligible individuals.

The Compensation Committee has the authority to determine the persons eligible to receive options, the number of shares subject to each option, the exercise price of each option, any vesting schedule, any acceleration of the vesting schedule and any extension of the exercise period.

Amendment and Termination
Our Board of Directors has authority to suspend, amend or terminate the plans, except as would adversely affect participants rights to outstanding awards without their consent. As the plan administrator, our Compensation Committee has the authority to interpret the plans and options granted under the Option Plans and to make all other determinations necessary or advisable for plan administration.

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Outstanding Equity Awards at Fiscal Year-End; Option Exercises and Stock Vested

The following Outstanding Equity Awards at Fiscal Year-End table summarizes the holdings held by our Chief Executive Officer and President, and Chief Financial Officer for the year ended December 31, 2010.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

	Option Awards			
Name	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable	Option Exercise Price	Option Expiration Date
Michael H. Braun	5,000	0	16.00	09/14/2011
	20,000	0	15.79	12/05/2011
	3,000	2,000	16.59	10/25/2013 (1)
	12,000	8,000	14.36	11/08/2013 (2)
	300	200	13.17	12/06/2013 (3)
	1,800	2,700	12.58	01/30/2014 (4)
	16,000	24,000	8.32	07/01/2014 (5)
	333	167	4.59	12/12/2018 (6)
	8,000	32,000	4.73	01/02/2015 (7)
	0	15,000	4.36	03/03/2020 (8)
Peter J. Prygelski, III	10,000	0	15.79	12/05/2011
	12,000	8,000	11.11	06/25/2013 (9)
	300	200	13.17	12/06/2013 (3)
	1,800	2,700	12.58	01/30/2014 (4)
	4,000	6,000	8.32	07/01/2014 (5)
	333	167	4.59	12/12/2014 (6)
	0	15,000	4.36	03/03/2020 (8)

(1) Options vested as to 60% of the underlying shares on December 31, 2010, the remaining 40% vest as follows:
20% on 10/25/2011 and 20% on 10/25/2012.
(2) Options vested as to 60% of the underlying shares on December 31, 2010, the remaining 40% vest as follows:
20% on 11/8/2010 and 20% on 11/8/2011.
(3) Options vested as to 60% of the underlying shares on December 31, 2010, the remaining 40% vest as follows:
20% on 12/6/2011 and 20% on 12/6/2012.
(4) Options vested as to 40% of the underlying shares on December 31, 2010, the remaining 60% vest as follows:
20% on 1/30/2011, 20% on 1/30/2012 and 20% on 1/30/2013.
(5) Options vested as to 40% of the underlying shares on December 31, 2010, the remaining 60% vest as follows:
20% on 7/1/2011, 20% on 7/1/2012 and 20% on 7/1/2013.
(6) Options vested as to 66 2/3% of the underlying shares on December 31, 2010, the remaining 33 1/3% vest as follows:
33 1/3% on 12/12/2011.
(7) Options vested as to 20% of the underlying shares on December 31, 2010, the remaining 80% vest as follows:
20% on 1/2/2011, 20% on 1/2/2012, 20% on 1/2/2013 and 20% on 1/2/2014.
(8) Options vested as to 0% of the underlying shares on December 31, 2010, the remaining 100% vest as follows:

20% on 3/3/2011, 20% on 3/3/2012, 20% on 3/3/2013, 20% on 3/3/2014 and 20% on 3/3/2015.
(9) Options vested as to 60% of the underlying shares on December 31, 2010, the remaining 40% vest as follows: 20% on 6/25/2011 and 20% on 6/15/2012.

Option Exercises and Stock Vested

None of our Named Executive Officers have exercised stock options during the year ended December 31, 2010. None of our Named Executive Officers have been granted stock awards or other similar instruments and therefore, have not exercised nor been vested in these instruments of compensation.

Pension Benefits

None of our Named Executive Officers participate in or have account balances in qualified or non-qualified defined pension benefit plans sponsored by us.

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Nonqualified Deferred Compensation

None of our Named Executive Officers participate in or have account balances in non-qualified defined contribution plans or other deferred compensation plans maintained by us. The Compensation Committee, which will be comprised solely of outside directors as defined for purposes of Section 162(m) of the Internal Revenue Code, may elect to provide our officers and other employees with non-qualified defined contribution or deferred compensation benefits if the Compensation Committee determines that doing so is in our best interests.

