21ST CENTURY HOLDING CO
Form 10-Q
May 17, 2010

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

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

FOR THE QUARTERLY PERIOD ENDED March 31, 2010
OR

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

FOR THE TRANSITION PERIOD FROM ___________________TO _______________________

Commission File number 0-2500111

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

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

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

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

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

Yes x No ¨

Indicate by check mark whether the registrant has electronically submitted and posted on its corporate 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 ¨ No ¨

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

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer ¨ 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 ¨ 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 –7,946,374 outstanding as of May 17, 2010

21ST CENTURY HOLDING COMPANY

INDEX

PART I: FINANCIAL INFORMATION
Item 1 Financial Statements

21st CENTURY HOLDING COMPANY
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	Period Ending March 31, 2010	December 31, 2009
	(Dollars in Thousands)	
ASSETS		
Investments		
Debt maturities, available for sale, at fair value	$ 91,201	$ 91,513
Debt maturities, held to maturity, at amortized cost	5,790	2,650
Equity securities, available for sale, at fair value	13,945	20,056
Total investments	110,936	114,219
Cash and short term investments	53,004	28,197
Prepaid reinsurance premiums	6,136	10,319
Premiums receivable, net of allowance for credit losses of $70 and $24, respectively	6,313	10,311
Reinsurance recoverable, net	13,065	15,302
Deferred policy acquisition costs	8,564	8,267
Deferred income taxes, net	5,011	4,675
Income taxes receivable	7,684	7,069
Property, plant and equipment, net	1,007	859
Other assets	2,851	3,671
Total assets	$ 214,571	$ 202,889
LIABILITIES AND SHAREHOLDERS' EQUITY		
Unpaid losses and LAE	$ 68,248	$ 70,611
Unearned premiums	52,883	50,857
Premiums deposits and customer credit balances	3,219	2,129
Bank overdraft	18,087	8,251
Deferred gain from sale of property	883	1,006
Accounts payable and accrued expenses	5,640	2,593
Total liabilities	148,960	135,447
Shareholders' equity:		
Common stock, $0.01 par value. Authorized 25,000,000 shares; issued and outstanding 7,946,374 and 7,953,384, respectively.	79	80
Preferred stock, $0.01 par value. Authorized 1,000,000 shares; none issued or outstanding	-	-
Additional paid-in capital	50,301	50,185
Accumulated other comprehensive income	1,485	2,026

Retained earnings	13,746	15,151
Total shareholders' equity	65,611	67,442
Total liabilities and shareholders' equity	$ 214,571	$ 202,889

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Three Months Ended March31,			
	2010		2009	
	(Dollars in Thousands except EPS and share and dividend data)			
Revenue:				
Gross premiums written	$	27,021	$	28,431
Gross premiums ceded		(918)		(328)
Net premiums written		26,103		28,103
Decrease in prepaid reinsurance premiums		(13,061)		(8,069)
Increase in unearned premiums		(2,026)		(6,129)
Net change in prepaid reinsurance premiums and unearned premiums		(15,087)		(14,198)
Net premiums earned		11,016		13,905
Commission income		386		238
Finance revenue		72		83
Managing general agent fees		494		431
Net investment income		935		681
Net realized investment gains (losses)		2,225		(537)
Regulatory assessments recovered		515		548
Other income		137		312
Total revenue		15,780		15,661
Expenses:				
Losses and LAE		9,063		8,874
Operating and underwriting expenses		2,717		1,953
Salaries and wages		2,072		1,909
Policy acquisition costs, net of amortization		3,460		2,744
Total expenses		17,312		15,480
(Loss) Income before provision for income tax benefit		(1,532)		181
Provision for income tax benefit		(605)		(122)
Net (loss) income	$	(927)	$	303
Net (loss) income per share - basic	$	(0.12)	$	0.04
Net (loss) income per share - diluted	$	(0.12)	$	0.04
		7,946,374		8,013,894

Weighted average number of common shares outstanding - basic				
Weighted average number of common shares outstanding - diluted		7,946,374		8,013,894
Dividends paid per share	$	0.06	$	0.18

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4

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

	Three Months Ended March 31, 2010	2009
	(Dollars in Thousands)	
Cash flow from operating activities:		
Net (loss) income	$ (927)	$ 303
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Amortization of investment premium (discount), net	212	(38)
Depreciation and amortization of property plant and equipment, net	51	47
Net realized investment (gains) losses	(2,225)	537
(Recovery) Provision for credit losses, net	(5)	12
Recovery for uncollectible premiums receivable	(45)	(24)
Non-cash compensation	79	119
Changes in operating assets and liabilities:		
Premiums receivable	4,043	(730)
Prepaid reinsurance premiums	4,182	(4,124)
Reinsurance recoverable, net	2,237	(808)
Income taxes recoverable	(615)	336
Deferred income taxes, net of other comprehensive income	(9)	(544)
Policy acquisition costs, net of amortization	(297)	(1,537)
Other assets	702	(487)
Unpaid losses and LAE	(2,362)	1,316
Unearned premiums	2,026	6,131
Premium deposits and customer credit balances	1,089	273
Bank overdraft	9,836	642
Accounts payable and accrued expenses	3,047	(662)
Net cash provided by operating activities	21,019	762
Cash flow provided (used) by investing activities:		
Proceeds from sale of investment securities	31,135	12,256
Purchases of investment securities available for sale	(26,708)	(58,351)
Purchases of property and equipment	(199)	(9)
Net cash provided (used) by investing activities	4,228	(46,104)
Cash flow used by financing activities:		
Dividends paid	(477)	(481)
Tax benefit provision related to non-cash compensation	36	27
Net cash used by financing activities	(441)	(454)
Net increase (decrease) in cash and short term investments	24,806	(45,796)
Cash and short term investments at beginning of period	28,197	124,577
Cash and short term investments at end of period	$ 53,003	$ 78,781

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(continued)	Three Months Ended March 31, 2010		Three Months Ended March 31, 2009	
	(Dollars in Thousands)			
Supplemental disclosure of cash flow information:				
Cash paid during the period for:				
Income taxes	$	2	$	75
Non-cash investing and finance activities:				
Accrued dividends payable	$	477	$	481

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, commercial general liability, personal and commercial automobile, fire, allied lines, surety, commercial multi-peril and inland marine insurance in various states on behalf of our wholly owned subsidiaries, Federated National Insurance Company (“Federated National”) and American Vehicle Insurance Company (“American Vehicle”) and other insurance carriers. 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.

Federated National is licensed as an admitted carrier in Florida. Through contractual relationships with a network of approximately 4,200 independent agents, of which approximately 300 actively sell and service our products, Federated National is authorized to underwrite homeowners’ multi-peril, fire, allied lines and personal automobile insurance in Florida.

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

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

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

During the three months ended March 31, 2010, 78.0%, 13.0%, 3.0% and 6.0% of the premiums we underwrote were for homeowners’ property and casualty, commercial general liability, federal flood, and personal automobile insurance, respectively. During the three months ended March 31, 2009, 81.0%, 15.9%, 2.6% and 0.5% of the premiums we underwrote were for homeowners’ property and casualty, 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 actual losses and LAE, we increase reserves with a corresponding reduction in our net income in the period in which the deficiency is identified. Conversely, when our estimated liabilities for unpaid losses and LAE are greater than actual losses and LAE, we decrease reserves with a corresponding increase in our net income in the period in which the deficiency is identified.

21st Century Holding Company
Notes to Condensed Consolidated Financial Statements

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

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 Managing General Agents, Inc. (“Assurance MGA”), a wholly owned subsidiary of the Company, acts as Federated National’s and American Vehicle’s exclusive managing general agent in the state of Florida and is also licensed as a managing general agent in the states of Alabama, Arkansas, Georgia, Illinois, Louisiana, Mississippi, Missouri, New York, Nevada, South Carolina, Texas and Virginia. During 2009, Assurance MGA contracted with several unaffiliated insurance companies to sell commercial general liability, workers compensation and inland marine insurance through Assurance MGA’s existing network of distributors. This process will continue throughout 2010 as Assurance MGA benefits from the arrangement by receiving commission revenue from policies sold by its insurance partners, while minimizing its risks. As American Vehicle continues its expansion into other states, we intend to retain other general agents to market our commercial general liability insurance products.

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

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

(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 March 31, 2010 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, 2010. 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, 2009 included in the Company’s Form 10-K, which was filed with the SEC on March 26, 2010.

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.

21st Century Holding Company
Notes to Condensed Consolidated Financial Statements

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. Certain 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, 2009, which we included in the Company's Annual Report on Form 10-K which was filed with the SEC on March 26, 2010.

We believe that there were no significant changes in those critical accounting policies and estimates during the first three months of fiscal 2010. 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.

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.

21st Century Holding Company
Notes to Condensed Consolidated Financial Statements

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.

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 March 31, 2010 and December 31, 2009. Changes in interest rates subsequent to March 31, 2010 and December 31, 2009 may affect the fair value of our investments.

