21ST CENTURY HOLDING CO
Form 10-Q
November 14, 2011

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

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

FOR THE QUARTERLY PERIOD ENDED September 30, 2011
OR

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

FOR THE TRANSITION PERIOD FROM _____TO _____

Commission File number 0-2500111

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

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

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

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

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

Yes x No o

Indicate by check mark whether the registrant has electronically submitted and posted on its corporate website, 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 x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer,

or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

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

Common Stock, $.01 par value –7,946,384 outstanding as of November 14, 2011

21ST CENTURY HOLDING COMPANY

INDEX

PART I: FINANCIAL INFORMATION		PAGE
ITEM 1	Financial Statements	3
ITEM 2	Management's Discussion and Analysis of Financial Condition and Results of Operations	35
ITEM 3	Quantitative and Qualitative Disclosures about Market Risk	58
ITEM 4	Controls and Procedures	60
PART II: OTHER INFORMATION		
ITEM 1	Legal Proceedings	61
ITEM 1A	Risk Factors	61
ITEM 2	Unregistered Sales of Equity Securities and Use of Proceeds	61
ITEM 3	Defaults upon Senior Securities	61
ITEM 4	(Removed and Reserved)	61
ITEM 5	Other Information	61
ITEM 6	Exhibits	62
SIGNATURES		63

Index

PART I: FINANCIAL INFORMATION
Item 1 Financial Statements

21st CENTURY HOLDING COMPANY
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	Period Ending	
	September 30, 2011	December 31, 2010
ASSETS	(Dollars in Thousands)	
Investments		
Debt maturities, available for sale, at fair value	$104,336	$ 98,350
Debt maturities, held to maturity, at amortized cost	7,224	6,198
Equity securities, available for sale, at fair value	17,063	17,937
Total investments	128,623	122,485
Cash and short term investments	15,111	16,206
Prepaid reinsurance premiums	4,028	10,416
Premiums receivable, net of allowance for credit losses of $88 and $68, respectively	5,182	5,639
Reinsurance recoverable, net	3,721	8,038
Deferred policy acquisition costs	7,692	7,879
Deferred income taxes, net	9,468	7,916
Income taxes receivable	2,281	2,393
Property, plant and equipment, net	627	767
Other assets	2,025	2,310
Total assets	$178,758	$ 184,049
LIABILITIES AND SHAREHOLDERS' EQUITY		
Unpaid losses and LAE	$62,158	$ 66,529
Unearned premiums	46,935	47,136
Premiums deposits and customer credit balances	2,601	2,364
Funds held under reinsurance treaties	2,590	-
Bank overdraft	7,560	7,430
Deferred gain from sale of property	127	506
Accounts payable and accrued expenses	1,111	2,153
Total liabilities	123,082	126,118
Shareholders' equity:		
Common stock, $0.01 par value. Authorized 25,000,000 shares; issued and outstanding 7,946,384 and 7,946,384, respectively.	79	79
Preferred stock, $0.01 par value. Authorized 1,000,000 shares; none issued or outstanding	-	-
Additional paid-in capital	50,870	50,654
Accumulated other comprehensive income	433	520

Retained earnings	4,294		6,678
Total shareholders' equity	55,676		57,931
Total liabilities and shareholders' equity	$178,758	$	184,049

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Index

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(Dollars in Thousands except EPS and share and dividend data)		(Dollars in Thousands except EPS and share and dividend data)	
Revenue:				
Gross premiums written	$17,654	$17,698	$72,800	$72,317
Gross premiums ceded	(29,657)	(29,526)	(44,672)	(51,352)
Net premiums written	(12,003)	(11,828)	28,128	20,965
Increase in prepaid reinsurance premiums	18,001	16,194	7,367	9,555
Decrease in unearned premiums	6,894	7,255	201	3,008
Net change in prepaid reinsurance premiums and unearned premiums	24,895	23,449	7,568	12,563
Net premiums earned	12,892	11,621	35,696	33,528
Commission income	253	399	858	1,343
Finance revenue	175	110	411	286
Managing general agent fees	288	310	1,201	1,243
Net investment income	1,031	925	3,054	2,871
Net realized investment gains	713	1,864	1,052	5,688
Regulatory assessments recovered	-	115	109	682
Other income	842	135	1,113	653
Total revenue	16,194	15,479	43,494	46,294
Expenses:				
Losses and LAE	7,852	8,669	24,116	27,930
Operating and underwriting expenses	2,271	2,542	7,529	8,271
Salaries and wages	1,973	2,146	6,062	6,394
Policy acquisition costs - amortization	3,556	3,913	9,534	10,408
Total expenses	15,652	17,270	47,241	53,003
Income (loss) before provision for income tax expense (benefit)	542	(1,791)	(3,747)	(6,709)
Provision for income tax expense (benefit)	114	(523)	(1,363)	(2,165)
Net income (loss)	$428	$(1,268)	$(2,384)	$(4,544)
Net income (loss) per share - basic	$0.05	$(0.16)	$(0.30)	$(0.57)

Net income (loss) per share - diluted	$0.05	$(0.16)	$(0.30)	$(0.57)
Weighted average number of common shares outstanding - basic	7,946,384	7,946,384	7,946,384	7,946,384
Weighted average number of common shares outstanding - diluted	7,946,384	7,946,384	7,946,384	7,946,384
Dividends paid per share	$-	$-	$-	$0.06

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Index

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

	Nine Months Ended September 30,	
	2011	2010
	(Dollars in Thousands)	
Cash flow from operating activities:		
Net loss	$ (2,384)	$ (4,544)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Amortization of investment premium discount, net	932	660
Depreciation and amortization of property plant and equipment, net	132	165
Net realized investment gains	(1,052)	(5,688)
Provision for credit losses, net	17	2
Recovery for uncollectible premiums receivable	(19)	(75)
Non-cash compensation	149	209
Changes in operating assets and liabilities:		
Premiums receivable	476	4,596
Prepaid reinsurance premiums	6,387	7,034
Reinsurance recoverable, net	4,317	5,072
Income taxes recoverable	113	4,810
Deferred income tax expense, net of other comprehensive income	(1,500)	(489)
Policy acquisition costs, net of amortization	187	592
Other assets	(112)	1,005
Unpaid losses and LAE	(4,370)	(7,155)
Unearned premiums	(201)	(3,008)
Premium deposits and customer credit balances	238	337
Funds held under reinsurance treaties	2,590	-
Bank overdraft	130	(2,201)
Accounts payable and accrued expenses	(1,043)	(1,503)
Net cash provided (used) by operating activities	4,987	(181)
Cash flow (used) provided by investing activities:		
Proceeds from sale of investment securities	70,582	111,805
Purchases of investment securities available for sale	(76,739)	(104,897)
Purchases of property and equipment	7	(4)
Net cash (used) provided by investing activities	(6,150)	6,904
Cash flow provided (used) by financing activities:		
Dividends paid	-	(477)
Tax benefit related to non-cash compensation	68	112
Net cash provided (used) by financing activities	68	(365)
Net (decrease) increase in cash and short term investments	(1,095)	6,358
Cash and short term investments at beginning of period	16,206	28,197
Cash and short term investments at end of period	$ 15,111	$ 34,555

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Index

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

(continued)	Nine Months Ended September 30, 2011	2010
	(Dollars in Thousands)	
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income taxes	$ -	$ -
Non-cash investing and finance activities:		
Accrued dividends payable	$ -	$ -

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Index

21st Century Holding Company
Notes to Condensed Consolidated Financial Statements

(1) Organization and Business

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

21st Century is an insurance holding company, which, through our subsidiaries and our contractual relationships with our independent agents and general agents, controls substantially all aspects of the insurance underwriting, distribution and claims processes. We are authorized to underwrite homeowners' multi-peril ("homeowners"), commercial general liability, personal and commercial automobile, personal umbrella, following form commercial excess liability, fire, allied lines, workers' compensation 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 with and 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 a Consent Order with the Florida Office of Insurance Regulation ("Florida OIR"). 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.

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 $1.4 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% was achieved through the increased writing of property located outside of the Tri-County Area, the non-renewal of certain policies located within the Tri-County Area, and limiting the writing of new property located within the Tri-County Area. As of September 30, 2011, the Company had approximately 37.4% 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"), a wholly owned subsidiary of the Company, which were traditionally 6% of gross written premium, were reduced and will not exceed 4% without prior approval from the Florida OIR. The Merged Company has lowered the fee to 2% of gross written to further support the Federated National's results of operations. This will have no impact on the Company's consolidated financial results.

Index

21st Century Holding Company
Notes to Condensed Consolidated Financial Statements

- The claims service fees payable by the Merged Company to Superior Adjusting, Inc. ("Superior") were reduced from the traditional 4.5% of gross earned premium to 3.6% of gross earned premium. This will have no impact on the Company's consolidated financial results.

- The 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.

The merger of Federated National and American Vehicle will be an ongoing transition, many aspects of which will take effect over time. References to the companies contained herein are intended to be references to the operations of the newly formed Federated National following the January 2011 merger. References to the historical activities of American Vehicle are appropriately identified throughout this document.

Federated National is licensed as an admitted carrier in Florida. Through contractual relationships with a network of approximately 3,000 independent agents, of which approximately 600 actively sell and service our products, Federated National is authorized to underwrite homeowners', fire, allied lines and personal and commercial automobile insurance in Florida. Effective January 26, 2011, Federated National merged with and into American Vehicle and American Vehicle changed its name to Federated National.

American Vehicle, prior to the January 2011 merger, was licensed as an admitted carrier in Florida, and underwrote commercial general liability, and personal and commercial automobile insurance. American Vehicle was also licensed as an admitted carrier in Alabama, Louisiana, Georgia and Texas, and underwrote commercial general liability insurance in those states. American Vehicle operated as a non-admitted carrier in Arkansas, California, Kentucky, Maryland, Missouri, Nevada, Oklahoma, South Carolina, Tennessee and Virginia, and could underwrite commercial general liability insurance in all of these states. Subsequent to the merger, these operations may continue under the newly formed Federated National.

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

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

During the nine months ended September 30, 2011, 80.4%, 11.0%, 4.8% and 3.8% of the premiums we underwrote were for homeowners', commercial general liability, federal flood, and automobile insurance, respectively. During the nine months ended September 30, 2010, 77.6%, 13.6%, 4.3% and 4.5% of the premiums we underwrote were for

homeowners', commercial general liability, federal flood, and personal automobile insurance, respectively.

Our business, results of operations and financial condition are subject to fluctuations due to a variety of factors. Abnormally high severity or frequency of claims in any period could have a material adverse effect on our business, results of operations and financial condition. When our estimated liabilities for unpaid losses and loss adjustment expenses ("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.

Index

21st Century Holding Company
Notes to Condensed Consolidated Financial Statements

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. 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 exclusive managing general agent in 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 traditionally a 6% commission fee from its affiliates Federated National and American Vehicle. During the fourth quarter of 2010, Assurance MGA reduced its' fee, to earn amounts varying between 2% and 4%, which we anticipate will return to 6% at an unknown future date. A formal agreement reflecting this fee modification was executed during January 2011. The commission fee remains at 2%.

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

Until June 2011, our wholly owned subsidiary, Federated Premium Finance, Inc. ("Federated Premium") offered premium financing to our own and third-party insureds. Premium financing has been marketed through our distribution network of general agents and independent agents. 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 Florida Insurance Guaranty Association ("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. In June 2011, Federated Premium decided to stop providing financing for new policies although it continues to provide financing for existing policies.