Director Compensation

During 2010, we had five (5) non-employee directors that qualified for compensation. Non-employee directors receive an initial stock option grant upon appointment to the board of directors and subsequent option grants as may be granted at the discretion of the Compensation Committee. In addition, non-employee directors receive annual cash compensation, perquisites as approved by the Compensation Committee and reimbursement of actual out-of-pocket expenses. Beginning in 2006, in lieu of per meeting directors' fees, the non-employee directors began to receive an annual retainer of $40,000, payable in quarterly installments of $10,000 in January, April, July and October. Directors who are also employees do not receive this compensation. Directors have not previously been given the option to be compensated in stock in lieu of cash, but may be given such option in the future at the discretion of the Compensation Committee.

We also grant options to our outside directors as part of their compensation. In January 2009, we granted 15,000 options to each of our non-employee directors under our 2002 Plan and 10,000 additional options to the non-employee director serving as the Company's Chairman. The options vest 33 1/3% per year beginning on January 2, 2010 and expire in six (6) years on January 2, 2015. In April 2009, we granted 10,000 options to a new non-employee director under our 2002 Plan. The options vest 20% per year beginning on April 1, 2010 and expire in six (6) years on April 1, 2015. No stock options were granted to any non-employee director in 2010.

The following Non-Employee Directors' Compensation Summary table sets forth information regarding the compensation we paid to our non-employee directors from January 1, 2010 to December 31, 2010.

NON-EMPLOYEE DIRECTORS' COMPENSATION SUMMARY

Name	Fees Earned or Paid in Cash	Stock Awards	Option Awards (3)	Non-Equity Incentive Plan Compensation	Change in Pension Value and Non-qualified Deferred Compensation Earnings	All Other Compensation		Total
Carl Dorf	$40,000	--	--	--	--	--		$40,000
Charles B. Hart, Jr.	$40,000	--	--	--	--	$ 11,349	(1)	$51,349
Bruce F. Simberg	$40,000	--	--	--	--	--		$40,000
Richard W. Wilcox, Jr.	$40,000	--	--	--	--	$ 4,249	(2)	$44,249
Jenifer G. Kimbrough	$40,000	--	--	--	--	--		$40,000

(1) Includes $3,749 paid for country club membership and $7,600 for events attended by director and/or family in 2010.
(2) Includes $3,749 paid for country club membership and $800 for events attended by director and/or family in 2010.
(3) The following table provides certain additional information concerning the option awards of our non-employee directors for fiscal 2010:

Name	Total Stock Option Awards Outstanding at 2010 Fiscal Year End (Shares)		Option Awards Granted During Fiscal Year 2010(a) (Shares)	Grant Date Fair Value of Option Awards Granted During Fiscal Year 2009 ($)
Carl Dorf	30,000	(a)	--	--
Charles B. Hart, Jr.	30,000	(a)	--	--
Bruce F. Simberg	40,000	(b)	--	--
Richard W. Wilcox, Jr.	30,000	(a)	--	--
Jenifer G. Kimbrough	10,000	(c)	--	--

(a) Includes 10,000 options granted on 12/5/2005 with an exercise price of $15.79, vest 20% per year, and expire on 12/5/2011; 500 options granted on 12/6/2007 with an exercise price of $13.17, vest 20% per year, and expire on 12/6/2013; 4,500 options granted on 1/30/2008 with an exercise price of $12.58, vest 20% per year and expire on 1/30/2014; and 15,000 options granted on 1/2/2009 with an exercise price of $4.73, vest 33 1/3% per year and expire on 1/2/2015.
(b) Includes 10,000 options granted on 12/5/2005 with an exercise price of $15.79, vest 20% per year, and expire on 12/5/2011; 500 options granted on 12/6/2007 with an exercise price of $13.17, vest 20% per year, and expire on 12/6/2013; 4,500 options granted on 1/30/2008 with an exercise price of $12.58, vest 20% per year and expire on 1/30/2014; and 25,000 options granted on 1/2/2009 with an exercise price of $4.73, vest 33 1/3% per year and expire on 1/2/2015.
(c) Includes 10,000 options granted on 4/1/2009 with an exercise price of $3.30, vest 20% per year and expire on 4/1/2015.

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21st Century Holding Company and Subsidiaries

Potential Payments upon Termination or Change in Control

The following table below illustrates the potential payouts to each Named Executive Officer employed by the Company in an officer capacity as of December 31, 2010, under each of the various separation situations.