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

21st Century Holding Company
Notes to Condensed Consolidated Financial Statements

(B) Impact of New Accounting Pronouncements

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. 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. FSP FAS 115-2 and FSP FAS 124-2 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. FSP FAS 115-2 and FSP FAS 124-2 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. FSP FAS 115-2 and FSP FAS 124-2 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.

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 Transaction 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 May 2009, the FASB issued Statement of Financial Accounting Standards (“SFAS”) No. 165, “Subsequent Events” (“SFAS No. 165”), which is now part of Accounting Standard Update (“ASU”) 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 January 2010, the FASB issued Accounting Standard Update (“ASU”) ASU No. 2010-06: Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements. The amendments in ASU

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

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

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 three months ended March 31, 2010 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 per Share

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

(E) Reclassifications

No reclassification of the 2009 financial statements was necessary to conform to the 2010 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. Revisions to our estimates are based on our analysis of subsequent information that we receive regarding various factors, including: (i) per claim information; (ii) company and industry historical loss experience; (iii) legislative enactments, judicial decisions, legal developments in the awarding of damages; and (iv) trends in general economic conditions, including the effects of inflation. Management revises its estimates based on the results of its analysis. This process assumes that experience, adjusted for the effects of current developments and anticipated trends, is an appropriate basis for estimating the ultimate settlement of all claims. There is no precise method for subsequently evaluating the impact of any specific factor on the adequacy of the reserves, because the eventual redundancy or deficiency is affected by multiple factors. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial position, results of operations, or liquidity.

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

The Company also faces, in the ordinary course of business, lawsuits that seek damages beyond policy limits, commonly known as bad faith claims. The Company continually evaluates potential liabilities and reserves for litigation of these types using the criteria established by 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.

21st Century Holding Company
Notes to Condensed Consolidated Financial Statements

(B) Assessment Related Activity

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

As a direct premium writer in the state of Florida, we are required to participate in certain insurer solvency associations under Florida Statutes Section 631.57(3) (a), administered by FIGA. Participation in these pools is based on our written premium by line of business to total premiums written statewide by all insurers. Participation has resulted in assessments against us, as it had in 2006 and 2007, and again on October 30, 2009. There were no assessments made during the three months ended March 31, 2010 or for the year ended December 31, 2008. Through 2007, we have been assessed $6.6 million and in 2009 we were assessed an additional $0.6 million in connection with the insolvencies of domestic insurance companies. For statutory accounting these assessments are not charged to operations, in contrast, GAAP treatment is to charge current operations for the assessments. Through policyholder surcharges, as approved by the Florida Office of Insurance Regulation (“Florida OIR”), we have since recouped $6.7 million in connection with these assessments.

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

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

During a subsequent regularly scheduled meeting on or about December 18, 2006, Citizens Board determined an additional 2004 plan year deficit existed in the High Risk Account. Citizens decided that a $515 million Regular Assessment was in the best interest of Citizens and consistent with Florida Statutes. On this basis, Citizens certified for a Regular Assessment. Federated National’s participation in this assessment totaled $0.3 million. Provisions contained in our excess of loss reinsurance policies provided for participation of our reinsurers totaling $1.8 million of the $2.3 million in assessments. There was no assessment made for 2010, 2009 or 2008.

Pursuant to Florida Statutes Section 627.3512, insurers are permitted to recoup the assessment by adding a surcharge to policies in an amount not to exceed the amount paid by the insurer to Citizens. Federated National is currently underwriting the recoupment in connection with the Citizens assessments and has since recouped approximately $2.3 million. Federated National subrogated approximately $1.8 million to the reinsurers.

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

21st Century Holding Company
Notes to Condensed Consolidated Financial Statements

Florida OIR issued an Order April 29, 2010, levying an emergency assessment of 1.30%, which was previously 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 1.40% of direct written premium on all property and casualty lines of business written in the state of Florida for the benefit of Citizens' High Risk Account. This order requires insurers to collect the emergency assessment for policies issued or renewed on or after July 1, 2007. Similar to the FHCF assessment discussed above, the Citizens emergency assessment is remitted to the administrator of the assessment as collected and therefore accounted for in a manner such that amounts collected or receivable are not recorded as revenues and amounts due or paid are not expensed.

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

(C) Operational Matters

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

The Company's consolidated Florida income tax returns for 2007, 2006 and 2005 are currently under review by the Florida Department of Revenue. The Florida income tax return for 2008 is open for review.

The Company has recorded a net deferred tax asset of $5.0 million as of March 31, 2010. 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. 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, effective on or about March 1, 2006, 21st Century sold its interest in the Lauderdale Lakes property to an unrelated party. As part of this transaction, 21st Century agreed to lease the same facilities for a five-year term. Our lease for this office space expires in December 2011.

21st Century Holding Company
Notes to Condensed Consolidated Financial Statements

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

Fiscal Year		Lease payments (Dollars in Thousands)
2010		480
2011		650
Total	$	1,130

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

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

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

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

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

(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".

21st Century Holding Company
Notes to Condensed Consolidated Financial Statements

Total investments decreased $3.3 million, or 2.9%, to $110.9 million as of March 31, 2010, compared with $114.2 million as of December 31, 2009.

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

We did not hold any trading investment securities during the three months ended March 31, 2010.

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

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

Pursuant to 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 three months ended March 31, 2010, in connection with this process, we have not charged any net realized investment loss to operations.

As of March 31, 2010, all of our securities are in good standing and not impaired as defined by FASB issued guidance, except for our holdings in Blackrock Pfd, Inc., which continues to be impaired by $0.1 million as of March 31, 2010, compared to the total $0.4 million as of December 31, 2009.

During the three months ended March 31, 2010, in connection with the other-than temporarily or permanently impaired process, we did not charge any net realized investment loss to operations.

21st Century Holding Company
Notes to Condensed Consolidated Financial Statements

The investments held as of March 31, 2010 and December 31, 2009, were comprised mainly of corporate bonds held in various industries and municipal and United States government bonds. As of March 31, 2010, 87% of the debt portfolio is in diverse industries and 13% is in United States government bonds. As of March 31, 2010, approximately 85% of the equity holdings are in equities related to diverse industries and 15% are in mutual funds.

As of March 31, 2010, 56.3% of the investment portfolio is in corporate bonds, 30.0% is in obligations of states and political subdivisions, and 11.2% is in United States government bonds. Approximately 16.0% of the common stock holdings are related to foreign entities.

During the three months ended March 31, 2010, we re-classified $3.1 million of our bond portfolio from available for sale to held-to-maturity.

As of March 31, 2010 and December 31, 2009, we have classified $5.8 million and $2.7 million, respectively, of our bond portfolio as held-to-maturity. We only classify bonds as held-to-maturity to support securitization of credit requirements. Fully funded trust agreements or outstanding irrevocable letters of credit, used for such purposes, total $3.1 million for the period ended March 31, 2010 and December 31, 2009, respectively.

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

(A) Debt and Equity Securities

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

	March 31, 2010		December 31, 2009	
	Carrying Amount	Percent of Total	Carrying Amount	Percent of Total
	(Dollars in Thousands)			
Debt securities, at market:				
United States government obligations and authorities	$ 6,369	5.74%	$ 10,152	8.89%
Obligations of states and political subdivisions	28,780	25.94%	39,269	34.38%
Corporate	55,351	49.90%	42,092	36.85%
International	701	0.63%	-	0.00%
	91,201	82.21%	91,513	80.12%
Debt securities, at amortized cost:				
United States government obligations and authorities	$ 5,790	5.22%	2,650	2.32%
Total debt securities	96,991	5.22%	94,163	2.32%
Equity securities, at market	13,945	12.57%	20,056	17.56%
Total investments	$ 110,936	100.00%	$ 114,219	100.00%

- 17 -

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 three months ended March 31, 2010 and 2009.

	Three Months Ended March 31,			
	2010		2009	
	Gains (Losses)	Fair Value at Sale	Gains (Losses)	Fair Value at Sale
	(Dollars in Thousands)			
Debt securities	$ 348	$ 14,584	$ 90	$ 7,846
Equity securities	2,093	13,349	10	151
Total realized gains	2,441	27,933	100	7,997
Debt securities	(25)	1,481	(340)	3,382
Equity securities	(191)	1,439	(297)	781
Total realized losses	(216)	2,920	(637)	4,163
Net realized gains (losses) on investments	$ 2,225	$ 30,853	$ (537)	$ 12,160

21st Century Holding Company
Notes to Condensed Consolidated Financial Statements

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in Thousands)			
March 31, 2010				
Debt Securities - Available For Sale:				
United States government obligations and authorities	$ 6,404	$ 63	$ 97	$ 6,370
Obligations of states and political subdivisions	28,333	516	69	28,780
Corporate	53,167	2,245	62	55,350
International	698	4	1	701
	$ 88,602	$ 2,828	$ 229	$ 91,201
Debt Securities - Held To Maturity:				
United States government obligations and authorities	$ 5,790	$ 204	$ 136	$ 5,858
Corporate	-	-	-	-
	$ 5,790	$ 204	$ 136	$ 5,858
Equity securities - common stocks	$ 14,161	$ 725	$ 941	$ 13,945
December 31, 2009				
Debt Securities - Available For Sale:				
Obligations of states and political subdivisions	$ 49,041	$ 695	$ 315	$ 49,421
Corporate	40,350	1,798	56	42,092
	$ 89,391	$ 2,493	$ 371	$ 91,513
Debt Securities - Held To Maturity:				
United States government obligations and authorities	$ 2,650	$ 148	$ 5	$ 2,793
Corporate	-	-	-	-
	$ 2,650	$ 148	$ 5	$ 2,793
Equity securities - common stocks	$ 18,927	$ 1,840	$ 711	$ 20,056

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 March 31, 2010.