Insure-Link, Inc. ("Insure-Link") was formed in March 2008 to serve as an independent insurance agency. The insurance agency markets direct to the public to provide a variety of insurance products and services to individual clients, as well as business clients, by offering a full line of insurance products including, but not limited to, homeowners', flood personal and commercial automobile, commercial general liability and workers' compensation insurance through their agency appointments with over fifty different carriers. Insure-Link intends to expand its business through marketing and by acquiring other insurance agencies. There were no other agency relationships with affiliated captive or franchised agents during 2010 or the nine months ended September 30, 2011.

Index

21st Century Holding Company
Notes to Condensed Consolidated Financial Statements

(2) Basis of Presentation

The accompanying unaudited condensed consolidated financial statements for the Company and its subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States of America referred to as Generally Accepted Accounting Principles ("GAAP") for interim financial information, and the Securities and Exchange Commission ("SEC") rules for interim financial reporting. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. However, in the opinion of management, the accompanying financial statements reflect all normal recurring adjustments necessary to present fairly the Company's financial position as of September 30, 2011 and the results of operations and cash flows for the periods presented. The results of operations for the interim periods presented are not necessarily indicative of the results of operations to be expected for any subsequent interim period or for the fiscal year ending December 31, 2011. The accompanying unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2010 included in the Company's Form 10-K, which was filed with the SEC on March 31, 2011.

In preparing the interim unaudited condensed consolidated financial statements, management was required to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures at the financial reporting date and throughout the periods being reported upon. Certain of the estimates result from judgments that can be subjective and complex and consequently actual results may differ from these estimates.

Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of loss and LAE, ceded reinsurance balances payable, the recoverability of Deferred Policy Acquisition Costs ("DPAC"), the determination of federal income taxes, and the net realizable value of reinsurance recoverables. Although considerable variability is inherent in these estimates, management believes that the amounts provided are reasonable. These estimates are continually reviewed and adjusted as necessary. Such adjustments are reflected in current operations.

All significant intercompany balances and transactions have been eliminated. No reclassifications have been made to the prior-period balances to conform to the current-period presentation.

(3) Summary of Significant Accounting Policies and Practices

(A) Critical Accounting Policies

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

The most significant accounting estimates inherent in the preparation of our financial statements include estimates associated with management's evaluation of the determination of (i) liability for unpaid losses and LAE, (ii) the amount and recoverability of amortization of 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 in Footnote 2 of the Company's audited consolidated financial statements for the fiscal year ended December 31, 2010, which we included in the Company's Annual Report on Form 10-K which was filed with the SEC on March 31, 2011.

We believe that there were no significant changes in those critical accounting policies and estimates during the first nine months of fiscal 2011. Senior management has reviewed the development and selection of our critical accounting policies and estimates and their disclosure in this Form 10-Q with the Audit Committee of our Board of Directors.

Index

21st Century Holding Company
Notes to Condensed Consolidated Financial Statements

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

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.

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.

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".

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.

Index

21st Century Holding Company
Notes to Condensed Consolidated Financial Statements

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.

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 September 30, 2011 and December 31, 2010. Changes in interest rates subsequent to September 30, 2011 and December 31, 2010 may affect the fair value of our investments.

The carrying amounts for the following financial instrument categories approximate their fair values at September 30, 2011 and December 31, 2010 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.

(B) Impact of New 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 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.

Index

21st Century Holding Company
Notes to Condensed 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. Adoption of the new standard did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

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 became 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.

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.

Index

21st Century Holding Company
Notes to Condensed 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.

(C) Stock Options

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 cost recognized during the nine months ended September 30, 2011 includes compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the guidance.

(D) Earnings (Loss) per Share

Basic earnings (loss) per share ("Basic EPS") is computed by dividing net (loss) income by the weighted average number of common shares outstanding during the period presented. Diluted earnings (loss) per share ("Diluted EPS") is computed by dividing net (loss) income by the weighted average number of shares of common stock and common stock equivalents outstanding during the period presented; outstanding warrants and stock options are considered common stock equivalents and are included in the calculation using the treasury stock method.

(E) Reclassifications

No reclassification of the 2010 financial statements was necessary to conform to the 2011 presentation.

(4) Commitments and Contingencies

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

(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.

Index

21st Century Holding Company
Notes to Condensed Consolidated Financial Statements

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, 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 of business to total premiums written statewide by all insurers. Although participation in these pools in prior years resulted in assessments against us, there were no assessments made during the year ended 2010 or during the nine months September 30, 2011. Under statutory accounting principles, these assessments were not charged to operations; in contrast, GAAP treatment was to charge current operations for the assessments. If new assessments occur, we will be required to treat these assessments consistent with GAAP since accounting difference with statutory accounting no longer exists as of January 1, 2011. We have since fully recouped the $7.2 million of total assessments through policyholder surcharges as approved by the Florida OIR.

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

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.

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.

Index

21st Century Holding Company
Notes to Condensed Consolidated Financial Statements

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 the nine months ended September 30, 2011 or during the years 2010, 2009 or 2008. Future assessments by this association are undeterminable at this time.

(C) Operational Matters

The Company's consolidated federal and state income tax returns for 2010, 2009, and 2008 are open for review by the Internal Revenue Service ("IRS") and various state taxing authorities. Tax years prior to 2008 are closed 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 2005 and 2006 income tax returns and net operating loss carry-back from tax year 2009 have been reviewed by the Joint Committee on Taxation. The Joint Committee on Taxation completed its consideration in September 2011 and took no exception to the conclusions reached by the IRS regarding the net operating loss carry-back from tax year 2009.

The Company has recorded a net deferred tax asset of $9.5 million as of September 30, 2011. 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 September 30, 2011, 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.

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		183
Total	$	183

Index

21st Century Holding Company
Notes to Condensed Consolidated Financial Statements

The Company is not currently involved in any material legal actions arising from the ordinary course of business that are not related to the insured claims activity.

(5) 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 $6.1 million, or 5.0%, to $128.6 million as of September 30, 2011, compared with $122.5 million as of December 31, 2010.

The debt and equity securities that are available-for-sale and carried at fair value represent 94% and 95% of total investments as of September 30, 2011 and of December 31, 2010, respectively.

We did not hold any trading investment securities during the nine months ended September 30, 2011.

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 (e.g., 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 FASB-issued 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.

Index

21st Century Holding Company
Notes to Condensed Consolidated Financial Statements

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 the nine months ended September 30, 2011, in connection with this process, we have not charged any net realized investment loss to operations.

As of September 30, 2011 and December 31, 2010, respectively, all of our securities are in good standing and not impaired as defined by FASB-issued guidance.

The investments held as of September 30, 2011 and December 31, 2010, were comprised mainly of corporate bonds held in various industries and municipal and United States government bonds. As of September 30, 2011, 63% of the debt portfolio is in diverse industries and 37% is in United States government bonds. As of September 30, 2011, approximately 82% of the equity holdings are in equities related to diverse industries and 18% are in mutual funds.

As of September 30, 2011 and December 31, 2010, we have classified $7.2 million and $6.2 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 used for such purposes totaled $4.6 million as of September 30, 2011 and December 31, 2010.

During the nine months ended September 30, 2011, we did not re-classify any of our bond portfolio between available-for-sale and held-to-maturity.

During the first quarter of the nine months ended September 30, 2010, we re-classified $3.1 million of amortized cost to held-to-maturity from available-for-sale to fund trust agreements.

As of September 30, 2011 and December 31, 2010, Federated National maintained fully funded trust agreements that totaled $4.6 million in favor of two of its reinsurers.

Index

21st Century Holding Company
Notes to Condensed Consolidated Financial Statements

(A) Debt and Equity Securities

The following table summarizes, by type, our investments as of September 30, 2011 and December 31, 2010.

	September 30, 2011		December 31, 2010	
	Carrying Amount	Percent of Total	Carrying Amount	Percent of Total
	(Dollars in Thousands)			
Debt securities, at market:				
United States government obligations and authorities	$35,050	27.25 %	$28,196	23.02 %
Obligations of states and political subdivisions	3,336	2.59 %	2,963	2.42 %
Corporate	65,361	50.82 %	65,808	53.73 %
International	589	0.46 %	1,383	1.13 %
	104,336	81.12 %	98,350	80.30 %
Debt securities, at amortized cost:				
Corporate	920	0.72 %	818	0.67 %
United States government obligations and authorities	6,303	4.90 %	5,380	4.39 %
	7,223	5.62 %	6,198	5.06 %
Total debt securities	111,559	86.74 %	104,548	85.36 %
Equity securities, at market:	17,064	13.26 %	17,937	14.64 %
Total investments	$128,623	100.00 %	$122,485	100.00 %

The following table shows the realized gains (losses) for debt and equity securities for the three months ended September 30, 2011 and 2010.

	Three Months Ended September 30,			
	2011		2010	
	Gains (Losses)	Fair Value at Sale	Gains (Losses)	Fair Value at Sale
	(Dollars in Thousands)			
Debt securities	$620	$10,177	$2,201	$25,432
Equity securities	273	1,502	194	2,579
Total realized gains	893	11,679	2,395	28,011
Debt securities	(10)	213	(19)	318
Equity securities	(170)	492	(512)	2,258
Total realized losses	(180)	705	(531)	2,576
Net realized gains on investments	$713	$12,384	$1,864	$30,587

Index

21st Century Holding Company
Notes to Condensed Consolidated Financial Statements

The following table shows the realized gains (losses) for debt and equity securities for the nine months ended September 30, 2011 and 2010.

	Nine Months Ended September 30,			
	2011		2010	
	Gains (Losses)	Fair Value at Sale	Gains (Losses)	Fair Value at Sale
	(Dollars in Thousands)			
Debt securities	$1,045	$39,630	$4,068	$81,704
Equity securities	1,010	5,751	2,856	20,626
Total realized gains	2,055	45,381	6,924	102,330
Debt securities	(442)	14,046	(59)	2,884
Equity securities	(561)	3,019	(1,177)	6,139
Total realized losses	(1,003)	17,065	(1,236)	9,023
Net realized gains on investments	$1,052	$62,446	$5,688	$111,353

Index

21st Century Holding Company
Notes to Condensed Consolidated Financial Statements

A summary of the amortized cost, estimated fair value and gross unrealized gains and losses of debt and equity securities at September 30, 2011 and December 31, 2010 is as follows.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(Dollars in Thousands)		
September 30, 2011				
Debt Securities - Available-For-Sale:				
United States government obligations and authorities	$32,914	$2,137	$1	$35,050
Obligations of states and political subdivisions	2,915	421	-	3,336
Corporate	64,042	1,816	497	65,361
International	588	1	-	589
	$100,459	$4,375	$498	$104,336
Debt Securities - Held-To-Maturity:				
United States government obligations and authorities	$6,303	$274	$-	$6,577
Corporate	920	29	1	948
	$7,223	$303	$1	$7,525
Equity securities - common stocks	$20,246	$682	$3,865	$17,063
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

Index

21st Century Holding Company
Notes to Condensed Consolidated Financial Statements

The table below reflects our unrealized investment losses by investment class, aged for length of time in a continuous unrealized loss position as of September 30, 2011.