Executive Benefits and Payments Upon Termination	Voluntary Termination	For Good Reason Termination	Involuntary Not for Cause Termination (1)	Death	Disability	Change in Control (1)(2)
Michael H. Braun	$ 0	$ 0	$ 472,000	$0	$0	$496,720
Peter J. Prygelski, III	$ 0	$ 0	$ 396,000	$0	$0	$425,020

(1) All amounts are calculated using the Executive's base salary as of December 31, 2010 and the value of unvested options which were accelerated as of the termination date It has been the Company's practice, if an Executive is terminated without cause, to accelerate any unvested options and the value of these accelerated options for Executive as of the termination date was $0.

(2) If a change in control occurs (as described in his employment agreement) and the Executive is terminated during the remaining term of his employment agreement, he will receive the severance payment set forth in this table. Includes the value of vested stock options which were accelerated as of the termination date, actual bonus earned in the fiscal year preceding the termination and a medical insurance premium payment equal to two years premium at the rate paid by the Company for such coverage as of the termination date.

Restrictive Covenant Agreements

As a condition to Messrs. Braun and Prygelski’s entitlement to receive the base salary amounts and equity award acceleration referenced in the tables above, each is bound by the terms of an agreement that sets forth certain restrictive covenants. Pursuant to the non-competition provisions of these agreements, each are prohibited from working in the insurance industry in any territories where the Company has been doing business for a period of one (1) year from the date on which he terminates employment with the Company for any reason (other than without cause). For a period of one (1) year after his employment is terminated, he is also prohibited from soliciting directly for himself or for any third person any employees or former employees of the Company, unless the employees have not been employed by the Company for a period in excess of six (6) months, and from disclosing any confidential information that he learned about the Company during his employment.

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

The following table sets forth, as of March 31, 2011, information with respect to the beneficial ownership of our common stock by (i) each person who is known by us to beneficially own 5% or more of our outstanding common stock, (ii) each of our executive officers named in the Summary Compensation Table in the section “Executive Compensation,” (iii) each of our directors, and (iv) all directors and executive officers as a group.

As used herein, the term beneficial ownership with respect to a security is defined by Rule 13d-3 under the Securities Exchange Act of 1934 as consisting of sole or shared voting power (including the power to vote or direct the vote) and/or sole or shared investment power (including the power to dispose or direct the disposition of) with respect to the security through any contract, arrangement, understanding, relationship or otherwise, including a right to acquire such

power(s) during the next sixty (60) days. Unless otherwise noted, beneficial ownership consists of sole ownership, voting and investment rights and the address for each person is c/o 21st Century Holding Company, 3661 West Oakland Park Boulevard, Suite 300, Lauderdale Lakes, FL 33311.

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Name and Address of Beneficial Owner	Number of Shares Beneficially Owned	Percent of Class Outstanding (1)	
Bruce F. Simberg (2)	256,496	3.22	%
Richard W. Wilcox, Jr. (3)	141,250	1.77	%
Carl Dorf (4)	138,288	1.74	%
Michael H. Braun (5)	96,233	1.20	%
Peter J. Prygelski, III (6)	37,533	*	
Charles B. Hart, Jr. (7)	23,000	*	
Jenifer G. Kimbrough (8)	4,910	*	
All directors and executive officers as a group (seven (7) persons) (9)	697,710	8.55	%
5% or greater holders:			
Lloyd I. Miller, III (10)	775,809	9.80	%
4550 Gordon Drive			
Naples, FL 34102			
Dimensional Fund Advisors LP (11)	560,183	7.05	%
Palisades West, Building One			
6300 Bee Cave Road			
Austin, TX 78746			
The PNC Financial Services Group, Inc. (12)			
PNC Bancorp, Inc.			
PNC Bank, National Association	513,277	6.46	%
One PNC Plaza			
249 Fifth Avenue			
Pittsburgh, PA 15222			

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* Less than 1%.

(1) Based on 7,946,384 shares outstanding as of March 31, 2011.

(2) Includes 29,667 shares of common stock issuable upon the exercise of stock options held by Mr. Simberg.

(3) Includes 3,000 shares of common stock held in Mr. Wilcox's IRA, 40,000 shares of common stock held by Mr. Wilcox's spouse and 23,000 shares of common stock issuable upon the exercise of stock options held by Mr. Wilcox.