	Unrealized Losses	Less than 12 months	12 months or longer
		(Dollars in Thousands)	
Debt securities:			
United States government obligations and authorities	$ (35)	$ (5)	$ (30)
Obligations of states and political subdivisions	-	-	-
Corporate	-	-	-
	(35)	(5)	(30)
Equity securities:			
Common stocks	(340)	-	(340)
Total debt and equity securities	$ (375)	$ (5)	$ (370)

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, 2009.

	Unrealized Losses	Less than 12 months	12 months or longer
		(Dollars in Thousands)	
Debt securities:			
United States government obligations and authorities	$ (120)	$ (120)	$ -
Obligations of states and political subdivisions	(4)	-	(4)
Corporate	-	-	-
	(124)	(120)	(4)
Equity securities:			
Common stocks	(237)	-	(237)
Total debt and equity securities	$ (361)	$ (120)	$ (241)

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

	March 31, 2010		December 31, 2009	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
		(Dollars in Thousands)		
Due in one year or less	$ 5,707	$ 5,741	$ 1,602	$ 1,615
Due after one through five years	51,319	52,628	49,821	50,885
Due after five through ten years	29,320	30,473	26,177	27,217

Due after ten years		8,046		8,217		14,441		14,589
Total	$	94,392	$	97,059	$	92,041	$	94,306

21st Century Holding Company
Notes to Condensed Consolidated Financial Statements

United States Treasury notes with a book value of $1,038,000 and $1,044,000, both maturing in 2012, were on deposit with the Florida OIR as of March 31, 2010, as required by law for American Vehicle and Federated National respectively, and are included with other investments held until maturity.

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

	Three Months Ended March 31,	
	2010	2009
	(Dollars in Thousands)	
Interest on debt securities	$ 845	$ 426
Dividends on equity securities	87	101
Interest on cash and cash equivalents	3	154
Total investment income	$ 935	$ 681
Net realized gains (losses)	$ 2,225	$ (537)

Proceeds from sales of debt and equity securities during the three months ended March 31, 2010 and 2009, were approximately $31.1 million and $14.7 million, respectively.

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

	Three Months Ended March 31,	
	2010	2009
	(Dollars in Thousands)	
Net realized gains (losses)		
Debt securities	$ 323	$ (257)
Equity securities	1,902	(280)
Total	$ 2,225	$ (537)

	As of March 31, 2010	As of December 31, 2009
	(Dollars in Thousands)	
Net unrealized gains (losses)		
Debt securities	$ 2,599	$ 2,122
Equity securities	(217)	1,128
Total	$ 2,382	$ 3,250

(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.

21st Century Holding Company
Notes to Condensed Consolidated Financial Statements

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.

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 March 31, 2010, which are presented in accordance with this guidance are as follows.

	As of March 31, 2010			
	Level 1	Level 2	Level 3	Total
	(Dollars in Thousands)			
Debt securities:				
United States government obligations and authorities	$ -	$ 6,370	$ -	$ 6,370
Obligations of states and political subdivisions	-	28,780	-	28,780
Corporate	55,350	-	-	55,350
International	-	701	-	701
	55,350	35,851	-	91,201
Equity securities:				
Common stocks	13,945	-	-	13,945
	13,945	-	-	13,945
Total debt and equity securities	$ 69,295	$ 35,851	$ -	$ 105,146

21st Century Holding Company
Notes to Condensed Consolidated Financial Statements

Assets measured at fair value on a recurring basis as of December 31, 2009, which are presented in accordance with this guidance are as follows.

	As of December 31, 2009 Level 1	Level 2	Level 3	Total
		(Dollars in Thousands)		
Debt securities:				
United States government obligations and authorities	$ -	$ 10,152	$ -	$ 10,152
Obligations of states and political subdivisions	-	39,269	-	39,269
Corporate	42,092	-	-	42,092
	42,092	49,421	-	91,513
Equity securities:				
Common stocks	20,056	-	-	20,056
	20,056	-	-	20,056
Total debt and equity securities	$ 62,148	$ 49,421	$ -	$ 111,569

(7) Comprehensive Income

For the three months ended March 31, 2010 and 2009, comprehensive income consisted of the following.

	Three Months Ended March 31, 2010	2009
	(Dollars in Thousands)	
Net (loss) income	$ (927)	$ 303
Change in net unrealized (losses) gains on investments available for sale	(869)	45
Comprehensive (loss) income, before tax	(1,796)	348
Income tax benefit (expense) related to items of other comprehensive income	327	(16)
Comprehensive (loss) income	$ (1,469)	$ 332

(8) Reinsurance Agreements

Financing risk generally involves a combination of risk retention and risk transfer techniques. Retention, similar to a deductable, involves financing losses by funds internally generated. Transfer involves the existence of a contractual arrangement designed to shift financial responsibility to another party in exchange for premium. Secondary to the primary risk transfer agreements there are reinsurance agreements. Following reinsurance agreements there are also retro-cessionary reinsurance agreements; each designed to shift financial responsibility based on predefined conditions. Generally there are three separate kinds of reinsurance structures - quota-share, excess of loss, and facultative, each considered either proportional or non-proportional. Our reinsurance structures are maintained to protect our insurance subsidiaries against the severity of losses on individual claims or unusually serious occurrences in which the frequency and or the severity of claims produce an aggregate extraordinary loss from catastrophic events.

21st Century Holding Company
Notes to Condensed Consolidated Financial Statements

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 2009–2010 hurricane season, thus 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.

Our property lines of business include homeowners’ multi-peril and fire. For the 2009-2010 hurricane season, the excess of loss and FHCF treaties will insure the property lines for approximately $456.6 million of aggregate catastrophic losses and LAE with a maximum single event coverage totaling approximately $349.7 million, with the Company retaining the first $5.0 million of losses and LAE for each event. Our reinsurance program includes coverage purchased from the private market, which afforded optional reinstatement premium protection that provides coverage beyond the first event, along with coverage from the FHCF. Coverage afforded by the FHCF totals approximately $259.0 million, or 56.7% of the $456.6 million of aggregate catastrophic losses and LAE. The FHCF affords coverage for the entire season, subject to maximum payouts, without regard to any particular insurable event.

The estimated cost to the Company for the excess of loss reinsurance products for the 2009-2010 hurricane season, inclusive of approximately $18.6 million payable to the FHCF and the prepaid automatic premium reinstatement protection, was approximately $52.7 million. The combination of private and FHCF excess of loss reinsurance treaties will afford approximately $456.6 million of aggregate coverage with maximum first event coverage totaling approximately $349.7 million. Our retention in connection with the first two covered events is $5.0 million for each event.

The cost and amounts of reinsurance were based on management's analysis of Federated National's exposure to catastrophic risk as of June 30, 2009. Our data was subjected to exposure level analysis as of September 30, 2009. This analysis of our exposure level, in relation to the total exposures to the FHCF and excess of loss treaties, produced changes in limits and reinsurance premiums because of the changes in our exposure level. The change to management’s June 30, 2009 analysis will be amortized over the remaining balance of the underlying policy term. The

Company’s retention did not change.

21st Century Holding Company
Notes to Condensed Consolidated Financial Statements

The 2009-2010 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			
Everest Reinsurance Company	A+		**
Munich Reinsurance America, Inc.	A+		**
QBE Reinsurance Corporation	A		**
BERMUDA			
ACE Tempest Reinsurance Limited	A+	*	
Amlin Bermuda Limited	A		
Ariel Reinsurance Company Limited	A-	*	
DaVinci Reinsurance Limited	A	*	
Flagstone Reinsurance Limited	A-		
Hiscox Insurance Company Limited	A	*	
Montpelier Reinsurance Limited	A-		
Platinum Underwriters Bermuda Limited	A	*	
Renaissance Reinsurance Limited	A+	*	
Torus Insurance (Bermuda) Limited	A-	*	
LONDON & EUROPE			
Amlin Syndicate No. 2001 (AML)	A+		**
Antares Syndicate No. 1274 (AUL)	A		**
Arrow Syndicate No. 1910 (ARW)	A	*	**
Broadgate Syndicate No. 1301 (BGT)	A		**
Liberty Syndicates Services Limited, Paris for and on behalf of Lloyd's Syndicate No. 4472 (LIB)	A		**
Novae Syndicate No. 2007 (NVA)	A		**
SCOR Switzerland AG	A-		
HEDGE FUNDS / COLLATERALIZED			
Actua Re Limited	NR	*	(1)
Allianz Risk Transfer AG (Bermuda Branch)	NR-5	*	(2)

* 2009 Reinstatement Premium Protection Program Participants

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

(Blank) Non admitted reinsurer in Florida.