	Unrealized (Losses)	Less than 12 months	12 months or longer
	(Dollars in Thousands)		
Debt securities:			
United States government obligations and authorities	$(1)	$(1)	$-
Obligations of states and political subdivisions	-	-	-
Corporate	(497)	(497)	-
International	-	-	-
	(498)	(498)	-
Equity securities:			
Common stocks	(3,865)	(3,236)	(629)
Total debt and equity securities	$(4,363)	$(3,734)	$(629)

The table below reflects our unrealized investment losses by investment class, aged for length of time in a continuous unrealized loss position as of December 31, 2010.

	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 September 30, 2011 and December 31, 2010, 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.

September 30, 2011		December 31, 2010	
Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
(Dollars in Thousands)			

Due in one year or less	$9,492	$9,609	$13,231	$13,268
Due after one through five years	48,186	49,023	49,982	50,360
Due after five through ten years	37,098	38,293	30,066	29,971
Due after ten years	12,907	14,937	11,127	11,140
Total	$107,683	$111,862	$104,406	$104,739

Index

21st Century Holding Company
Notes to Condensed Consolidated Financial Statements

United States Treasury notes with a book value of $2,006,316 and $64,672, maturing in 2012 and 2016, respectively, were on deposit with the Florida OIR as of September 30, 2011, as required by law for Federated National, and are included with other investments held until maturity.

The table below sets forth investment results for the three months ended September 30, 2011 and 2010.

	Three Months Ended September 30,	
	2011	2010
	(Dollars in Thousands)	
Interest on debt securities	$ 950	$ 739
Dividends on equity securities	80	180
Interest on cash and cash equivalents	1	6
Total investment income	$ 1,031	$ 925
Net realized gains	$ 713	$ 1,864

Proceeds from sales, pay downs and maturities of debt securities and proceeds from sales of equity securities during the three months ended September 30, 2011 and 2010, were approximately $15.0 million and $30.7 million, respectively.

The table below sets forth investment results for the nine months ended September 30, 2011 and 2010.

	Nine Months Ended September 30,	
	2011	2010
	(Dollars in Thousands)	
Interest on debt securities	$ 2,805	$ 2,510
Dividends on equity securities	246	350
Interest on cash and cash equivalents	3	11
Total investment income	$ 3,054	$ 2,871
Net realized gains	$ 1,052	$ 5,688

Proceeds from sales, pay downs and maturities of debt securities and proceeds from sales of equity securities during the nine months ended September 30, 2011 and 2010, were approximately $70.6 million and $111.8 million, respectively.

The table below sets forth a summary of net realized investment gains during the three months ended September 30, 2011 and 2010.

	Three Months Ended September 30,	
	2011	2010
	(Dollars in Thousands)	

Debt securities	$ 610	$ 2,182
Equity securities	103	(318)
Total net realized gains	$ 713	$ 1,864

Index

21st Century Holding Company
Notes to Condensed Consolidated Financial Statements

The table below sets forth a summary of net realized investment gains during the nine months ended September 30, 2011 and 2010.

	Nine Months Ended September 30,	
	2011	2010
	(Dollars in Thousands)	
Debt securities	$ 603	$ 4,009
Equity securities	449	1,679
Total net realized gains	$ 1,052	$ 5,688

The table below sets forth a summary of net unrealized investment gains during the three months ended September 30, 2011 and 2010.

	Period Ending	
	September 30, 2011	December 31, 2010
	(Dollars in Thousands)	
Debt securities	$ 3,877	$ 143
Equity securities	(3,183)	692
Total net unrealized gains	$ 694	$ 835

(6) 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.

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.

Index

21st Century Holding Company
Notes to Condensed Consolidated Financial Statements

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 as of September 30, 2011, presented in accordance with this guidance, are as follows.

	As of September 30, 2011			
	Level 1	Level 2	Level 3	Total
		(Dollars in Thousands)		
Debt securities:				
United States government obligations and authorities	$-	$35,050	$-	$35,050
Obligations of states and political subdivisions	-	3,336	-	3,336
Corporate	65,361	-	-	65,361
International	-	589	-	589
	65,361	38,975	-	104,336
Equity securities:				
Common stocks	17,063	-	-	17,063
	17,063	-	-	17,063
Total debt and equity securities	$82,424	$38,975	$-	$121,399

Assets measured at fair value on a recurring basis as of December 31, 2010, 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

Index

21st Century Holding Company
Notes to Condensed Consolidated Financial Statements

(7) Comprehensive Loss

For the three and nine months ended September 30, 2011 and 2010, comprehensive loss consisted of the following.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(Dollars in Thousands)		(Dollars in Thousands)	
Net income (loss)	$ 428	$ (1,268)	$ (2,384)	$ (4,544)
Change in net unrealized (losses) gains on investments available for sale	(1,353)	1,224	(140)	(1,393)
Comprehensive loss before tax	(925)	(44)	(2,524)	(5,937)
Income tax benefit (expense) related to items of other comprehensive loss	509	(461)	53	524
Comprehensive loss	$ (416)	$ (505)	$ (2,471)	$ (5,413)

(8) 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 subsidiary against the severity of losses on individual claims or unusually serious occurrences in which the frequency and or the severity of claims produce an aggregate extraordinary loss from catastrophic events.

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 2011–2012 and 2010–2011 hurricane seasons and is expected to continue constricting its claim paying capacity for future seasons. This gradual restriction is requiring us to replace that capacity with more expensive private market reinsurance. The recovery of increased reinsurance costs through rate action is not immediate and cannot be presumed, as it is subject to Florida OIR approval. Our reinsurance program is subject to approval by the Florida OIR and review by Demotech, Inc. (“Demotech”).

Index

21st Century Holding Company
Notes to Condensed Consolidated Financial Statements

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

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

Annually, the cost and amounts of reinsurance are based on management's analysis of Federated National's exposure to catastrophic risk as of June 30 and estimated to September 30. Our data is then subjected to actual exposure level analysis as of September 30. This analysis of our exposure level in relation to the total exposures to the FHCF and excess of loss treaties may produce changes in limits and reinsurance premiums as a result of the reconciliation of estimated to actual exposure level. Last year, the September 30, 2010 change to total limits was an increase of $10.3 million of probable maximum loss or 2.9% and the change to reinsurance premiums was an increase of $3.7 million or 8.7%. The September 30, 2011 change to total limits was an increase of $172.2 million of total insured value or 1.4 % and the change to reinsurance premiums was an increase of $0.45 million or 1.1%. The subsequent change to management's June 30, 2011 exposure analysis, as of September 30, 2011 will be amortized over the underlying policy term.

Index

21st Century Holding Company
Notes to Condensed Consolidated Financial Statements

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

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

* Reinstatement Premium Protection Program Participants

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

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

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

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

Index

21st Century Holding Company
Notes to Condensed Consolidated Financial Statements

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)

We entered into an 80% quota share treaty with Scor Reinsurance Company effective May 1, 2010 for a one-year term 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 retained 20% of the policy risk for the term of the quota share agreement. This treaty was not renewed and will run off in accordance with provisions set forth in the quota share

treaty.

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 cedes 100% of the risk and fully collateralizes for unearned premium and unpaid loss and LAE.

Index

21st Century Holding Company
Notes to Condensed Consolidated Financial Statements

Pursuant to commutation provisions contained in the original 2005 FHCF agreement, on July 21, 2011 Federated National and the FHCF negotiated such a commutation agreement for the 2005 contract year. The terms of the agreement provide that Federated National release the FHCF from all its obligations under the original reinsurance agreement for a negotiated consideration as a final payment for all unpaid claims subject to the treaty. This negotiation resulted in a final commutation payment received by us for a total of $4.1 million, which is the maximum available under the treaty to pay loss and LAE including incurred but not yet reported ("IBNR") for the subject losses. The benefit of the FHCF treaty inures to the benefit of the private reinsurers participating in the treaty. Should our estimations for unpaid loss and LAE exceed our commutation with the FHCF ultimately prove inadequate, our coverage in the private market has been exhausted and not will continue to indemnify us. Additionally, this commutation agreement did not have an effect on operational net income.

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 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 or during the nine months ended September 30, 2011. Through 2007, we were assessed $6.6 million and in 2009 we were assessed an additional $0.6 million in connection with the insolvencies of domestic insurance companies. For statutory accounting these assessments were not charged to operations, in contrast, GAAP treatment was to charge current operations for the assessments. If new assessments occur, we will be required to treat these assessments consistent with GAAP since accounting difference with Statutory accounting no longer exists as of January 1, 2011. Through policyholder surcharges, as approved by the Florida OIR, we have since fully recouped $7.2 million in connection with these assessments.

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

The FHCF reimbursement contract and addendums were all effective June 1, 2011, and the private excess of loss type treaties were all effective July 1, 2011; all treaties have a term of one year. Our reinsurance treaty with the FHCF has a significant credit risk, including the fact that the FHCF may not be able to raise sufficient money to pay its claims or be able to pay its claims in a timely manner. This could result in significant financial, legal and operational challenges to all companies, including ours. Additionally, the FHCF treaty contains an exclusion for "Losses in excess of the sum

of the Balance of the Fund as of December 31 of the Contract Year and the amount the SBA is able to raise through the issuance of revenue bonds or by the use of other financing mechanisms, up to the limit pursuant to Section 215.555(4) (c), Florida Statutes." This credit risk is mitigated by a fund cash buildup due to the absence of covered events in recent years.

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

Index

21st Century Holding Company
Notes to Condensed Consolidated Financial Statements

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

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

In order to expand our commercial business, American Vehicle entered into various quota share reinsurance agreements whereby American Vehicle is the assuming reinsurer. On March 26, 2009, we announced that American Vehicle received approval from the Florida OIR to enter into a reinsurance relationship allowing the opportunity to market and underwrite commercial insurance through a company that has an "A" rating with A.M. Best. This agreement was designed to enable the deployment of commercial general liability and other commercial insurance products in most of the contiguous 48 states to policyholders who require their commercial insurance policy to come from an insurance company with an A- or better A.M. Best rating. Operations began during the quarter ended June 30, 2009. During 2011, the companies mutually agreed to suspend this treaty effective May 15, 2011.

The quota share retrocessionaire reinsurance agreements require American Vehicle to securitize credit, regulatory and business risk. As of December 31, 2010, irrevocable letters of credit fully collateralized by American Vehicle and further guaranteed by the parent company, 21st Century, were replaced by fully funded trust agreements. Fully funded trust agreements totaled $4.6 million as of September 30, 2011 and December 31, 2010.

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.

(9) 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 both September 30, 2011 and December 31, 2010, we had outstanding exercisable options to purchase 89,750 shares.

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 September 30, 2011 and December 31, 2010, 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, expire six or ten years after the grant date and have vesting periods determined by the Compensation Committee of our Board of Directors. Under this plan, we are authorized to grant options to purchase up to 1,800,000 common shares, and, as of September 30, 2011 and December 31, 2010, we had outstanding exercisable options to purchase 721,300 and 574,800 shares, respectively.

Index

21st Century Holding Company
Notes to Condensed Consolidated Financial Statements

FASB-issued guidance requires that when valuing an employee stock option under the Black-Scholes option pricing model, the fair value be based on the option's expected term and expected volatility rather than the contractual term. The estimate of the fair value on the grant date should reflect the assumptions marketplace participants now use on the date of the measurement (i.e. grant date). During 2011, management changed the expected term in the Black –Scholes option pricing model from four years to two years for new options granted. Management believes that share price volatility over the last two years is more indicative of future share price volatility. The change has had an immaterial impact on the financial statements.