(4) Includes 59,624 shares of common stock held by Carl Dorf Rollover IRA, 54,164 shares of common stock held by Dorf Trust and 23,000 shares of common stock issuable upon the exercise of stock options held by Mr. Dorf.

(5) Includes 78,333 shares of common stock issuable upon the exercise of stock options held by Mr. Braun.

(6) Includes 4,000 shares of common stock held in Mr. Prygelski's IRA and 32,533 shares of common stock issuable upon the exercise of stock options held by Mr. Prygelski.

(7) Includes 23,000 shares of common stock issuable upon the exercise of stock options held by Mr. Hart.

(8) Includes 4,000 shares of common stock issuable upon the exercise of stock options held by Ms. Kimbrough.

(9) Includes 213,333 shares of common stock issuable upon the exercise of stock options.

(10) Includes 525,277 shares of common stock that Lloyd I. Miller, III has shared voting and dispositive power as (i) an investment advisor to the trustee of a certain family trust and (ii) co-trustee of a certain trust. This information is based on an Amendment No. 1 to Schedule 13G filed with the SEC on February 9, 2011.

(11) This information is based on an Amendment No. 2 to Schedule 13G Amendment No. 1 filed with the SEC on February 11, 2011.

(12) Shares of common stock as to which shared investment and dispositive power are reported. Held in trust accounts created by an Amended and Restated Trust Agreement dated September 20, 1983, in which Lloyd I Miller, Jr. was grantor and for which PNC Bank, National Association, serves as trustee. This information is based on a Schedule 13G filed with the SEC on February 11, 2011.

21st Century Holding Company and Subsidiaries

ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Family Relationships

There are no family relationships between or among our current executive officers and directors.

Related Transactions

The following is a summary of transactions during 2009 and 2010 between the Company and its executive officers, directors, nominees, principal shareholders and other related parties involving amounts in excess of $120,000 or that the Company has chosen to voluntarily disclose.

Bruce F. Simberg, a director, is a partner of the Fort Lauderdale, Florida law firm of Conroy, Simberg, which renders legal services to the Company. The Company paid legal fees to Conroy, Simberg for services rendered in the amount of approximately $89,645 and $39,604 in 2009 and 2010, respectively. We believe that the fees charged for services provided by Conroy, Simberg are on terms at least as favorable as those that we could secure from a non-affiliated law firm.

During 2009 and 2010, Michael H. Braun, the Company's Chief Executive Officer and President, received the compensation described in "Executive Compensation" on pages 125 through 130 of this Form 10-K. Mr. Braun's brother received salary compensation of $123,192 and $127,308 for his services as the Vice President of Accounting and Finance in 2009 and 2010, respectively; and Mr. Braun's sister received salary compensation of $65,238 and $54,715 for her services as a marketing representative in 2009 and 2010, respectively. We believe that the compensation provided to these individuals is comparable to that paid by other companies in our industry and market for similar positions.

We have adopted a written policy that any transactions between the Company and executive officers, directors, principal shareholders or their affiliates take place on an arm's-length basis and require the approval of a majority of our independent directors, as defined in Nasdaq Rules.

The Board has determined that the following directors are independent pursuant to the Nasdaq Rules: Carl Dorf, Charles B. Hart, Jr., Richard W. Wilcox, Jr., Bruce F. Simberg, and Jenifer G. Kimbrough. In making the independence determination with respect to Mr. Simberg, the Board considered the fact that Conroy Simberg has provided legal services to the Company during the past 15 years. Nevertheless, the fees paid by the Company in connection with the legal services provided by Conroy Simberg during the past three (3) fiscal years do not exceed the amounts set forth in the Nasdaq Rule 5605(a)(2)(D) and, therefore, the Board has determined that Mr. Simberg qualifies as an independent director under Nasdaq Rule 5605(a)(2).

ITEM 14 PRINCIPAL ACCOUNTING FEES AND SERVICES

The Audit Committee selected DeMeo Young McGrath ("DeMeo") as the independent registered public accounting firm to perform the audit of the Company's consolidated financial statements and management's assessment of the effectiveness of internal control over financial reporting for the 2011 fiscal year.

Our Audit Committee requires that management obtain the prior approval of the Audit Committee for all audit and permissible non-audited services to be provided by DeMeo. The Audit Committee considers and approves at each

meeting, as needed, anticipated audit and permissible non-audit services to be provided by DeMeo during the year and estimated fees. The Audit Committee Chairman may approve permissible non-audit services with subsequent notification to the full Audit Committee. All services rendered to us by DeMeo in 2010 were pre-approved in accordance with these procedures.