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

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

For the 2008-2009 hurricane season, the excess of loss and FHCF treaties insured us for approximately $310.0 million of aggregate catastrophic losses and LAE with a maximum single event coverage total of approximately $245.0 million, with the Company retaining the first $3.0 million of losses and LAE. Our reinsurance program included coverage purchased from the private market, which afforded optional reinstatement premium protection that provides coverage beyond the first event, along with coverage from the FHCF. Coverage afforded by the FHCF totals approximately $167.0 million, or 54% of the $310.0 million of aggregate catastrophic losses and LAE. The FHCF afforded coverage for the entire season, subject to maximum payouts, without regard to any particular insurable event. There were no claims made in connection with these treaties.

21st Century Holding Company
Notes to Condensed Consolidated Financial Statements

The 2008-2009 private reinsurance companies and their respective A.M. Best rating are listed in the table as follows.

Reinsurer	A.M. Best Rating		
UNITED STATES			
Everest Reinsurance Company	A+		
GMAC Re/Motors Insurance Corporation	A-		
Munich Reinsurance America, Inc.	A+		
QBE Reinsurance Corporation	A	*	
BERMUDA			
Actua Re Limited	NR	*	(1)
Ariel Reinsurance Company Limited	A-	*	
DaVinci Reinsurance Limited	A	*	
Flagstone Reinsurance Limited	A-		
Hiscox Insurance Company Limited	A-		
Max Bermuda Limited	A-		
New Castle Reinsurance Company Limited	A-	*	
Renaissance Reinsurance Limited	A+	*	
Amlin Bermuda Limited	A		
EUROPE			
Lansforsakringar Sak Forsakringsaktiebolag	NR		(2)
SCOR Switzerland AG	A-		

* 2008 Reinstatement Premium Protection Program Participants

(1) Participant has funded a trust agreement for their unearned premium with approximately $1.3 million of cash and U.S. Government obligations of American institutions at fair market value.

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

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 has in 2006 and 2007, and again on October 30, 2009. There were no assessments made for the year ended December 31, 2008. Through 2007, we have been assessed $6.7 million and in 2009 we were assessed an additional $0.6 million in connection with the insolvencies of domestic insurance companies. For statutory accounting these assessments are not charged to operations, in contrast, GAAP treatment is to charge current operations for the assessments. Through policyholder surcharges, as approved by the Florida OIR, we have since recouped $6.2 million in connection with these assessments.

21st Century Holding Company
Notes to Condensed Consolidated Financial Statements

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

The FHCF reimbursement contract and addendums are all effective June 1, 2009, and the private excess of loss type treaties are all effective July 1, 2009; all treaties have a term of one year. Our reinsurance treaty with the FHCF has a significant credit risk, including the fact that the FHCF may not be able to raise sufficient money to pay their claims or impair their ability to pay their claims in a timely manner. This could result in significant financial, legal and operational challenges to all companies, including ours. Additionally, the FHCF treaty contains an exclusion for “Losses in excess of the sum of the Balance of the Fund as of December 31 of the Contract Year and the amount the SBA is able to raise through the issuance of revenue bonds or by the use of other financing mechanisms, up to the limit pursuant to Section 215.555(4) (c), Florida Statutes.”

To date, there have been no claims asserted against the reinsurers in connection with the 2009–2010 and 2008–2009 excess of loss and FHCF treaties.

As regards to the commercial multi-peril property program that began recording premium on August 28, 2009, we have secured an automatic facultative reinsurance agreement with Munich Re and 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 2009, the Company secured casualty reinsurance affording coverage totaling $4.0 million in excess of $1.0 million. This reinsurance also protects the Company against extra contractual obligations and losses in excess of policy limits. Any loss occurrence that involves liability exposure written by either Federated National or American Vehicle or a combination of both will be covered. The cost of this coverage totaled approximately $0.4 million.

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

The quota-share retrocessionaire reinsurance agreements require American Vehicle to securitize credit, regulatory and business risk. As of March 31, 2010, irrevocable letters of credit fully collateralized by American Vehicle and further guaranteed by the parent company, 21st Century, were replaced by fully funded trust agreements. Fully funded trust agreements and outstanding irrevocable letters of credit totaled $3.1 million as of March 31, 2010 and December 31, 2009, respectively.

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

(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 March 31, 2010 and December 31, 2009, we had outstanding exercisable options to purchase 121,599 and 124,599 shares, respectively.

21st Century Holding Company
Notes to Condensed Consolidated Financial Statements

In 2002, we implemented the 2002 Stock Option Plan. The purpose of this plan is to advance our interests by providing an additional incentive to attract, retain and motivate highly qualified and competent persons who are key to the Company, including employees, consultants, independent contractors, officers and directors. Our success is largely dependent upon their efforts and judgment; therefore, by authorizing the grant of options to purchase common stock, we encourage stock ownership. Options outstanding under the plan were granted at prices either equal to or above the market value of the stock on the date of grant, typically vest over a five-year period, and expire six years after the grant date. Under this plan, we are authorized to grant options to purchase up to 1,800,000 common shares, and, as of March 31, 2010 and December 31, 2009, we had outstanding exercisable options to purchase 729,218 and 736,951 shares, respectively.

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

	1998 Plan		2002 Plan	
	Number of Shares	Weighted Average Option Exercise Price	Number of Shares	Weighted Average Option Exercise Price
Outstanding at January 1, 2008	152,599	$ 14.92	660,309	$ 13.78
Granted	4,500	$ 8.67	162,500	$ 8.92
Exercised	(13,500)	$ 6.67	(141,458)	$ 8.81
Cancelled	(13,500)	$ 10.03	(23,200)	$ 12.60
Outstanding at January 1, 2009	130,099	$ 16.07	658,151	$ 13.69
Granted	-	$ -	147,000	$ 4.37
Exercised	-	$ -	-	$ -
Cancelled	(5,500)	$ 20.23	(68,200)	$ 11.58
Outstanding at January 1, 2010	124,599	$ 15.88	736,951	$ 12.03
Granted	-	$ -	30,000	$ 4.36
Exercised	-	$ -	-	$ -
Cancelled	(3,000)	$ 13.70	(37,733)	$ 15.75
Outstanding at March 31, 2010	121,599	$ 15.94	729,218	$ 11.52

21st Century Holding Company
Notes to Condensed Consolidated Financial Statements

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

	1998 Plan			2002 Plan		
Options Exercisable at:	Number of Shares		Weighted Average Option Exercise Price	Number of Shares		Weighted Average Option Exercise Price
March 31, 2010	64,889	$	15.94	388,504	$	11.52
December 31, 2010	18,670	$	15.94	92,441	$	11.52
December 31, 2011	18,670	$	15.94	102,484	$	11.52
December 31, 2012	18,670	$	15.94	76,089	$	11.52
December 31, 2013	700	$	15.94	42,300	$	11.52
December 31, 2014	-	$	15.94	21,400	$	11.52
Thereafter	-	$	15.94	6,000	$	11.52
Total options exercisable	121,599			729,218		

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

Upon the exercise of options, the Company issues previously outstanding shares.

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

- 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 March 31, 2010 are lower by approximately $96,000 and $60,000, respectively, than if it had continued to account for share-based compensation under ABP 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 March 31, 2009, were lower by approximately $146,000 and $119,000, respectively, than if it had continued to account for share-based compensation under ABP guidance.

Basic and diluted earnings per share for the three months ended March 31, 2010 would have been ($0.11), if the Company had not adopted FASB issued guidance, compared with reported basic and diluted earnings per share of ($0.12).

Basic and diluted earnings per share for the three months ended March 31, 2009 would have been $0.06 if the Company had not adopted FASB issued guidance, compared with reported basic and diluted earnings per share of $0.04.

21st Century Holding Company
Notes to Condensed Consolidated Financial Statements

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

The weighted average fair value of options granted during the three months ended March 31, 2010 was $1.81 and during the same period 2009 was $3.30 to $4.73, estimated on the date of grant using the Black-Scholes option-pricing model.

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

	March 31, 2010	March 31, 2009
Dividend yield	5.80%	7.20% - 17.30%
Expected volatility	82.36%	57.54% - 70.68%
Risk-free interest rate	1.33%	1.22% - 1.50%
Expected life (in years)	3.06	3.53 - 4.16

Summary information about the Company's stock options outstanding at March 31, 2010 follows.

	Range of Exercise Price	Outstanding at March 31, 2010	Weighted Average Contractual Periods in Years	Weighted Average Exercise Price	Exercisable at March 31, 2010
1998 Plan	$ 6.67 - $27.79	121,599	3.04	$ 15.94	64,889
2002 Plan	$ 3.03 - $18.21	729,218	3.18	$ 11.52	388,504

(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 March 31, 2010, there were no preferred shares issued or outstanding and there were 7,946,374 shares of common stock outstanding.