Activity in our stock option plans for the period from January 1, 2009 to September 30, 2011 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, 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 January 1, 2011	89,750	$12.83	574,800	$9.12
Granted	-	$-	178,000	$2.45
Exercised	-	$-	-	$-
Cancelled	-	$-	(31,500)	$11.28
Outstanding at September 30, 2011	89,750	$12.83	721,300	$7.38

Index

21st Century Holding Company
Notes to Condensed Consolidated Financial Statements

Options outstanding as of September 30, 2011 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
September 30, 2011	63,350	$12.83	335,345	$7.38
December 31, 2011	8,000	$12.83	19,522	$7.38
December 31, 2012	17,700	$12.83	142,398	$7.38
December 31, 2013	700	$12.83	111,477	$7.38
December 31, 2014	-	$12.83	92,158	$7.38
December 31, 2015	-	$12.83	20,400	$7.38
Thereafter	-	$12.83	-	$7.38
Total options exercisable	89,750		721,300	

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 2011 and 2010 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.

As a result of adopting FASB-issued guidance on January 1, 2006, the Company’s income from continuing operations before provision for income taxes and net income for the three months ended September 30, 2011 are lower by approximately $61,000 and $38,000, 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 income from continuing operations before provision for income taxes and net income for the nine months ended September 30, 2011 are lower by approximately $178,000 and $111,000, 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 income from continuing operations before provision for income taxes and net income for the three months ended September 30, 2010 are lower by approximately $99,000 and $62,000, 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 income from continuing operations before provision for income taxes and net income for the nine months ended September 30, 2010 are lower by approximately $297,000 and $185,000, respectively, than if it had continued to account for share-based compensation under APB guidance.

Index

21st Century Holding Company
Notes to Condensed Consolidated Financial Statements

Basic and diluted earnings per share for the three months ended September 30, 2011 would have remained unchanged at $0.5, if the Company had not adopted FASB-issued guidance, compared with reported basic and diluted earnings per share of $0.5 Basic and diluted earnings per share for the nine months ended September 30, 2011 would have been ($0.29), if the Company had not adopted FASB-issued guidance, compared with reported basic and diluted earnings per share of ($0.30).

Basic and diluted earnings per share for the three months ended September 30, 2010 would have been ($0.15), if the Company had not adopted FASB-issued guidance, compared with reported basic and diluted earnings per share of ($0.16). Basic and diluted earnings per share for the nine months ended September 30, 2010 would have been ($0.55), if the Company had not adopted FASB-issued guidance, compared with reported basic and diluted earnings per share of ($0.57).

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.

There were 178,000 and 74,500 options granted during the three months ended September 30, 2011 and 2010, respectively.

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

	September 30, 2011	September 30, 2010
Dividend yield	N/A	1.78% - 5.80%
Expected volatility	39.08%	74.62% - 82.36%
Risk-free interest rate	0.20%	0.99% - 1.33%
Expected life (in years)	4.35	3.06 - 3.78

Summary information about the Company’s stock options outstanding at September 30, 2011 follows.

	Range of Exercise Price	Outstanding at September 30, 2011	Weighted Average Contractual Periods in Years	Weighted Average Exercise Price	Exercisable at September 30, 2011
1998 Plan	$6.67 - $16.59	89,750	1.94	$ 12.83	63,350
2002 Plan	$2.45 - $18.21	721,300	4.99	$ 7.38	335,345

(10) Stockholders’ Equity

Capital Stock

The Company's authorized capital consists of 1,000,000 shares of preferred stock, par value $0.01 per share, and 25,000,000 shares of common stock, par value $0.01 per share. As of September 30, 2011, there were no preferred shares issued or outstanding and there were 7,946,384 shares of common stock outstanding.

(11) Subsequent Events

The Company has determined that there are no events or transactions occurring subsequent to September 30, 2011, that would have a material impact on the Company's results of operations or financial condition as of September 30, 2011.

Index

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

General information about 21st Century Holding Company can be found at www.21stcenturyholding.com; however, the information that can be accessed through our web site is not part of our report. We make our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports filed or furnished pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934 available free of charge on our web site, as soon as reasonably practicable after they are electronically filed with the SEC.

Item 2

Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion in conjunction with our condensed consolidated financial statements and related notes and information included under this Item 2 and elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on March 31, 2011 ("Form 10-K"). Unless the context requires otherwise, as used in this Form 10-Q, the terms "21st Century" "Company," "we," "us" and "our," refers to 21st Century Holding Company and its subsidiaries.

Forward-Looking Statements

Statements in this Quarterly Report on Form 10-Q for the nine months ended September 30, 2011 ("Form 10-Q") or in documents that are incorporated by reference that are not historical fact are forward-looking statements that are subject to certain risks and uncertainties that could cause actual events and results to differ materially from those discussed herein. Without limiting the generality of the foregoing, words such as "may," "will," "expect," "believe," "anticipate," "intend," "could," "would," "estimate," or "continue" or the negative other variations thereof or compar terminology are intended to identify forward-looking statements. The risks and uncertainties include, without limitation, uncertainties related to estimates, assumptions and projections relating to unpaid losses and loss adjustment expenses and other accounting policies, losses from the nine hurricanes that occurred in fiscal years 2005 and 2004 and in other estimates, assumptions and projections contained in this Form 10-Q; inflation and other changes in economic conditions (including changes in interest rates and financial markets); the impact of new regulations adopted in Florida which affect the property and casualty insurance market; the costs of reinsurance, assessments charged by various governmental agencies; pricing competition and other initiatives by competitors; our ability to obtain regulatory approval for requested rate changes and the timing thereof; legislative and regulatory developments; the outcome of various litigation matters pending against us, including the terms of any settlements; risks related to the nature of our business; dependence on investment income and the composition of our investment portfolio; the adequacy of our liability for loss and loss adjustment expense; insurance agents; claims experience; ratings by industry services; catastrophe losses; reliance on key personnel; weather conditions (including the severity and frequency of storms, hurricanes, tornadoes and hail); changes in driving patterns and loss trends; acts of war and terrorist activities; court decisions and trends in litigation and health care and auto repair costs; and other matters described from time to time by us in this report, and in our other filings with the SEC, including the Company's Form 10-K.

You are cautioned not to place reliance on these forward-looking statements, which are valid only as of the date they were made. The Company undertakes no obligation to update or revise any forward-looking statements to reflect new information or the occurrence of unanticipated events or otherwise. In addition, readers should be aware that Generally Accepted Accounting Principles ("GAAP") prescribes when a company may reserve for particular risks, including litigation exposures. Accordingly, results for a given reporting period could be significantly affected when a reserve is established for a major contingency. Reported results may therefore appear to be volatile in certain

accounting periods.

Index

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

Overview

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' multi-peril ("homeowners"), commercial general liability, personal and commercial automobile, personal umbrella, following form commercial excess liability, fire, allied lines, workers' compensation 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 with and 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 a Consent Order with the Florida Office of Insurance Regulation ("Florida OIR"). We market and distribute our own and third-party insurers' products and our other services through a network of independent agents. We also utilize a select number of general agents for the same purpose.

Our executive offices are located at 3661 West Oakland Park Boulevard, Suite 300, Lauderdale Lakes, Florida, 33311 and our telephone number is (954) 581-9993.

Merger of Federated National and American Vehicle

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 $1.4 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% was achieved through the increased writing of property located outside of the Tri-County Area, the non-renewal of certain policies located within the Tri-County Area, and limiting the writing of new property located within the Tri-County Area. As of September 30, 2011, the Company had approximately 37.4% 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"), a wholly owned subsidiary of the Company, which were traditionally 6% of gross written premium, were reduced and will not exceed 4% without prior approval from the Florida OIR. The Merged Company has lowered the fee to 2% of gross written to further support the Federated National's results of operations. This will have no impact on the Company's consolidated financial results.

Index

- The claims service fees payable by the Merged Company to Superior Adjusting, Inc. ("Superior") were reduced from the traditional 4.5% of gross earned premium to 3.6% of gross earned premium. This will have no impact on the Company's consolidated financial results.

- The 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.

Our Subsidiaries

The merger of Federated National and American Vehicle has been an ongoing transition, many aspects of which are taking effect over time. References to the companies contained herein are intended to be references to the operations of Federated National following the January 2011 merger. References to the historical activities of American Vehicle are appropriately identified throughout this document.

Federated National is licensed as an admitted carrier in Florida. Through contractual relationships with a network of approximately 3,000 independent agents, of which approximately 600 actively sell and service our products, Federated National is authorized to underwrite homeowners', fire, allied lines and personal and commercial automobile insurance in Florida. Effective January 26, 2011, Federated National merged with and into American Vehicle and American Vehicle changed its name to Federated National.

American Vehicle, prior to the January 2011 merger, was licensed as an admitted carrier in Florida, and underwrote commercial general liability, and personal and commercial automobile insurance. American Vehicle was also licensed as an admitted carrier in Alabama, Louisiana, Georgia and Texas, and underwrote commercial general liability insurance in those states. American Vehicle operated as a non-admitted carrier in Arkansas, California, Kentucky, Maryland, Missouri, Nevada, Oklahoma, South Carolina, Tennessee and Virginia, and could underwrite commercial general liability insurance in all of these states. Subsequent to the merger, these operations may continue under the newly formed Federated National.

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

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

During the nine months ended September 30, 2011, 80.4%, 11.0%, 4.8% and 3.8% of the premiums we underwrote were for homeowners', commercial general liability, federal flood, and automobile insurance, respectively. During the nine months ended September 30, 2010, 77.6%, 13.6%, 4.3% and 4.5% of the premiums we underwrote were for homeowners', commercial general liability, federal flood, and personal automobile insurance, respectively.

Our business, results of operations and financial condition are subject to fluctuations due to a variety of factors. Abnormally high severity or frequency of claims in any period could have a material adverse effect on our business, results of operations and financial condition. When our estimated liabilities for unpaid losses and loss adjustment expenses ("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.

Index

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

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. 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 exclusive managing general agent in 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 traditionally a 6% commission fee from its affiliates Federated National and American Vehicle. During the fourth quarter of 2010, Assurance MGA reduced its fee, to earn amounts varying between 2% and 4%, which we anticipate will return to 6% at an unknown future date. A formal agreement reflecting this fee modification was executed during January 2011. The commission fee remains at 2%.

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

Until June 2011, we offered premium financing to our own and third-party insureds through our wholly owned subsidiary, Federated Premium Finance, Inc. ("Federated Premium"). 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 Florida Insurance Guaranty Association ("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. In June 2011, we decided to stop providing financing for new policies although we continue to provide financing for existing policies.

Insure-Link, Inc. ("Insure-Link") was formed in March 2008 to serve as an independent insurance agency. The insurance agency markets direct to the public to provide a variety of insurance products and services to individual clients, as well as business clients, by offering a full line of insurance products including, but not limited to, homeowners', flood personal and commercial automobile, commercial general liability and workers' compensation insurance through their agency appointments with over fifty different carriers. 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 during 2010 or the nine months ended September 30, 2011.

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.

Index

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

Insurance Markets in Which We Operate

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 Property Insurance Corporation ("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 in terms of assessments to support those failed companies. Through September 30, 2011, 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 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 Indemnity Insurance Company (formerly Allstate Floridian) 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, that compete with us nationally in the commercial general liability insurance market include Century Surety Insurance Company, Atlantic Casualty Insurance Company, Cypress Property and 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.

Index

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

Critical Accounting Policies

See Note 3, "Summary of Significant Accounting Policies" in the Notes to the Company's condensed consolidated financial statements for the quarter ended September 30, 2011 included in Item 1 of this Report on Form 10-Q for a discussion of the Company's critical accounting policies.