DeMeo has served as the Company's independent auditors for each fiscal year since 2002. DeMeo has advised the Company that neither it, nor any of its members, has any direct financial interest in the Company as a promoter, underwriter, voting trustee, director, officer or employee. All professional services rendered by DeMeo during the fiscal year ended December 31, 2010 were furnished at customary rates.

21st Century Holding Company and Subsidiaries

The following table shows fees that we paid (or accrued) for professional services rendered by DeMeo for fiscal 2010 and 2009.

	Fiscal 2010	Fiscal 2009
Audit Fees (1)	$ 438,696	$ 404,701
Audit-Related Fees (2)	$ 12,111	$ 13,815
Tax Fees (3)	$ 0	$ 22,245
Total	$ 450,807	$ 440,761

(1) Audit fees consisted of audit work performed in the preparation of financial statements, as well as work generally only the independent auditor can reasonably be expected to provide, such as statutory audits.

(2) Audit-related fees consisted primarily of audits of employee benefit plans and special procedures related to regulatory filings in 2010.

(3) Tax fees consisted primarily of assistance with tax compliance and reporting.

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21st Century Holding Company and Subsidiaries

PART IV

ITEM 15 EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 10-K

(a) The following documents are filed as part of this report.

(1) Financial Statements

The following consolidated financial statements of the Company and the reports of independent auditors thereon are filed with this report:

Independent Auditors' Report (De Meo, Young, McGrath)

Consolidated Balance Sheets as of December 31, 2010 and 2009

Consolidated Statements of Operations for the years ended December 31, 2010, 2009 and 2008.

Consolidated Statements of Shareholders' Equity and Comprehensive Income (Loss) for the years ended December 31, 2010, 2009 and 2008.

Consolidated Statements of Cash Flows for the years ended December 31, 2010, 2009 and 2008.

Notes to Consolidated Financial Statements for the years ended December 31, 2010, 2009 and 2008.

(2) Financial Statement Schedules.

Schedule VI, Supplemental information concerning property-casualty insurance operations, is included herein under Item 8, Financial Statements and Supplementary Data.

(3) Exhibits.

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21st Century Holding Company and Subsidiaries

Exhibit	Description
3.1	Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 3.1 in the Company's Registration Statement on Form SB-2 filed with the SEC on September 17, 1998 [File No. 333-63623]).
3.2	Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 10.1 in the Company's Current Report on Form 8-K filed with the SEC on November 28, 2007).
4.1	Specimen of Common Stock Certificate (incorporated by reference to Exhibit 4.1 in Amendment No. 1 to the Company's Registration Statement on Form SB-2 filed with the SEC on October 7, 1998 [File No. 333-63623]).
10.1	21st Century Holding Company 2002 Stock Option Plan, as amended, and Stock Plan Acknowledgment (incorporated by reference to Annex A in the Company's Definitive Proxy Statement for its 2009 Annual Meeting of Stockholders filed with the SEC on April 2, 2009 and Exhibit 10.2 in the Company's Annual Report on Form 10-K for 2007 filed with the Sec on March 17, 2008). +
10.2	21st Century Holding Company 1998 Stock Option Plan, as amended, and Stock Plan Acknowledgment (incorporated by reference to Annex A in the Company's Definitive Proxy Statement filed with the SEC on May 12, 2000 and Exhibit 10.4 in the Company's Annual Report on Form 10-K for its year ended December 31, 2007 filed with the SEC on March 17, 2008). +
10.3	Amended and Restated Employment Agreement dated June 22, 2009 between the Company and Michael H. Braun (incorporated by reference to Exhibit 10.8 in the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 filed with the SEC on August 10, 2009).+
10.4	Amended and Restated Employment Agreement dated June 22, 2009 between the Company and Peter J. Prygelski, III (incorporated by reference to Exhibit 10.9 in the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 filed with the SEC on August 10, 2009).+
10.5	Form of Indemnification Agreement between the Company and its directors and executive officers (incorporated by reference from Exhibit 10.15 in the Company's Annual Report on Form 10-K for its year ended December 31, 1007 filed with the SEC on March 17, 2008).
10.6	Non-Compete Agreement between the Company and Peter J. Prygelski, effective June 25, 2007 (incorporated by reference to Exhibit 10.3 contained in the Company's Form 8-K filed on June 19, 2007).+
10.7	Non-Compete Agreement dated December 19, 2005 between the Company and Michael Braun dated December 19, 2005 (incorporated by reference to Exhibit 10.2 in the Company's Current Report on Form 8-K filed with the SEC on December 29, 2005).+
10.8	Reimbursement Contract between Federated National Insurance Company and The State Board of Administration of Florida (SBA) which administers the Florida Hurricane Catastrophe Fund (FHCF) and Addenda Nos. 1 and 2 effective June 1, 2010 (incorporated by reference to Exhibits 10.1 – 10.3 in the Company's Current Report on Form 8-K filed with the SEC on June 4, 2010).
10.9	Excess Catastrophe Reinsurance Contract effective July 1, 2010 issued to Federated National Insurance Company and certain Subscribing Reinsurer(s) executing the Agreement (incorporated by reference to Exhibit 10.1 in the

Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2010 filed with the SEC on November 15, 2010).

10.10 Excess Catastrophe Reinsurance Contract Private Layer 1 effective July 1, 2010 issued to Federated National Insurance Company and certain Subscribing Reinsurer(s) executing the Agreement (incorporated by reference to Exhibit 10.2 in the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2010 filed with the SEC on November 15, 2010).

10.11 Excess Catastrophe Reinsurance Contract Private Layer 2 effective July 1, 2010 issued to Federated National Insurance Company and certain Subscribing Reinsurer(s) executing the Agreement (incorporated by reference to Exhibit 10.3 in the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2010 filed with the SEC on November 15, 2010).

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21st Century Holding Company and Subsidiaries

10.12 Reinstatement Premium Protection Reinsurance Contract effective July 1, 2009 issued to Federated National Insurance Company and certain Subscribing Reinsurance(s) executing the Agreement (incorporated by reference to Exhibit 10.4 in the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2010 as filed with the SEC on November 15, 2010).

10.13 Consent Order for Case Number 114165-10-CO between Federated National Insurance Company, American Vehicle Insurance Company, 21st Century Holding Company and the Florida Office of Insurance Regulation filed January 25, 2011 to approve of the merger of Federated National Insurance Company with and into American Vehicle Insurance Company (incorporated by reference to Exhibit 10.1 in the Company's Current Report on Form 8-K filed with the SEC on January 27, 2011).

10.14 Reimbursement Contract between Federated National Insurance Company and The State Board of Administration of Florida (SBA) which administers the Florida Hurricane Catastrophe Fund (FHCF) and Addenda Nos. 1 and 2 effective June 1, 2011 (incorporated by reference to Exhibits 10.1 – 10.3 in the Company's Current Report on Form 8-K filed with the SEC on March 3, 2011).

21.1 Subsidiaries of the Company **

23.1 Consent of De Meo, Young, McGrath, Independent Certified Public Accountants **

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act **

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act **

32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act **

32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act **

+	Management Compensation Plan or Arrangement.
**	Filed herewith.

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21st Century Holding Company and Subsidiaries

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the registrant has duly caused this Form 10-K report to be signed on its behalf by the undersigned, thereto duly authorized.

21st CENTURY HOLDING COMPANY

By: /s/ Michael H. Braun
Michael H. Braun, Chief Executive Officer
(Principal Executive Officer)

/s/ Peter J. Prygelski, III
Peter J. Prygelski, III, Chief Financial Officer
(Principal Financial and Accounting Officer)

Dated: March 31, 2011

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

Signature	Title	Date
/s/ Michael H. Braun Michael H. Braun	Chief Executive Officer (Principal Executive Officer)	March 31, 2011
/s/ Peter J. Prygelski, III Peter J. Prygelski, III	Chief Financial Officer (Principal Financial and Accounting Officer)	March 31, 2011
/s/ Carl Dorf Carl Dorf	Director	March 31, 2011
/s/ Bruce F. Simberg Bruce F. Simberg Chairman of the Board	Director	March 31, 2011
/s/ Charles B. Hart, Jr. Charles B. Hart, Jr.	Director	March 31, 2011
/s/ Richard W. Wilcox, Jr. Richard W. Wilcox, Jr.	Director	March 31, 2011
/s/ Jenifer G. Kimbrough Jenifer G. Kimbrough	Director	March 31, 2011

21st Century Holding Company and Subsidiaries

EXHIBIT INDEX

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