(11) Subsequent Events

None

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 Form 10-K filed with the Securities and Exchange Commission ("SEC") on March 26, 2010. Unless the context requires otherwise, as used in this Form 10-Q, the terms "21st Century" "Company," "we," "us" and "our," refers to 21st Centu Holding Company and its subsidiaries, unless the context indicates otherwise.

Forward-Looking Statements

Statements in this Quarterly Report on Form 10-Q for the three months ended March 31, 2010 ("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 our other filings with the SEC, including the Company's 2009 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.

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, commercial general liability, personal and commercial automobile, fire, allied lines, surety, commercial multi-peril and inland marine insurance in various states on behalf of our wholly owned subsidiaries, Federated National Insurance Company ("Federated National") and American Vehicle Insurance Company ("American Vehicle") and other insurance carriers. 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.

Federated National is licensed as an admitted carrier in Florida. Through contractual relationships with a network of approximately 4,200 independent agents, of which approximately 300 actively sell and service our products, Federated National is authorized to underwrite homeowners' multi-peril, fire, allied lines and personal automobile insurance in Florida.

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

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

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

During the three months ended March 31, 2010, 78.0%, 13.0%, 3.0% and 6.0% of the premiums we underwrote were for homeowners' property and casualty, commercial general liability, federal flood, and personal automobile insurance, respectively. During the three months ended March 31, 2009, 81.0%, 15.9%, 2.6% and 0.5% of the premiums we underwrote were for homeowners' property and casualty, 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 actual losses and LAE, we increase reserves with a corresponding reduction in our net income in the period in which the deficiency is identified. Conversely, when our estimated liabilities for unpaid losses and LAE are greater than actual losses and LAE, we decrease reserves with a corresponding increase in our net income in the period in which the deficiency is identified.

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

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.

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

Assurance Managing General Agents, Inc. ("Assurance MGA"), a wholly owned subsidiary of the Company, acts as Federated National's and American Vehicle's exclusive managing general agent in the state of Florida and is also licensed as a managing general agent in the states of Alabama, Arkansas, Georgia, Illinois, Louisiana, Mississippi, Missouri, New York, Nevada, South Carolina, Texas and Virginia. During 2009, Assurance MGA contracted with several unaffiliated insurance companies to sell commercial general liability, workers compensation and inland marine insurance through Assurance MGA's existing network of distributors. This process will continue throughout 2010 as Assurance MGA benefits from the arrangement by receiving commission revenue from policies sold by its insurance partners, while minimizing its risks. As American Vehicle continues its expansion into other states, we intend to retain other general agents to market our commercial general liability insurance products.

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

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

We operate in highly competitive markets and face competition from national, regional and residual market insurance companies in the homeowners', commercial residential property, commercial general liability, and automobile markets, many of whom are larger, have greater financial and other resources, and offer more diversified insurance coverage. Our competitors include companies that market their products through agents, as well as companies that sell insurance directly to their customers. Large national writers may have certain competitive advantages over agency writers, including increased name recognition, increased loyalty of their customer base and reduced policy acquisition costs.

Significant competition emerged because of the January 2007 emergency Florida legislation session wherein it passed, and the Governor signed into law, a bill known as "CS/HB-1A". This law made fundamental changes to the property and casualty insurance business in Florida and undertook 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 the state of 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 have 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 Office of Insurance Regulation ("Florida OIR") placed at least four property and casualty insurance companies in some form of receivership while several other Florida domiciled insurance companies have recapitalized in order to remain viable in the Florida market. The insolvency of these companies poses a risk to all other remaining carriers in the state including Federated National and American Vehicle in terms of assessments to support those failed companies. To date we are not aware of any such assessments in connection with the takeovers during 2009; however, no guarantee can be made that no assessments will be imposed.

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

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 of Florida. At least one new carrier has been licensed to enter the Florida homeowners’ market during 2009 and another in 2010.

In 2006, the state of Florida created the Insurance Capital Build-Up Incentive Program in response to the catastrophic events that occurred during 2004 and 2005. This program provided matching capital funds to any new or existing carrier licensed to write homeowners insurance in the state of Florida under certain conditions. This program resulted in a significant erosion of our homeowners’ property 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 on the basis of 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 Allstate Insurance Company and Fidelity National Insurance Company. In addition to these nationally recognized companies, we also compete with several Florida domestic property and casualty companies such as Universal Insurance Company of North America, Universal Property and Casualty Insurance Company, United Property and Casualty, Royal Palm Insurance Company, Edison Insurance Company, St. Johns Insurance Company, Cypress Property and Casualty Insurance Company, Tower Hill Insurance Company, Florida Family Insurance Company, Homeowners Choice Property and Casualty Insurance Company and American Strategic Insurance Company.

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

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

We reported decreased gross written premium for the three months ended March 31, 2010, and continue to face difficult economic conditions that affected our earnings. Performance during the three months ended March 31, 2010 was affected by our increased reinsurance costs and reduced earned premium due to mitigation credits.

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.

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 March 31, 2010 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 March 31, 2010 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.

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

Analysis of Financial Condition
As of March 31, 2010 Compared with December 31, 2009

Total Investments

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".

Total investments decreased $3.3 million, or 2.9%, to $110.9 million as of March 31, 2010, compared with $114.2 million as of December 31, 2009.

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

We did not hold any trading investment securities during the three months ended March 31, 2010.

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

	Unrealized Gains and (Losses)	
	March 31, 2010	December 31, 2009
	(Dollars in Thousands)	
Debt securities:		
United States government obligations and authorities	$ (35)	$ (120)
Obligations of states and political subdivisions	447	500
Corporate	2,183	1,742
International	3	-
	2,598	2,122
Equity securities:		
Common stocks	(217)	1,128
Total debt and equity securities	$ 2,381	$ 3,250

The $35,000 unrealized loss for debt securities is related to United States Treasury obligations. The unrealized losses on the Company's investments in United States Treasury obligations were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not likely that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than temporarily impaired as of March 31, 2010.

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

The $0.2 million unrealized losses for equity securities are related to Western / Asset Claymore Inflation-Linked Securities and Income Fund ("WIA"). WIA invests 80% of its total assets in inflation-linked securities and at least 60% of its total managed assets in U.S. Treasury Inflation-Protected Securities. Based on the type of assets held by WIA, and the Company's ability and intent to hold this investment for a reasonable period of time sufficient for a forecasted recovery of fair value, the Company does not consider this investment to be other-than temporarily impaired as of March 31, 2010.

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

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

Pursuant to 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 three months ended March 31, 2010, in connection with this process, we have not charged any net realized investment loss to operations.

As of March 31, 2010, all of our securities are in good standing and not impaired as defined by FASB issued guidance, except for our holdings in Blackrock Pfd, Inc., which continues to be impaired by $0.1 million as of March 31, 2010, compared to the total $0.4 million as of December 31, 2009.

During the three months ended March 31, 2009, 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 March 31, 2010, were comprised mainly of corporate bonds held in various industries and municipal and United States government bonds. The investments held as of December 31, 2009, were comprised mainly of corporate bonds held in various industries and municipal and United States government bonds. As of March 31, 2010, 87% of the debt portfolio is in diverse industries and 13% is in United States government bonds. As of March 31, 2010, approximately 85% of the equity holdings are in equities related to diverse industries and 15% are in mutual funds.

As of March 31, 2010, 56.3% of the investment portfolio is in corporate bonds, 30.0% is in obligations of states and political subdivisions, and 11.2% is in United States government bonds. Approximately 16.0% of the common stock holdings are related to foreign entities.

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

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

	March 31, 2010		December 31, 2009	
	Carrying Amount	Percent of Total	Carrying Amount	Percent of Total
	(Dollars in Thousands)			
Debt securities, at market:				
United States government obligations and authorities	$ 6,369	5.74%	$ 10,152	8.89%
Obligations of states and political subdivisions	28,780	25.94%	39,269	34.38%
Corporate	55,351	49.90%	42,092	36.85%
International	701	0.63%	-	0.00%
	91,201	82.21%	91,513	80.12%
Debt securities, at amortized cost:				
United States government obligations and authorities	$ 5,790	5.22%	2,650	2.32%
Total debt securities	96,991	5.22%	94,163	2.32%
Equity securities, at market	13,945	12.57%	20,056	17.56%
Total investments	$ 110,936	100.00%	$ 114,219	100.00%

As of March 31, 2010 and December 31, 2009, we have classified $5.8 million and $2.7 million, respectively, of our bond portfolio as held-to-maturity. We only classify bonds as held-to-maturity to support securitization of credit requirements. Fully funded trust agreements or outstanding irrevocable letters of credit, used for such purposes, total $3.1 million for the period ended March 31, 2010 and December 31, 2009, respectively.

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

Cash and Short-Term Investments

Cash and short-term investments, which include cash, certificates of deposits, and money market accounts, increased $24.8 million, or 88.0%, to $53.0 million as of March 31, 2010, compared with $28.2 million as of December 31, 2009. The increase in cash and short-term investments is from normal portfolio turnover where in investments were sold; we are currently evaluating long and short-term investment options for the best yields that match our liquidity needs.