New Accounting Pronouncements

See Note 3, "Summary of Significant Accounting Policies" in the Notes to the Company's condensed consolidated financial statements for the quarter ended September 30, 2011 included in Item 1 of this Report on Form 10-Q for a discussion of recent accounting pronouncements and their effect, if any, on the Company.

Analysis of Financial Condition
As of September 30, 2011 Compared with December 31, 2010

Total Investments

Total investments increased $6.1 million, or 5.0%, to $128.6 million as of September 30, 2011, compared with $122.5 million as of December 31, 2010.

The Financial Accounting Standards Board ("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".

The debt and equity securities that are available-for-sale and carried at fair value represent 94% and 95% of total investments as of September 30, 2011 and of December 31, 2010, respectively.

We did not hold any trading investment securities during the nine months ended September 30, 2011.

Index

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

Below is a summary of net unrealized gains and losses as of September 30, 2011 and December 31, 2010, by category.

	Unrealized Gains and (Losses)	
	September 30, 2011	December 31, 2010
	(Dollars in Thousands)	
Debt securities:		
United States government obligations and authorities	$2,136	$ (192)
Obligations of states and political subdivisions	421	43
Corporate	1,319	268
International	1	24
	3,877	143
Equity securities:		
Common stocks	(3,183)	692
Total debt and equity securities	$694	$ 835

The net unrealized gain of $0.7 million is inclusive of $4.4 million of unrealized losses. The $4.4 million of unrealized losses is inclusive of $3.9 million unrealized losses from equity securities and $0.5 million unrealized losses from debt securities.

The $3.9 million of unrealized losses from equity securities is from common stocks and mutual funds held in diverse industries as of September 30, 2011. 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 September 30, 2011.

The $0.5 million of unrealized losses from debt securities is related to corporate bonds. The unrealized losses on the Company's investment in corporate bonds relates to $18.7 million invested in bonds across diverse sectors; 70% 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 currently 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, the Company does not consider these investments to be other-than-temporarily impaired at September 30, 2011.

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.

Index

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

Pursuant to FASB issued 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 the nine months ended September 30, 2011, in connection with this process, we have not charged any net realized investment loss to operations.

As of September 30, 2011 and December 31, 2010, respectively, all of our securities are in good standing and not impaired as defined by FASB-issued guidance.

During the nine months ended September 30, 2011, in connection with the other-than-temporarily or permanently impaired process, we did not charge any net realized investment loss to operations.

The investments held as of September 30, 2011 and December 31, 2010, were comprised mainly of corporate bonds held in various industries and municipal and United States government bonds. As of September 30, 2011, 63% of the debt portfolio is in diverse industries and 37% is in United States government bonds. As of September 30, 2011, approximately 82% of the equity holdings are in equities related to diverse industries and 18% are in mutual funds.

The following table summarizes, by type, our investments as of September 30, 2011 and December 31, 2010.

	September 30, 2011		December 31, 2010	
	Carrying Amount	Percent of Total	Carrying Amount	Percent of Total
	(Dollars in Thousands)			
Debt securities, at market:				
United States government obligations and authorities	$35,050	27.25 %	$28,196	23.02 %
Obligations of states and political subdivisions	3,336	2.59 %	2,963	2.42 %
Corporate	65,361	50.82 %	65,808	53.73 %
International	589	0.46 %	1,383	1.13 %
	104,336	81.12 %	98,350	80.30 %
Debt securities, at amortized cost:				
Corporate	920	0.72 %	818	0.67 %
United States government obligations and authorities	6,303	4.90 %	5,380	4.39 %
	7,223	5.62 %	6,198	5.06 %
Total debt securities	111,559	86.74 %	104,548	85.36 %
Equity securities, at market:	17,064	13.26 %	17,937	14.64 %
Total investments	$128,623	100.00 %	$122,485	100.00 %

Index

As of September 30, 2011 and December 31, 2010, we have classified $7.2 million and $6.2 million, respectively, of our bond portfolio as held-to-maturity. We only classify bonds as held-to-maturity to support securitization of credit requirements.

During the nine months ended September 30, 2011, we did not re-classify any of our bond portfolio between available-for-sale and held-to-maturity.

During the first quarter of the nine months ended September 30, 2010, we re-classified $3.1 million of amortized cost to held-to-maturity from available-for-sale to fund trust agreements.

As of September 30, 2011 and December 31, 2010, Federated National maintained fully funded trust agreements that totaled $4.6 million in favor of two of its reinsurers.

Cash and Short-Term Investments

Cash and short-term investments, which include cash, certificates of deposits, and money market accounts, decreased $1.1 million, or 6.8%, to $15.1 million as of September 30, 2011, compared with $16.2 million as of December 31, 2010.

Prepaid Reinsurance Premiums

Prepaid reinsurance premiums decreased $6.4 million, or 61.3%, to $4.0 million as of September 30, 2011, compared with $10.4 million as of December 31, 2010. The change is due to $13.8 million of ceded premiums, net of payments to reinsurers, reduced by $7.4 million amortization of prepaid reinsurance premiums associated with our reinsurance programs. 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 $0.4 million, or 8.1%, to $5.2 million as of September 30, 2011, compared with $5.6 million as of December 31, 2010.

Our homeowners' insurance premiums receivable decreased $0.7 million, or 18.4%, to $2.8 million as of September 30, 2011, compared with $3.5 million as of December 31, 2010.

Our commercial general liability insurance premiums receivable decreased $0.3 million, or 24.2%, to $1.1 million as of September 30, 2011, compared with $1.4 million as of December 31, 2010.

Premiums receivable in connection with our automobile line of business increased $0.6 million, or 67.1%, to $1.4 million as of September 30, 2011, compared with $0.8 million as of December 31, 2010.

Our allowance for credit losses remained unchanged at approximately $0.1 million as of September 30, 2011, compared with as of December 31, 2010.

Reinsurance Recoverable, Net

Reinsurance recoverable, net, decreased $4.3 million, or 53.7%, to $3.7 million as of September 30, 2011, compared with $8.0 million as of December 31, 2010. The change is due to the payment patterns by our reinsurers, as influenced by the diminishing catastrophe related claims; payments received during the nine months ended September 30, 2011 totaled $5.0 million. All amounts are current and deemed collectable. We believe concentrations of credit risk associated with our reinsurance recoverables, net, are not significant.

Deferred Policy Acquisition Costs (“DPAC”)

DPAC decreased $0.2 million, or 2.4%, to $7.7 million as of September 30, 2011, compared with $7.9 million as of December 31, 2010. The change is due to decreased homeowners’ written and unearned premium and the related deferral of the actual policy acquisition costs, including commissions, payroll and premium taxes, less commissions earned on reinsurance ceded and policy fees earned.

Index

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

Deferred Income Taxes, Net

Deferred income taxes, net, increased $1.6 million, or 19.6%, to $9.5 million as of September 30, 2011, compared with $7.9 million as of December 31, 2010. Deferred income taxes, net, is comprised of approximately $11.5 million and $9.9 million of deferred tax assets, net of approximately $2.0 million of deferred tax liabilities as of September 30, 2011and December 31, 2010. The change in the net deferred tax asset is primarily due to the increase in the deferred tax assets related to discounted unearned premiums and net operating losses carry forward.

Income Taxes Receivable

Income taxes receivable decreased $0.1 million, or 4.7%, to $2.3 million as of September 30, 2011, compared with $2.4 million as of December 31, 2010.

Other Assets

Other assets decreased $0.3 million, or 12.3%, to $2.0 million as of September 30, 2011, compared with $2.3 million as of December 31, 2010. Major components of other assets are shown in the following table; the accrued interest income receivable is primarily investment related.

	September 30, 2011	December 31, 2010
	(Dollars in Thousands)	
Accrued interest income receivable	$1,046	$ 1,089
Notes receivable	91	365
Deposits	293	133
Prepaid expenses	204	376
Other	391	347
Total	$2,025	$ 2,310

Unpaid Losses and LAE

Unpaid losses and LAE decreased $4.3 million, or 6.6%, to $62.2 million as of September 30, 2011, compared with $66.5 million as of December 31, 2010. The composition of unpaid losses and LAE by product line is as follows.

	September 30, 2011			December 31, 2010		
	Case	Bulk	Total	Case	Bulk	Total
	(Dollars in Thousands)			(Dollars in Thousands)		
Homeowners'	$9,057	$11,760	$20,817	$5,825	$16,847	$22,672
Commercial General Liability	4,560	29,333	33,893	8,230	27,819	36,049
Automobile	3,441	4,007	7,448	3,447	4,361	7,808
Total	$17,058	$45,100	$62,158	$17,502	$49,027	$66,529

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 incurred but not yet reported ("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.

Index

Unearned Premium

Unearned premiums decreased $0.2 million, or 0.4%, to $46.9 million as of September 30, 2011, compared with $47.1 million as of December 31, 2010. The change was due to a $0.4 million decrease in unearned homeowners' insurance premiums, a $0.4 million increase in unearned flood insurance premiums, and a $0.2 million decrease in unearned commercial general liability 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 $0.2 million, or 10.1%, to $2.6 million as of September 30, 2011, compared with $2.4 million as of December 31, 2010. Premium deposits are monies received on policies not yet in-force as of September 30, 2011.

Funds Held Under Reinsurance Treaties

Funds held under reinsurance treaties totaled $2.6 million as of September 30, 2011, whereas we held no funds under reinsurance treaties as of December 31, 2010. The amount held as of September 30, 2011 is in connection with a commutation agreement reached between the Company and the 2005 Florida Hurricane Catastrophe Fund ("FHCF") treaty.

Bank Overdraft

Bank overdraft increased $0.2 million, or 1.7%, to $7.6 million as of September 30, 2011, compared with $7.4 million as of December 31, 2010. 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 the timing of presentation of claims checks to the issuing bank.

Deferred Gain from Sale of Property

Deferred gain from sale of property decreased $0.4 million, or 75.0%, to $0.1 million as of September 30, 2011, compared with $0.5 million as of December 31, 2010. 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 $1.1 million, or 48.4%, to $1.1 million as of September 30, 2011, compared with $2.2 million as of December 31, 2010. The change from prior year includes decreases of $0.5 million for homeowners' commission payable and $0.3 million for unclaimed property due to the Florida Department of Financial Services, as well as the impact of the timing of payments with our trade vendors.

Index

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

Results of Operations
Three Months Ended September 30, 2011 Compared with Three Months Ended September 30, 2010

Gross Premiums Written

Gross premiums written remained unchanged at $17.7 million for the three months ended September 30, 2011, compared with $17.7 million for the three months ended September 30, 2010. The following table denotes gross premiums written by major product line.

	Three Months Ended September 30,					
	2011			2010		
	(Dollars in Thousands)					
	Amount	Percentage		Amount	Percentage	
Homeowners'	$13,555	76.78	%	$12,860	72.67	%
Commercial General Liability	2,352	13.32	%	3,075	17.37	%
Federal Flood	1,260	7.14	%	1,239	7.00	%
Automobile	487	2.76	%	524	2.96	%
Gross written premiums	$17,654	100.00	%	$17,698	100.00	%

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. During the three months ended September 30, 2011 and 2010, the change to the cumulative wind mitigation credits afforded our policyholders totaled $1.8 million and ($0.6) million, respectively. As of September 30, 2011, 62.0% of our in-force homeowners' policyholders were receiving wind mitigation credits totaling approximately $28.1 million (a 26.8% reduction of in-force premium), while 59.5% of our in-force homeowners' policyholders were receiving wind mitigation credits totaling approximately $26.4 million, (a 25.8 % reduction of in-force premium), as of September 30, 2010.