Prepaid Reinsurance Premiums

Prepaid reinsurance premiums decreased $4.2 million, or 40.5%, to $6.1 million as of March 31, 2010, compared with $10.3 million as of December 31, 2009. The change is due to our payments and amortization of prepaid reinsurance premiums associated with our homeowners' insurance book of business. We believe concentrations of credit risk associated with our prepaid reinsurance premiums are not significant.

Premiums Receivable, Net of Allowance for Credit Losses

Premiums receivable, net of allowance for credit losses, decreased $4.0 million, or 38.8%, to $6.3 million as of March 31, 2010, compared with $10.3 million as of December 31, 2009.

Our homeowners' insurance premiums receivable decreased $5.0 million, or 55.6%, to $4.0 million as of March 31, 2010, compared with $9.0 million as of December 31, 2009. The balance at December 31, 2009 included $5.4 million receivable in connection with our Citizens' assumed policies.

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

Our commercial general liability insurance premiums receivable increased $0.1 million, or 17.4%, to $1.0 million as of March 31, 2010, compared with $0.9 million as of December 31, 2009.

Premiums receivable in connection with our automobile line of business increased $0.9 million, or 199.1%, to $1.4 million as of March 31, 2010, compared with $0.5 million as of December 31, 2009.

Our allowance for credit losses remained unchanged at less than $0.1 million as of March 31, 2010, compared with as of December 31, 2009.

Reinsurance Recoverable, net

Reinsurance recoverable, net, decreased $2.2 million, or 14.6%, to $13.1 million as of March 31, 2010, compared with $15.3 million as of December 31, 2009. The change is due to payment patterns by our reinsurers. 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 increased $0.3 million, or 3.6%, to $8.6 million as of March 31, 2010, compared with $8.3 million as of December 31, 2009. The change is due to increased homeowner's direct written and unearned premium.

Deferred Income Taxes, net

Deferred income taxes, net, increased $0.3 million, or 7.2%, to $5.0 million as of March 31, 2010, compared with $4.7 million as of December 31, 2009. Deferred income taxes, net is comprised of approximately $6.8 million and $9.1 million of deferred tax assets, net of approximately $2.1 million and $4.4 million of deferred tax liabilities as of March 31, 2010 and December 31, 2009, respectively.

Income Taxes Receivable

Income taxes receivable increased $0.6 million, or 8.7%, to $7.7 million as of March 31, 2010, compared with $7.1 million as of December 31, 2009. The change is due to tax payment patterns in connection with our tax liabilities.

Property, Plant and Equipment, net

Property, plant and equipment, net, increased $0.1 million, or 17.2%, to $1.0 million as of March 31, 2010 compared with $0.9 million as of December 31, 2009.

Other Assets

Other assets decreased $0.8 million, or 22.3%, to $2.9 million as of March 31, 2010, compared with $3.7 million as of December 31, 2009. Major components of other assets are shown in the following table; the accrued interest income receivable is primarily investment related.

	March 31, 2010	December 31, 2009

	(Dollars in Thousands)	
Accrued interest income receivable	$ 1,129	$ 1,162
Notes receivable	477	599
Deposits	346	334
Prepaid expenses	531	644
Receivable for investments sold	-	567
Other	368	365
Total	$ 2,851	$ 3,671

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

Unpaid Losses and LAE

Unpaid losses and LAE decreased $2.4 million, or 3.3%, to $68.2 million as of March 31, 2010, compared with $70.6 million as of December 31, 2009. The composition of unpaid losses and LAE by product line is as follows.

	March 31, 2010			December 31, 2009		
	Case	Bulk	Total	Case	Bulk	Total
	(Dollars in Thousands)			(Dollars in Thousands)		
Homeowners'	$ 8,579	$ 19,048	$ 27,627	$ 8,705	$ 21,103	$ 29,808
Commercial General Liability	8,023	28,741	36,764	7,885	29,346	37,231
Automobile	2,876	981	3,857	2,612	960	3,572
Total	$ 19,478	$ 48,770	$ 68,248	$ 19,202	$ 51,409	$ 70,611

Factors that affect unpaid losses and LAE include the estimates made on a claim-by-claim basis known as "case reserves" coupled with bulk estimates known as 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.

Unearned Premium

Unearned premiums increased $2.0 million, or 4.0%, to $52.9 million as of March 31, 2010, compared with $50.9 million as of December 31, 2009. The change was due to a $1.0 million increase in unearned homeowners' insurance premiums, a $0.1 million decrease in unearned commercial general liability premiums, a less than $0.1 million decrease in unearned flood insurance premiums, and a $1.2 million increase in unearned automobile premiums. Generally, as is in this case, an increase in unearned premium directly relates to an increase 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 $1.1 million, or 51.2%, to $3.2 million as of March 31, 2010, compared with $2.1 million as of December 31, 2009. Premium deposits are monies received on policies not yet in-force as of March 31, 2010.

Bank Overdraft

Bank overdraft increased $9.8 million, or 119.2%, to $18.1 million as of March 31, 2010, compared with $8.3 million as of December 31, 2009. The bank overdraft relates primarily to losses and LAE disbursements paid but not presented for payment by the policyholder or vendor. The change relates to our payment patterns in relationship to the rate at which those cash disbursements are presented to the bank for payment.

Deferred Gain from Sale of Property

Deferred gain from sale of property decreased $0.1 million, or 12.3%, to $0.9 million as of March 31, 2010, compared with $1.0 million as of December 31, 2009. In accordance with the provisions of FASB issued guidance, we are amortizing the deferred gain over the term of the leaseback, which is scheduled to end in December 2011.

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

Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses increased $3.0 million, or 117.5%, to $5.6 million as of March 31, 2010, compared with $2.6 million as of December 31, 2009. The March 31, 2010 balance includes $2.0 million due to Citizen's in connection with the cancellation of policies assumed during 2009.

Results of Operations
Three Months Ended March 31, 2010 Compared with Three Months Ended March 31, 2009

Gross Premiums Written

Gross premiums written decreased $1.4 million, or 5.0%, to $27.0 million for the three months ended March 31, 2010, compared with $28.4 million for the three months ended March 31, 2009. The following table denotes gross premiums written by major product line.

	Three Months Ended March 31,			
	2010		2009	
	(Dollars in Thousands)			
	Amount	Percentage	Amount	Percentage
Homeowners'	$ 21,098	78.08%	$ 23,028	80.99%
Commercial General Liability	3,499	12.95%	4,523	15.91%
Federal Flood	810	3.00%	736	2.59%
Automobile	1,614	5.97%	144	0.51%
Gross written premiums	$ 27,021	100.00%	$ 28,431	100.00%

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

On April 16, 2010, Federated National announced it received approval for a premium rate increase for its assumed homeowner's program from Citizens within the state of Florida, by Florida's OIR. The premium rate increase, which averaged approximately fifteen percent, will be deployed on Citizens take-out policies only with an effective date of July 1, 2010.

We continue to afford premium discounts in response to wind mitigation efforts by policyholders. Such discounts, which were required by the Florida Legislature and became effective on December 15, 2007 for new and renewal business, have also had a significant effect on both written and earned premium. During the three months ended March 31, 2010 and 2009, wind mitigation credits totaling $1.2 million and $4.0 million were afforded our policyholders, respectively. As of March 31, 2010, 58.9% of our in-force homeowners' policyholders were receiving wind mitigation credits totaling approximately $28.8 million, (a 25.6% reduction of in-force premium), while 56.4 % of our in-force homeowners' policyholders were receiving wind mitigation credits totaling approximately $19.1million, (a 24.6 % reduction of in-force premium), as of March 31, 2009.

Due in part to the effects of Florida's mandated homeowners' rates reduction and wind mitigation discounts, the Company's sale of homeowners' policies decreased $1.9 million, or 8.4%, to $21.1 million for the three months ended March 31, 2010, compared with $23.0 million for the three months ended March 31, 2009, gross of reinsurance costs. Our number of in-force homeowners' policies increased by approximately 10,900, or 28.0%, to approximately 50,400 as of March 31, 2010, as compared to approximately 39,500 as of March 31, 2009.

We are required to report write-your-own flood premiums on a direct and 100% ceded basis for the twelve months ended December 31, 2008 and subsequent periods. Prior to 2008, we reported only the commissions income associated with this program.

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

Federated National and American Vehicle are currently rated by Demotech as "A" ("Exceptional"), which is the third of seven ratings, and defined as "Regardless of the severity of a general economic downturn or deterioration in the insurance cycle, insurers earning a 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. However, our Demotech rating could be jeopardized by such other factors including adverse development and various surplus related ratio exceptions. On March 31, 2010, Demotech reaffirmed Federated National's FSR of "A" ("Exceptional") subject to a $10.0 million infusion of capital into Federated National.

This infusion was completed effective March 31, 2010 and was in the form of a $5.0 million capital contribution from the Company and a $5.0 million loan from American Vehicle to Federated National evidenced by a $5.0 million subordinated surplus debenture due from Federated National to American Vehicle. The capital infusion was approved by the Florida OIR, and Demotech reaffirmed Federated National's "A" rating, also on March 31, 2010. 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 $1.0 million to $3.5 million for the three months ended March 31, 2010, compared with $4.5 million for the three months ended March 31, 2009. The primary factor for the decrease is a slowdown in the economy which has a dramatic impact on the artisan contractor portfolio written by American Vehicle. An additional factor is our decision to restrict underwriting authority within specific commercial general liability classes and geographic areas. The following table sets forth the amounts and percentages of our gross premiums written in connection with our commercial general liability program by state.