The Company's increase in the sale of homeowners' policies by $0.7 million, or 5.4%, to $13.6 million for the three months ended September 30, 2011, compared with $12.9 million for the three months ended September 30, 2010, is gross of reinsurance costs and net of Florida's mandated homeowners' wind mitigation discounts. Our number of in-force homeowners' policies increased by approximately 300, or 0.7%, to approximately 43,300 as of September 30, 2011, as compared with approximately 43,000 as of September 30, 2010.

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

We are currently 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.

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 $0.7 million to $2.4 million for the three months ended September 30, 2011, compared with $3.1 million for the three months ended September 30, 2010. 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. Additional factors include improvements to our underwriting standards and our decision to restrict underwriting authority within specific commercial general liability classes and geographic areas.

Index

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

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

	Three Months Ended September 30,					
	2011			2010		
	Amount	Percentage		Amount	Percentage	
	(Dollars in Thousands)					
State						
Alabama	$6	0.24	%	$6	0.20	%
California	-	0.00	%	21	0.68	%
Florida	1,999	85.02	%	2,654	86.31	%
Georgia	-	0.00	%	17	0.55	%
Louisiana	226	9.59	%	208	6.76	%
Oklahoma	0	0.02	%	4	0.13	%
Texas	121	5.13	%	163	5.30	%
Virginia	-	0.00	%	2	0.07	%
Total	$2,352	100.00	%	$3,075	100.00	%

The Company's sale of auto insurance policies remained unchanged at $0.5 million for the three months ended September 30, 2011, compared with $0.5 million for the three months ended September 30, 2010.

Gross Premiums Ceded

Gross premiums ceded increased to $29.7 million for the three months ended September 30, 2011, compared with $29.5 million for the three months ended September 30, 2010. Gross premiums ceded relating to our homeowners', write-your-own flood and automobile programs totaled $28.0 million, $1.3 million and $0.4 million for the three months ended September 30, 2011. Gross premiums ceded relating to our homeowners', write-your-own flood and automobile programs totaled $28.2 million, $1.2 million and less than $0.1 million for the three months ended September 30, 2010. The decrease to gross premiums ceded relating to our homeowners' program is primarily due to the reduced cost of reinsurance purchased from the FHCF. The increase to gross premiums ceded relating to our automobile program is associated with our arrangement to write non-standard private passenger automobile insurance through a reputable managing general agent familiar with the Georgia market. A quota share treaty cedes 100% of the risk and fully collateralizes for unearned premium and unpaid loss and LAE.

Increase in Prepaid Reinsurance Premiums

The increase in prepaid reinsurance premiums was $18.0 million for the three months ended September 30, 2011, compared with a $16.2 million increase for the three months ended September 30, 2010. The increased charge to written premium is associated with the timing of our reinsurance payments measured against the term of the underlying reinsurance policies.

Decrease in Unearned Premiums

The decrease in unearned premiums was $6.9 million for the three months ended September 30, 2011, compared with a $7.3 million decrease for the three months ended September 30, 2010. The decreased charge to written premium was due to a $6.3 million decrease in unearned homeowners' insurance premiums, a $0.2 million increase in unearned

flood premiums, a $0.3 million decrease in unearned commercial general liability premiums, and a $0.5 million decrease in unearned automobile premiums during the three months ended September 30, 2011. 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.

Index

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

Net Premiums Earned

Net premiums earned increased $1.3 million, or 10.9%, to $12.9 million for the three months ended September 30, 2011, compared with $11.6 million for the three months ended September 30, 2010.

The following table denotes net premiums earned by product line.

	Three Months Ended September 30,					
	2011			2010		
	Amount	Percentage		Amount	Percentage	
	(Dollars in Thousands)					
Homeowners'	$9,773	75.81	%	$7,912	68.08	%
Commercial General Liability	2,607	20.22	%	3,271	28.15	%
Automobile	512	3.97	%	438	3.77	%
Net premiums earned	$12,892	100.00	%	$11,621	100.00	%

The change in homeowners' net premiums earned is due to a $0.7 million increase in gross written premium as discussed, a $0.2 million increase in gross premiums ceded and a $1.0 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 $0.7 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 less than $0.1 million increase in the net change to unearned premium.

Commission Income

Commission income decreased $0.1 million, or 36.4%, to $0.3 million for the three months ended September 30, 2011, compared with $0.4 million for the three months ended September 30, 2010. 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.

Net Investment Income

Net investment income increased $0.1 million, or 11.4%, to $1.0 million for the three months ended September 30, 2011, compared with $0.9 million for the three months ended September 30, 2010. Our investment yield, net and gross of investment expenses, excluding equities and including cash, were 2.8% and 3.1%, respectively, for the three months ended September 30, 2011. Our investment yield, net and gross of investment expenses, excluding equities and including cash, were 2.2% and 2.5%, respectively, for the three months ended September 30, 2010.

Our investment yield, net and gross of investment expenses measured against debt securities, excluding equities and cash, were 3.1% and 3.4%, respectively, for the three months ended September 30, 2011. Our investment yield, net and gross of investment expenses measured against debt securities, excluding equities and cash, were 3.2% and 3.5%, respectively, for the three months ended September 30, 2010.

See also “Analysis of Financial Condition As of September 30, 2011 Compared with December 31, 2010 – Investments” for a further discussion on our investment portfolio.

Net Realized Investment Gains

Net realized investment gains were $0.7 million for the three months ended September 30, 2011, compared with net realized investment gains of $1.9 million for the three months ended September 30, 2010. Specifically, net realized gains for equity securities were $0.1 million for the three months ended September 30, 2011 compared with $0.3 million net realized losses for the three months ended September 30, 2010. For debt securities, net realized gains were $0.6 million for the three months ended September 30, 2011, compared with net realized gains of $2.2 million for the three months ended September 30, 2010. During the three months ended September 30, 2010, the Company had an overweight in corporate bonds that performed well and we sold these bonds to lock in gains and bolster surplus.

Index

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

During the three months ended September 30, 2011and September 30, 2010, we did not mark any 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 (losses) by investment category during the three months ended September 30, 2011 and 2010.

	Three Months Ended September 30,	
	2011	2010
	(Dollars in Thousands)	
Realized gains:		
Debt securities	$ 620	$ 2,201
Equity securities	273	194
Total realized gains	893	2,395
Realized losses:		
Debt securities	(10)	(19)
Equity securities	(170)	(512)
Total realized losses	(180)	(531)
Net realized gains on investments	$ 713	$ 1,864

Other Income

Other income increased $0.7 million, or 523.9%, to $0.8 million for the three months ended September 30, 2011, compared with $0.1 million for the three months ended September 30, 2010. The major components of other income for the three months ended September 30, 2011 include $0.7 million from the voiding of checks in connection with our accounting for unclaimed property and $0.1 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 $0.8 million, or 9.4%, to $7.9 million for the three months ended September 30, 2011, compared with $8.7 million for the three months ended September 30, 2010. The overall change includes a $1.7 million decrease in our homeowners' program due to favorable experience based in part on enhanced underwriting and claim processing techniques. The overall change also includes a $0.4 million increase in our commercial general liability program and a $0.5 million increase in connection with our automobile program,

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.

Index

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

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

	September 30, 2011			December 31, 2010		
	Case	Bulk	Total	Case	Bulk	Total
	(Dollars in Thousands)			(Dollars in Thousands)		
Homeowners'	$9,057	$11,760	$20,817	$5,825	$16,847	$22,672
Commercial General Liability	4,560	29,333	33,893	8,230	27,819	36,049
Automobile	3,441	4,007	7,448	3,447	4,361	7,808
Total	$17,058	$45,100	$62,158	$17,502	$49,027	$66,529

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 $4.3 million during the nine months ended September 30, 2011. This overall change includes a $1.7 million decrease in reserves for our homeowners' program, a $2.2 million decrease in reserves for our commercial general liability program and a $0.4 million decrease in reserves for our automobile program. The decreases are due to favorable experience based in part on enhanced underwriting and claim processing techniques.

In accordance with GAAP and as 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 for the three months ended September 30, 2011was 60.9% compared with 74.6% for the same period in 2010. The favorable decrease to our loss ratio is due to the $0.8 million decrease in losses and LAE measured against the $1.3 million increase in net premium earned during the three months ended September 30, 2011as compared to the same period in 2010.

The table below reflects the loss ratios by product line.

	Three Months Ended September 30,			
	2011		2010	
Homeowners'	50.38	%	83.74	%
Commercial General Liability	71.60	%	44.16	%
Automobile	207.41	%	136.52	%
All lines	60.90	%	74.59	%

Operating and Underwriting Expenses

Operating and underwriting expenses decreased $0.2 million, or 10.6%, to $2.3 million for the three months ended September 30, 2011, compared with $2.5 million for the three months ended September 30, 2010.

Salaries and Wages

Salaries and wages decreased $0.1 million, or 8.1%, to $2.0 million for the three months ended September 30, 2011, compared with $2.1 million for the three months ended September 30, 2010. The charge to operations for stock-based compensation, in accordance with FASB guidance, was approximately $61,000 during the three months ended September 30, 2011 compared with approximately $102,000 for the three months ended September 30, 2010.

Index

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

Policy Acquisition Costs - Amortization

Policy acquisition costs - amortization, decreased $0.3 million, or 9.1%, to $3.6 million for the three months ended September 30, 2011, compared with $3.9 million for the three months ended September 30, 2010.

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 Expense (Benefit)

The provision for income tax expense was $0.1 million for the three months ended September 30, 2011, compared with a $0.5 million provision for income tax benefit for the three months ended September 30, 2010. The effective rate for income taxes was 21.0% for the three months ended September 30, 2011, compared with 29.2% for the three months ended September 30, 2010.

Net Income (Loss)

As a result of the foregoing, the Company's net income for the three months ended September 30, 2011was $0.4 million compared with a $1.3 million net loss for the three months ended September 30, 2010.

Results of Operations
Nine Months Ended September 30, 2011 Compared with Nine Months Ended September 30, 2010

Gross Premiums Written

Gross premiums written increased $0.5 million, or 0.7%, to $72.8 million for the nine months ended September 30, 2011, compared with $72.3 million for the nine months ended September 30, 2010. The following table denotes gross premiums written by major product line.

	Nine Months Ended September 30,					
	2011			2010		
	(Dollars in Thousands)					
	Amount	Percentage		Amount	Percentage	
Homeowners'	$58,517	80.39	%	$56,164	77.66	%
Commercial General Liability	7,967	10.94	%	9,814	13.57	%
Federal Flood	3,519	4.83	%	3,101	4.29	%
Automobile	2,797	3.84	%	3,238	4.48	%
Gross written premiums	$72,800	100.00	%	$72,317	100.00	%

See "Results of Operations-Three Months Ended September 30, 2011" for a discussion of our recently approved rate increases.

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. During the nine months ended September 30, 2011 and 2010, the change to the cumulative wind mitigation credits afforded our policyholders totaled

$0.8 million and ($1.2) million, respectively. As of September 30, 2011, 62.0% of our in-force homeowners' policyholders were receiving wind mitigation credits totaling approximately $28.1 million (a 26.8% reduction of in-force premium), while 59.5% of our in-force homeowners' policyholders were receiving wind mitigation credits totaling approximately $26.4 million, (a 25.8 % reduction of in-force premium), as of September 30, 2010.

The Company's increase in the sale of homeowners' policies by $2.3 million, or 4.2%, to $58.5 million for the nine months ended September 30, 2011, compared with $56.2 million for the nine months ended September 30, 2010, is gross of reinsurance costs and net of Florida's mandated homeowners' wind mitigation discounts. Our number of in-force homeowners' policies increased by approximately 300, or 0.7%, to approximately 43,300 as of September 30, 2011, as compared with approximately 43,000 as of September 30, 2010.

Index

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

See "Results of Operations-Three Months Ended September 30, 2011" for a description of Federated National's Demotech rating.

The Company's sale of commercial general liability policies decreased by $1.8 million to $8.0 million for the nine months ended September 30, 2011, compared with $9.8 million for the nine months ended September 30, 2010. 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. Additional factors include improvements to our underwriting standards and 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.

	Nine Months Ended September 30,					
	2011			2010		
	Amount	Percentage		Amount	Percentage	
	(Dollars in Thousands)					
State						
Alabama	$33	0.41	%	$35	0.36	%
Arkansas	-	0.00	%	1	0.01	%
California	5	0.06	%	28	0.29	%
Florida	6,767	84.95	%	8,212	83.67	%
Georgia	-	0.00	%	66	0.67	%
Louisiana	745	9.35	%	894	9.11	%
Oklahoma	2	0.03	%	8	0.08	%
South Carolina	-	0.00	%	1	0.01	%
Texas	415	5.20	%	567	5.78	%
Virginia	-	0.00	%	2	0.02	%
Total	$7,967	100.00	%	$9,814	100.00	%

The Company's sale of auto insurance policies decreased to $2.8 million for the nine months ended September 30, 2011, compared with $3.2 million for the nine months ended September 30, 2010.

Gross Premiums Ceded

Gross premiums ceded decreased to $44.7 million for the nine months ended September 30, 2011, compared with $51.4 million for the nine months ended September 30, 2010. Gross premiums ceded relating to our homeowners', write-your-own flood and automobile programs totaled $40.0 million, $3.5 million and $1.2 million for the nine months ended September 30, 2011. Gross premiums ceded relating to our homeowners', write-your-own flood and automobile programs totaled $46.7 million, $3.1 million and $1.6 million for the nine months ended September 30, 2010. The decrease to gross premiums ceded relating to our homeowners' program is primarily due to the reduced cost of reinsurance purchased from the FHCF. The increase to gross premiums ceded relating to our automobile program is associated with our arrangement to write non-standard private passenger automobile insurance through a reputable managing general agent familiar with the Georgia market. A quota share treaty cedes 100% of the risk and fully collateralizes for unearned premium and unpaid loss and LAE.

Increase in Prepaid Reinsurance Premiums

The increase in prepaid reinsurance premiums was $7.4 million for the nine months ended September 30, 2011, compared with a $9.6 million for the nine months ended September 30, 2010. The decreased charge to written premium is associated with the timing of our reinsurance payments measured against the term of the underlying reinsurance policies.

Decrease in Unearned Premiums

The decrease in unearned premiums was $0.2 million for the nine months ended September 30, 2011, compared with a $3.0 million decrease for the nine months ended September 30, 2010. The decreased charge to written premium was due to a $0.4 million decrease in unearned homeowners' insurance premiums, a $0.4 million increase in unearned flood premiums, and a $0.2 million decrease in unearned commercial general liability premiums during the nine months ended September 30, 2011. 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.

Index

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

Net Premiums Earned

Net premiums earned increased $2.2 million, or 6.5%, to $35.7 million for the nine months ended September 30, 2011, compared with $33.5 million for the nine months ended September 30, 2010.

The following table denotes net premiums earned by product line.

	Nine Months Ended September 30,					
	2011			2010		
	Amount	Percentage		Amount	Percentage	
	(Dollars in Thousands)					
Homeowners'	$26,169	73.31	%	$21,977	65.54	%
Commercial General Liability	8,055	22.57	%	10,244	30.56	%
Automobile	1,472	4.12	%	1,307	3.90	%
Net premiums earned	$35,696	100.00	%	$33,528	100.00	%

The change in homeowners' net premiums earned is due to a $2.4 million increase in gross written premium as discussed, a $6.7 million decrease in gross premiums ceded and a $5.0 million decrease 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 $1.8 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 $0.3 million decrease in the net change to unearned premium.

The change in automobile net premiums earned is a result of a $0.4 million decrease in gross written premium as discussed, and a $0.2 million change in gross premiums ceded and unearned premium.

Commission Income

Commission income decreased $0.4 million, or 36.0%, to $0.9 million for the nine months ended September 30, 2011, compared with $1.3 million for the nine months ended September 30, 2010. 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.

Net Investment Income

Net investment income increased $0.2 million, or 6.4%, to $3.1 million for the nine months ended September 30, 2011, compared with $2.9 million for the nine months ended September 30, 2010. Our investment yield, net and gross of investment expenses, excluding equities and including cash, were 2.9% and 3.1%, respectively, for the nine months ended September 30, 2011. Our investment yield, net and gross of investment expenses, excluding equities and including cash, were 2.6% and 2.8%, respectively, for the nine months ended September 30, 2010.

Our investment yield, net and gross of investment expenses measured against debt securities, excluding equities and cash, were 3.2% and 3.4%, respectively, for the nine months ended September 30, 2011. Our investment yield, net

and gross of investment expenses measured against debt securities, excluding equities and cash, were 3.6% and 3.9%, respectively, for the nine months ended September 30, 2010.

See also “Analysis of Financial Condition As of September 30, 2011 Compared with December 31, 2010 – Investments” for a further discussion on our investment portfolio.

Index

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

Net Realized Investment Gains

Net realized investment gains were $1.1 million for the nine months ended September 30, 2011, compared with net realized investment gains of $5.7 million for the nine months ended September 30, 2010. Specifically, net realized gains for equity securities were $0.5 million for the nine months ended September 30, 2011, compared with $1.7 million net realized gains for the nine months ended September 30, 2010. For debt securities, net realized gains were nearly $0.6 million for the nine months ended September 30, 2011, compared with net realized gains of $4.0 million for the nine months ended September 30, 2010. During the nine months ended September 30, 2011, the Company re-balanced the investment portfolio; during the same period in 2010, the Company had an overweight in corporate bonds that performed well and we sold these bonds to lock in gains and bolster the surplus of our insurance companies.

During the nine months ended September 30, 2011and September 30, 2010, we did not mark any 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 (losses) by investment category during the nine months ended September 30, 2011and 2010.

	Nine Months Ended September30,	
	2011	2010
	(Dollars in Thousands)	
Realized gains:		
Debt securities	$ 1,045	$ 4,068
Equity securities	1,010	2,856
Total realized gains	2,055	6,924
Realized losses:		
Debt securities	(442)	(59)
Equity securities	(561)	(1,177)
Total realized losses	(1,003)	(1,236)
Net realized gains on investments	$ 1,052	$ 5,688

Other Income

Other income increased $0.4 million, or 70.3%, to $1.1 million for the nine months ended September 30, 2011, compared with $0.7 million for the nine months ended September 30, 2010. The major components of other income for the nine months ended September 30, 2011 include $0.7 million from the voiding of checks in connection with our accounting for unclaimed property and $0.4 million in partial recognition of our gain on the sale of our Lauderdale Lakes property. The major components of other income for the nine months ended September 30, 2010 included approximately $0.4 million in partial recognition of our gain on the sale of our Lauderdale Lakes property and $0.2 million in recognition of our gain on the sale of a vacant retail property.

Losses and LAE

Losses and LAE decreased by $3.8 million, or 13.7%, to $24.1 million for the nine months ended September 30, 2011, compared with $27.9 million for the nine months ended September 30, 2010. The overall change includes a $3.1 million decrease in our homeowners' program and a $1.1 million decrease in connection with our automobile program, both due to favorable experience based in part on enhanced underwriting and claim processing techniques. The overall change also includes a $0.4 million increase in our commercial general liability program.

Index

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

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

	September 30, 2011			December 31, 2010		
	Case	Bulk	Total	Case	Bulk	Total
	(Dollars in Thousands)			(Dollars in Thousands)		
Homeowners'	$9,057	$11,760	$20,817	$5,825	$16,847	$22,672
Commercial General Liability	4,560	29,333	33,893	8,230	27,819	36,049
Automobile	3,441	4,007	7,448	3,447	4,361	7,808
Total	$17,058	$45,100	$62,158	$17,502	$49,027	$66,529

Reserves for unpaid losses and LAE decreased by approximately $4.4 million during the nine months ended September 30, 2011, as a result of our process of estimating claims. See "Results of Operations-Three Months Ended September 30, 2011" for a further explanation of losses and LAE.

Our loss ratio for the nine months ended September 30, 2011 was 67.6% compared with 83.3% for the same period in 2010. The favorable decrease to our loss ratio is due to the $3.8 million decrease in losses and LAE measured against the $2.2 million increase in net premium earned during the nine months ended September 30, 2011as compared to the same period in 2010.

The table below reflects the loss ratios by product line.

	Nine Months Ended September 30,			
	2011		2010	
Homeowners'	63.36	%	89.55	%
Commercial General Liability	76.00	%	55.93	%
Automobile	96.01	%	192.81	%
All lines	67.56	%	83.30	%

Operating and Underwriting Expenses

Operating and underwriting expenses decreased $0.8 million, or 9.0%, to $7.5 million for the nine months ended September 30, 2011, compared with $8.3 million for the nine months ended September 30, 2010.

Salaries and Wages

Salaries and wages decreased $0.3 million, or 5.2%, to $6.1 million for the nine months ended September 30, 2011, compared with $6.4 million for the nine months ended September 30, 2010. The charge to operations for stock-based compensation, in accordance with FASB guidance, was approximately $178,000 during the nine months ended September 30, 2011 compared with approximately $297,000 for the nine months ended September 30, 2010.

Policy Acquisition Costs - Amortization

Policy acquisition costs – amortization, decreased $0.9 million, or 8.4%, to $9.5 million for the nine months ended September 30, 2011, compared with $10.4 million for the nine months ended September 30, 2010.

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 $1.4 million for the nine months ended September 30, 2011, compared with $2.2 million for the nine months ended September 30, 2010. The effective rate for income taxes was 36.4% for the nine months ended September 30, 2011, compared with 32.3% for the nine months ended September 30, 2010.

Index

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

Net Loss

As a result of the foregoing, the Company's net loss for the nine months ended September 30, 2011was $2.4 million compared with $4.5 million for the nine months ended September 30, 2010.

Liquidity and Capital Resources

During the nine months ended September 30, 2011, our primary sources of capital included proceeds from the sale of investment securities, decreased prepaid reinsurance premiums, decreased reinsurance recoverable, net, increased funds held under reinsurance treaties, amortization of investment premium and decreased premiums receivable. Additional sources of capital included increased premium deposits and customer credit balances, decreased policy acquisition cost, net of amortization, non-cash compensation, depreciation and amortization, increased bank overdraft, decreased income tax recoverable and a tax benefit related to non-cash compensation.

During the nine months ended September 30, 2011, operations provided net operating cash flow of $5.0 million, compared with having used $0.2 million for the nine months ended September 30, 2010.