	Three Months Ended March 31,			
	2010		2009	
	Amount	Percentage	Amount	Percentage
	(Dollars in Thousands)			
State				
Alabama	$ 17	0.48%	$ 24	0.53%
Arkansas	1	0.02%	1	0.02%
California	0	0.01%	45	0.99%
Florida	2,923	83.56%	3,412	75.44%
Georgia	19	0.54%	86	1.90%
Louisiana	374	10.68%	792	17.51%
Oklahoma	1	0.02%	-	0.00%
South Carolina	2	0.05%	1	0.03%
Texas	162	4.64%	162	3.58%
Total	$ 3,499	100.00%	$ 4,523	100.00%

The Company's sale of auto insurance policies increased by $1.5 million to $1.6 million for the three months ended March 31, 2010, compared with $0.1 million for the three months ended March 31, 2009.

Gross Premiums Ceded

Gross premiums ceded increased to $0.9 million for the three months ended March 31, 2010, compared with $0.3 million for the three months ended March 31, 2009. Gross premiums ceded under the write-your-own flood program totaled $0.8 million for the three months ended March 31, 2010.

Decrease in Prepaid Reinsurance Premiums

The decrease in prepaid reinsurance premiums was $13.1 million for the three months ended March 31, 2010, compared with $8.1 million for the three months ended March 31, 2009. The increased charge to written premium is primarily associated with the timing of our reinsurance payments measured against the term of the underlying reinsurance policies.

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

Increase in Unearned Premiums

The increase in unearned premiums was $2.0 million for the three months ended March 31, 2010, compared with $6.1 million for the three months ended March 31, 2009. The change was due to a $1.0 million increase in unearned homeowners' insurance premiums, a $0.1 million decrease in unearned commercial general liability premiums, a $1.2 million increase in unearned automobile premiums, net of a $0.1 million decrease in unearned flood premiums during the three months ended March 31, 2010. These changes are a result of differences in written premium volume during this period as compared with the same period last year. See Gross Premiums Written.

Net Premiums Earned

Net premiums earned decreased $2.9 million, or 20.8%, to $11.0 million for the three months ended March 31, 2010, compared with $13.9 million for the three months ended March 31, 2009. The following table denotes net premiums earned by product line.

	Three Months Ended March 31,			
	2010		2009	
	Amount	Percentage	Amount	Percentage
	(Dollars in Thousands)			
Homeowners'	$ 7,027	63.79%	$ 8,276	59.52%
Commercial General Liability	3,595	32.63%	5,526	39.74%
Automobile	394	3.58%	103	0.74%
Net premiums earned	$ 11,016	100.00%	$ 13,905	100.00%

The change in homeowners' net premiums earned is due to a $1.9 million decrease in gross written premium, a $0.5 million change in gross premiums ceded and a $1.2 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 decreased premium volume. The primary factor for the decrease in premium volume is a slowdown in the economy which has a dramatic impact on the artisan contractor portfolio written by American Vehicle. An additional factor is our decision to restrict underwriting authority within specific commercial general liability classes and geographic areas.

The change in automobile net premiums earned is a result of a $1.5 million increase in gross written premium, net a $1.2 million increase in the change to unearned premium.

Commission Income

Commission income increased $0.2 million, or 62.3%, to $0.4 million for the three months ended March 31, 2010, compared with $0.2 million for the three months ended March 31, 2009. The primary sources of our commission income are in connection with 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 37.3%, to $0.9 million for the three months ended March 31, 2010, compared with $0.7 million for three months ended March 31, 2009. Our investment yield, net and gross of investment expenses, were 2.7% and 2.9%, respectively for the three months ended March 31, 2010. Our investment yield, net of investment expenses were 1.7% for the three months ended March 31, 2009.

Our investment yield, net and gross of investment expenses measured against debt securities, excluding cash, were 3.9% and 4.1%, respectively for the three months ended March 31, 2010. Our investment yield, net and gross of investment expenses measured against debt securities, excluding cash, were 3.6% and 3.9%, respectively for the three months ended March 31, 2009.

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

See additional discussion within the above "Analysis of Financial Condition As of March 31, 2010 Compared with December 31, 2009– Investments".

Net Realized Investment Gains (Losses)

Net realized investment gains were $2.2 million for the three months ended March 31, 2010, compared with net realized investment losses of $0.5 million for the three months ended March 31, 2009. Realized investment gains recognized for the three months ended March 31, 2010 were a result of portfolio turnover.

During the three months ended March 31, 2010, we did not mark any equity investments to market value pursuant to guidelines prescribed in FASB issued guidance. In reaching a conclusion that a security is either other than temporarily or permanently impaired we consider such factors as the timeliness and completeness of expected dividends, principal and interest payments, ratings from nationally recognized statistical rating organizations such as Standard and Poor's and Moody's, as well as information released via the general media channels. During the three months ended March 31, 2009, we did not mark any equity investments to market value.

The table below depicts the net realized investment gains (losses) by investment category during the three months ended March 31, 2010 and 2009.

	Three Months Ended March 31,	
	2010	2009
	(Dollars in Thousands)	
Realized gains:		
Debt securities	$ 348	$ 90
Equity securities	2,093	10
Total realized gains	2,441	100
Realized losses:		
Debt securities	(25)	(340)
Equity securities	(191)	(297)
Total realized losses	(216)	(637)
Net realized gains (losses) on investments	$ 2,225	$ (537)

Regulatory Assessments Recovered

Regulatory assessments recovered remained unchanged at $0.5 million for the three months ended March 31, 2010, compared with $0.5 million for the three months ended March 31, 2009.

Other Income

Other income decreased $0.2 million, or 56.2%, to $0.1 million for the three months ended March 31, 2010, compared with $0.3 million for the three months ended March 31, 2009.

The major component of other income for the three months ended March 31, 2010 is approximately $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 increased by $0.2 million, or 2.2%, to $9.1 million for the three months ended March 31, 2010, compared with $8.9 million for the three months ended March 31, 2009. The overall change includes a $1.3 million increase in our homeowners' program, a $1.4 million decrease in our commercial general liability program and a $0.3 million increase in connection with our automobile program.

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

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

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

	March 31, 2010			December 31, 2009		
	Case	Bulk	Total	Case	Bulk	Total
	(Dollars in Thousands)			(Dollars in Thousands)		
Homeowners'	$ 8,579	$ 19,048	$ 27,627	$ 8,705	$ 21,103	$ 29,808
Commercial General Liability	8,023	28,741	36,764	7,885	29,346	37,231
Automobile	2,876	981	3,857	2,612	960	3,572
Total	$ 19,478	$ 48,770	$ 68,248	$ 19,202	$ 51,409	$ 70,611

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

Management revises its estimates based on the results of its analysis. This process assumes that experience, adjusted for the effects of current developments and anticipated trends, is an appropriate basis for estimating the ultimate settlement of all claims. There is no precise method for subsequently evaluating the impact of any specific factor on the adequacy of the reserves, because the eventual redundancy or deficiency is affected by multiple factors. Because of our process, reserves were decreased by approximately $2.4 million during the three months ended March 31, 2010.

In accordance with GAAP, our loss ratio is computed as losses and LAE divided by net premiums earned. A lower loss ratio generally results in higher operating income. Our loss ratio for the three-month period ended March 31, 2010 was 81.5% compared with 63.8% for the same period in 2009. The table below reflects the loss ratios by product line.

	Three Months Ended March 31,	
	2010	2009
Homeowners'	90.24%	62.01%
Commercial General Liability	63.47%	65.98%
Fire	14.34%	0.00%
Inland Marine	48.75%	0.00%
Automobile	120.63%	91.01%
All lines	81.49%	63.81%

Operating and Underwriting Expenses

Operating and underwriting expenses increased $0.7 million, or 39.1%, to $2.7 million for the three months ended March 31, 2010, compared with $2.0 million for the three months ended March 31, 2009. The change is partially due to a $0.1 million increase in actuarial fees, a $0.1 million increase in bad debts expense, a $0.1 million increase in investment expenses, a $0.1 million increase in boards and bureaus expense and a $0.2 million increase in premium tax expense.

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

Salaries and Wages

Salaries and wages increased $0.2 million, or 8.6%, to $2.1 million for the three months ended March 31, 2010, compared with $1.9 million for the three months ended March 31, 2009.

The charge to operations for stock based compensation, in accordance with the provisions of FASB issued guidance, was approximately $96,000 during the three months ended March 31, 2010 compared with approximately $120,000 for the three months ended March 31, 2009.

Policy Acquisition Costs, Net of Amortization

Policy acquisition costs, net of amortization, increased $0.8 million, or 26.1%, to $3.5 million for the three months ended March 31, 2010, compared with $2.7 million for the three months ended March 31, 2009.

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

The increase to policy acquisition costs, net of amortization, is primarily due to commissions related to our voluntary homeowners' gross written premium which increased $6.9 million, or 44.0%, to $22.7 million for the three months ended March 31, 2010, compared with $15.8 million for the three months ended March 31, 2009.

Provision for Income Tax Benefit

The provision for income tax benefit was $0.6 million for the three months ended March 31, 2010, compared with $0.1 million for the three months ended March 31, 2009. The effective rate for income taxes was 39.5% for the three months ended March 31, 2010.

Net (Loss) Income

As a result of the foregoing, the Company's net loss for the three months ended March 31, 2010, was $0.9 million compared with net income of $0.3 million for the three months ended March 31, 2009.

Liquidity and Capital Resources

During the three months ended March 31, 2010, our primary sources of capital included proceeds from the sale of investment securities, increased bank overdrafts, decreased prepaid reinsurance premiums, decreased premiums receivable, increased accounts payable and accrued expenses and decreased reinsurance recoverable. Additional sources of capital included increased unearned premiums, increased premium deposits and customer credit balances, decreased other assets, amortization of investment premium, non-cash compensation and depreciation and amortization.

During the three months ended March 31, 2010, operations provided net operating cash flow of $21.0 million, compared with $0.8 million for the three months ended March 31, 2009.

During the three months ended March 31, 2010, operations generated $27.5 million of gross cash flow, due to a $9.8 million increase in bank overdraft, a $4.2 million decrease in prepaid reinsurance premiums, a $4.1 million decrease in premiums receivable, a $3.0 million increase in accounts payable and accrued expenses and a $2.2 million decrease in reinsurance recoverable. Additional sources of cash included a $2.0 million increase in unearned premiums, a $1.1 million increase in premium deposits and customer credit balances, a $0.7 million decrease in other assets, $0.2 million of amortization of investment premium, net, $0.1 million of non-cash compensation and $0.1 million of depreciation and amortization.

During the three months ended March 31, 2010, operations used $6.5 million of gross cash flow primarily due to a $2.3 million decrease in unpaid losses and LAE, $2.2 million of net realized investment gains and a $0.6 million increase in income taxes recoverable. Additional uses of cash included a $0.3 million increase in policy acquisition costs net of amortization, a less than $0.1 million increase in the recovery for uncollectible premiums receivable and a less than $0.1 million decrease in deferred income tax expense, all in conjunction with a net loss of $0.9 million.

During the three months ended March 31, 2010, net cash provided by investing activities was $4.2 million, compared with net cash used by investment activities of $46.1 million during the three months ended March 31, 2009. Our available-for-sale investment portfolio is highly liquid as it consists entirely of readily marketable securities. During the three months ended March 31, 2010, investing activities generated $31.1 million and used $26.9 million.

During the three months ended March 31, 2010, net financing activities used $0.4 million, as compared with $0.5 million during the three months ended March 31, 2009. In 2010, the sources of cash in connection with financing activities included a less than $0.1 million tax benefit related to non-cash compensation. The uses of cash in connection with financing activities included $0.5 million in dividends paid.

During the three months ended March 31, 2010 and in connection with Florida OIR approval of the capital infusion during the quarter from American Vehicle to Federated National, the Company's Board of Directors determined to temporarily suspend payment of dividends on the Company's common stock (see "Results of Operations—Three Month Ended March 31, 2010 Compared with Three Months Ended March 31, 2009—Gross Premiums Written"). As a result of this infusion from American Vehicle, the Company is currently working with the Florida OIR to establish the parameters for the resumption of the Company's common stock dividends.

We offer direct billing in connection with our automobile and homeowner programs. Direct billing is an agreement in which the insurance company accepts from the insured, as a receivable, a promise to pay the premium, as opposed to requiring the full amount of the policy at policy inception, either directly from the insured or from a premium finance company. The advantage of direct billing a policyholder by the insurance company is that we are not reliant on a credit facility, but remain able to charge and collect interest from the policyholder.

We believe that our current capital resources will be sufficient to meet currently anticipated working capital requirements. There can be no assurances, however, that such will be the case.

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

Impact of Inflation and Changing Prices

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

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

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, which further restrict the type, quality and concentration of investments. In general, these laws and regulations permit investments, within specified limits and subject to certain qualifications, in federal, state and municipal obligations, corporate bonds, preferred and common equity securities and real estate mortgages.

Our investment policy is established by the Board of Directors Investment Committee and is reviewed on a regular basis. Pursuant to this investment policy, as of March 31, 2010, approximately 91% 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 March 31, 2010 and December 31, 2009.

	March 31, 2010		December 31, 2009	
	Carrying Amount	Percent of Total	Carrying Amount	Percent of Total
	(Dollars in Thousands)			
Debt securities, at market:				
United States government obligations and authorities	$ 6,369	5.74%	$ 10,152	8.89%
Obligations of states and political subdivisions	28,780	25.94%	39,269	34.38%
Corporate	55,351	49.90%	42,092	36.85%
International	701	0.63%	-	0.00%
	91,201	82.21%	91,513	80.12%
Debt securities, at amortized cost:				
United States government obligations and authorities	5,790	5.22%	2,650	2.32%
Total debt securities	96,991	5.22%	94,163	2.32%
Equity securities, at market	13,945	12.57%	20,056	17.56%
Total investments	$ 110,936	100.00%	$ 114,219	100.00%

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 March 31, 2010 and December 31, 2009, debt securities had the following quality ratings by Moody's and for securities not assigned a rating by Moody's, Standard and Poor's Company or Fitch ratings were used.

	March 31, 2010		December 31, 2009	
	Carrying Amount	Percent of Total	Carrying Amount	Percent of Total
	(Dollars in Thousands)			
AAA	$ 34,296	35.37%	$ 40,390	42.90%
AA	18,379	18.95%	18,619	19.77%
A	33,776	34.82%	24,286	25.79%
BBB	10,004	10.31%	9,954	10.57%
BB++	-	0.00%	-	0.00%
Not rated	536	0.55%	914	0.97%
	$ 96,991	100.00%	$ 94,163	100.00%

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

	March 31, 2010		December 31, 2009	
	Carrying Amount	Percent of Total	Carrying Amount	Percent of Total
	(Dollars in Thousands)			
Matures In:				
One year or less	$ 5,739	5.92%	$ 1,615	1.72%
One year to five years	49,718	51.26%	50,781	53.93%
Five years to 10 years	33,165	34.19%	27,178	28.86%
More than 10 years	8,369	8.63%	14,589	15.49%
Total debt securities	$ 96,991	100.00%	$ 94,163	100.00%

At March 31, 2010, the weighted average maturity of the debt portfolio was approximately 6.0 years.

21st Century Holding Company

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

	2010	2011	2012	2013	2014	2015	Thereafter	Total	Carrying Amount
					(Dollars in Thousands)				
Principal amount by expected maturity:									
United States government obligations and authorities	$ -	$ 3,260	$ 2,965	$ 2,500	$ 500	$ -	$ 2,926	$ 12,151	$ 12,160
Obligations of states and political subdivisions	3,225	2,495	3,390	3,250	2,690	900	10,600	26,550	28,780
Corporate securities	200	4,100	10,400	2,075	6,214	150	23,170	46,309	55,351
International securities	-	-	200	-	121	145	200	666	701
Collateralized mortgage obligations	-	-	4,034	796	-	-	-	4,830	-
Equity securities, at market	-	-	-	-	-	-	-	-	13,945
All investments	$ 3,425	$ 9,855	$ 20,989	$ 8,621	$ 9,525	$ 1,195	$ 36,896	$ 90,506	$ 110,937
Weighted average interest rate by expected maturity:									
United States government obligations and authorities	0.00%	1.28%	3.40%	3.66%	1.75%	0.00%	3.42%	2.82%	
Obligations of states and political subdivisions	5.39%	5.25%	5.37%	4.77%	4.84%	5.00%	5.36%	5.22%	
Corporate securities	7.25%	4.23%	3.24%	4.03%	5.40%	5.20%	6.52%	5.32%	
	0.00%	0.00%	4.50%	0.00%	4.10%	4.50%	5.00%	4.58%	

International securities								
Collateralized mortgage obligations	0.00%	0.00%	5.50%	5.50%	0.00%	0.00%	0.00%	5.50%
Equity securities, at market	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
All investments	5.50%	3.51%	4.05%	4.34%	5.03%	4.96%	5.93%	4.96%

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 March 31, 2010. Based upon their evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures, as of March 31, 2010, 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 quarter that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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, 2009.

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, 2009 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

(a) Unregistered Sales of Equity Securities and Use of Proceeds

During the three months ended March 31, 2010, we have issued an aggregate of 30,000 options to executives of the Company under our 2002 stock option plan. The options have an exercise price of $4.36 per share, vest over five 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)

None

Item 5

Other Information

None

21st Century Holding Company

Item 6

Exhibits

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. *

*Filed herewith

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 Officer)

Date: May 17, 2010

21st Century Holding Company

EXHIBIT INDEX

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.