During the nine months ended September 30, 2011, operations generated $15.7 million of gross cash flow, due to a $6.4 million decrease in prepaid reinsurance premiums, a $4.3 million decrease in reinsurance recoverable, net, a $2.6 million increase in funds held under reinsurance treaties, $0.9 million of amortization of investment premium and a $0.5 million decrease in premiums receivable. Additional sources of cash included a $0.2 million increase in premium deposits and customer credit balances, a $0.2 million decrease in policy acquisition costs, net of amortization, $0.2 million of non-cash compensation, $0.2 million of depreciation and amortization, a $0.1 million increase in bank overdraft and $0.1 million decrease in income tax recoverable.

During the nine months ended September 30, 2011, operations used $10.7 million of gross cash flow, due to a $4.4 million decrease in unpaid losses and LAE, a $1.5 million increase in deferred income tax expense and $1.1 million of net realized investment gains. Additional uses of cash included a $1.0 million decrease in accounts payable and accrued expenses, a $0.2 million decrease in unearned premiums and a $0.1 million increase in other assets, all in conjunction with a $2.4 million net loss.

During the nine months ended September 30, 2011, net cash used by investing activities was $6.2 million, compared with net cash provided by investing activities of $6.9 million during the nine months ended September 30, 2010. Our available-for-sale investment portfolio is highly liquid as it consists entirely of readily marketable securities. During the nine months ended September 30, 2011, investing activities generated $70.6 million and used $76.8 million.

During the nine months ended September 30, 2011, net financing activities provided less than $0.1 million, compared with having used $0.4 million during the nine months ended September 30, 2010. In 2011, the sources of cash in connection with financing activities included a less than $0.1 million tax benefit related to non-cash compensation.

We offer direct billing in connection with our homeowners', commercial general liability and automobile 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.

As of September 30, 2011, 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.

Index

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

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.

Index

21st Century Holding Company

Item 3

Quantitative and Qualitative Disclosures 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 that further restrict the type, quality and concentration of our 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 our Board's Investment Committee and is reviewed on a regular basis. Pursuant to this investment policy, as of September 30, 2011, approximately 88% 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 following table summarizes, by type, our investments as of September 30, 2011 and December 31, 2010.

	September 30, 2011		December 31, 2010	
	Carrying Amount	Percent of Total	Carrying Amount	Percent of Total
	(Dollars in Thousands)			
Debt securities, at market:				
United States government obligations and authorities	$35,050	27.25 %	$28,196	23.02 %
Obligations of states and political subdivisions	3,336	2.59 %	2,963	2.42 %
Corporate	65,361	50.82 %	65,808	53.73 %
International	589	0.46 %	1,383	1.13 %
	104,336	81.12 %	98,350	80.30 %
Debt securities, at amortized cost:				
Corporate	920	0.72 %	818	0.67 %
United States government obligations and authorities	6,303	4.90 %	5,380	4.39 %
	7,223	5.62 %	6,198	5.06 %
Total debt securities	111,559	86.74 %	104,548	85.36 %
Equity securities, at market:	17,064	13.26 %	17,937	14.64 %
Total investments	$128,623	100.00 %	$122,485	100.00 %

Index

21st Century Holding Company

Available-for-sale debt securities are carried on the balance sheet at market and held-to-maturity debt securities are carried on the balance sheet at amortized cost. As of September 30, 2011 and December 31, 2010, debt securities had the following quality ratings by Moody's or, if not rated by Moody's, by Standard and Poor's Company or Fitch.

	September 30, 2011		December 31, 2010	
	Carrying Amount	Percent of Total	Carrying Amount	Percent of Total
	(Dollars in Thousands)			
AAA	$ 48,866	43.80 %	$ 43,533	41.64 %
AA	8,119	7.28 %	8,995	8.60 %
A	34,421	30.86 %	39,079	37.38 %
BBB	20,154	18.06 %	11,125	10.64 %
Not rated	-	0.00 %	1,816	1.74 %
	$ 111,560	100.00 %	$ 104,548	100.00 %

The following table summarizes, by maturity, the debt securities as of September 30, 2011 and December 31, 2010.

	September 30, 2011		December 31, 2010	
	Carrying Amount	Percent of Total	Carrying Amount	Percent of Total
	(Dollars in Thousands)			
Matures In:				
One year or less	$ 9,542	8.55 %	$ 13,267	12.69 %
One year to five years	48,873	43.81 %	50,149	47.96 %
Five years to 10 years	38,235	34.27 %	29,979	28.68 %
More than 10 years	14,910	13.37 %	11,153	10.67 %
Total debt securities	$ 111,560	100.00 %	$ 104,548	100.00 %

At September 30, 2011, the weighted average maturity of the debt portfolio was approximately 7.6 years.

Index

21st Century Holding Company

The following table provides information about the financial instruments as of September 30, 2011 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	2016	Thereafter	Total	Carrying Amount
	(Dollars in Thousands)								
Principal amount by expected maturity:									
United States government obligations and authorities	$ 849	$ 2,000	$ 1,803	$ 850	$ -	$ 1,135	$ 10,245	$ 16,882	$ 18,856
Obligations of states and political subdivisions	-	300	350	-	-	-	2,205	2,855	3,336
Corporate securities	695	6,905	2,707	6,650	4,000	5,085	31,357	57,399	63,396
International securities	400	-	182	-	-	-	-	582	589
Collateralized mortgage obligations	-	177	1,366	14,745	5,457	570	1,531	23,846	25,383
Equity securities, at market	-	-	-	-	-	-	-	-	17,064
All investments	$ 1,944	$ 9,382	$ 6,408	$ 22,245	$ 9,457	$ 6,790	$ 45,338	$ 101,564	$ 128,624
Weighted average interest rate by expected maturity:									
United States government obligations and authorities	1.75 %	4.38 %	3.30 %	1.24 %	0.00 %	1.99 %	3.60 %	3.34 %	
Obligations of states and political subdivisions	0.00 %	5.50 %	2.04 %	0.00 %	0.00 %	0.00 %	6.12 %	5.55 %	

Corporate securities	3.50	%	3.89	%	3.21	%	5.12	%	4.60	%	4.06	%	6.32	%	5.39	%
International securities	6.50	%	0.00	%	2.25	%	4.20	%	0.00	%	0.00	%	5.75	%	5.17	%
Collateralized mortgage obligations	0.00	%	4.50	%	4.88	%	4.82	%	4.30	%	5.47	%	3.50	%	4.63	%
Equity securities, at market	0.00	%	0.00	%	0.00	%	0.00	%	0.00	%	0.00	%	0.00	%	0.00	%
All investments	3.35	%	4.06	%	3.50	%	4.77	%	4.43	%	3.83	%	5.60	%	4.87	%

Item 4

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 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 disclosures.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) under the Securities Exchange Act of 1934, as of September 30, 2011. Based upon their evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures, as of September 30, 2011, were effective to provide reasonable assurance that information required to be disclosed by us in the reports filed or submitted by it under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and to provide reasonable assurance that information required to be disclosed by us in such reports 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.

There were no changes during the first nine months of 2011 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Index

21st Century Holding Company

Part II: OTHER INFORMATION

Item 1

Legal Proceedings

See Item 1 of Part I, “Financial Statements – Note 4 – Commitments and Contingencies.”

Item 1A

Risk Factors

There have been no material changes from the risk factors previously disclosed in Item 1, Risk Factors, in the Company’s Form 10-K for the fiscal year ended December 31, 2010.

Additional Risk Factors

The risks described in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010 are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Item 2

Unregistered Sales of Equity Securities and Use of Proceeds

(a) During the three months ended September 30, 2011, we have issued an aggregate of 178,000 options to certain directors and executive and non-executive employees of the Company under our 2002 stock option plan. The options have an exercise price of $2.45 per share, vest over three years and expire ten years from the grant date.

(b) None

(c) None

Item 3

Defaults upon Senior Securities

None

Item 4

(Removed and Reserved)

Item 5

Other Information

None

Index

21st Century Holding Company

Item 6

Exhibits

10.1	First Event Excess Catastrophe Reinsurance Contract, effective July 1, 2011, between Federated National Insurance Company and subscribing reinsurers (Layers 1, 2 and 3). *
10.2	First Event Excess Catastrophe Reinsurance Contract, effective July 1, 2011, between Federated National Insurance Company and JC Re Ltd (Layer 1). *
10.3	First Event Excess Catastrophe Reinsurance Contract, effective July 1, 2011, between Federated National Insurance Company and subscribing reinsurers (Layer 1). *
10.4	First Event Excess Catastrophe Reinsurance Contract, effective July 1, 2011, between Federated National Insurance Company and subscribing reinsurers (Layer 4). *
10.5	Second Event Excess Catastrophe Reinsurance Contract, effective July 1, 2011, between Federated National Insurance Company and Everest Reinsurance Company (Layer 1). *
10.6	Reinstatement Premium Protection Reinsurance Contract, effective July 1, 2011, between Federated National Insurance Company and subscribing reinsurers (Layers 1, 2 and 3). *
10.7	Reinstatement Premium Protection Reinsurance Contract, effective July 1, 2011, between Federated National Insurance Company and subscribing reinsurers (Layer 4). *
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. *
101.INS-XBRL	Instance Document. **
101.SCH-XBRL	Taxonomy Extension Schema Document. **

101.CAL-XBRL	Taxonomy Extension Calculation Linkbase Document. **
101.LAB-XBRL	Taxonomy Extension Label Linkbase Document. **
101.PRE-XBRL	Taxonomy Extension Presentation Linkbase Document. **

* filed herewith

** In accordance with Rule 406T of Regulation S-T, these interactive data files are deemed not filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be part of any registration statement or other document filed under the Securities Act or Exchange Act, except as shall be expressly set forth by specific reference in such filing.

Index

21st Century Holding Company

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto 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)

Date: November 14, 2011

Index

21st Century Holding Company

EXHIBIT INDEX

10.1	First Event Excess Catastrophe Reinsurance Contract, effective July 1, 2011, between Federated National Insurance Company and subscribing reinsurers (Layers 1, 2 and 3).
10.2	First Event Excess Catastrophe Reinsurance Contract, effective July 1, 2011, between Federated National Insurance Company and JC Re Ltd (Layer 1).
10.3	First Event Excess Catastrophe Reinsurance Contract, effective July 1, 2011, between Federated National Insurance Company and subscribing reinsurers (Layer 1).
10.4	First Event Excess Catastrophe Reinsurance Contract, effective July 1, 2011, between Federated National Insurance Company and subscribing reinsurers (Layer 4).
10.5	Second Event Excess Catastrophe Reinsurance Contract, effective July 1, 2011, between Federated National Insurance Company and Everest Reinsurance Company (Layer 1).
10.6	Reinstatement Premium Protection Reinsurance Contract, effective July 1, 2011, between Federated National Insurance Company and subscribing reinsurers (Layers 1, 2 and 3).
10.7	Reinstatement Premium Protection Reinsurance Contract, effective July 1, 2011, between Federated National Insurance Company and subscribing reinsurers (Layer 4).
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.
101.INS-XBRL	Instance Document. **
101.SCH-XBRL	Taxonomy Extension Schema Document. **
101.CAL-XBRL	Taxonomy Extension Calculation Linkbase Document. **

101.LAB-XBRL	Taxonomy Extension Label Linkbase Document. **
101.PRE-XBRL	Taxonomy Extension Presentation Linkbase Document. **

** In accordance with Rule 406T of Regulation S-T, these interactive data files are deemed not filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be part of any registration statement or other document filed under the Securities Act or Exchange Act, except as shall be expressly set forth by specific reference in such filing.