21ST CENTURY HOLDING CO
Form 10-Q
August 10, 2009

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

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

FOR THE QUARTERLY PERIOD ENDED June 30, 2009
OR

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

FOR THE TRANSITION PERIOD FROM ___________________TO _______________________

Commission File number 0-2500111

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

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

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

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

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

Yes x No ¨

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

Yes ¨ No ¨

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

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

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

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

Common Stock, $.01 par value – 8,013,894 outstanding as of August 10, 2009

21ST CENTURY HOLDING COMPANY

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PART I: FINANCIAL INFORMATION
Item 1

21st CENTURY HOLDING COMPANY
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	Period Ending	
	June 30, 2009	December 31, 2008
	(Dollars in Thousands)	
ASSETS		
Investments		
Debt maturities, available for sale, at fair value	$ 90,172	$ 9,429
Debt maturities, held to maturity, at amortized cost	3,527	13,496
Equity securities, available for sale, at fair value	10,195	3,140
Total investments	103,894	26,065
Cash and short term investments	63,236	124,577
Prepaid reinsurance premiums	1,141	5,537
Premiums receivable, net of allowance for credit losses of $52 and $122, respectively	4,561	3,353
Reinsurance recoverable, net of allowance for credit losses of $0 and $226, respectively	18,879	16,880
Deferred policy acquisition costs	9,849	6,558
Deferred income taxes, net	7,434	8,530
Income taxes receivable	2,889	2,275
Property, plant and equipment, net	770	855
Other assets	3,527	2,472
Total assets	$ 216,180	$ 197,102
LIABILITIES AND SHAREHOLDERS' EQUITY		
Unpaid losses and LAE	$ 67,772	$ 64,775
Unearned premiums	56,690	40,508
Premiums deposits and customer credit balances	2,025	1,700
Bank overdraft	8,391	8,694
Deferred gain from sale of property	1,251	1,495
Accounts payable and accrued expenses	2,448	3,699
Total liabilities	138,577	120,871
Shareholders' equity:		
Common stock, $0.01 par value. Authorized 25,000,000 shares; issued and outstanding 8,013,894 and 8,013,894, respectively.	80	80
Preferred stock, $0.01 par value. Authorized 1,000,000 shares; none issued or outstanding	-	-
Additional paid-in capital	50,259	49,979

Accumulated other comprehensive (deficit)	(221)	(1,187)
Retained earnings	27,485	27,359
Total shareholders' equity	77,603	76,231
Total liabilities and shareholders' equity	$ 216,180	$ 197,102

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
	(Dollars in Thousands except EPS and dividend data)		(Dollars in Thousands except EPS and dividend data)	
Revenue:				
Gross premiums written	$ 33,601	$ 27,241	$ 62,032	$ 54,844
Gross premiums ceded	(19,588)	(8,233)	(19,916)	(8,233)
Net premiums written	14,013	19,008	42,116	46,611
Increase (Decrease) in prepaid reinsurance premiums	10,305	(2,366)	2,236	(13,520)
(Increase) Decrease in unearned premiums	(10,053)	(1,183)	(16,182)	973
Net change in prepaid reinsurance premiums and unearned premiums	252	(3,549)	(13,946)	(12,547)
Net premiums earned	14,265	15,459	28,169	34,066
Commission income	383	964	621	1,082
Finance revenue	91	92	174	177
Managing general agent fees	478	530	909	1,029
Net investment income	584	1,899	1,229	3,775
Net realized investment gains (losses)	69	(4,664)	(468)	(6,313)
Regulatory assessments recovered	1,188	912	1,736	1,234
Other income	70	235	382	419
Total revenue	17,128	15,427	32,752	35,469
Expenses:				
Losses and LAE	8,974	12,494	17,848	20,368
Operating and underwriting expenses	2,308	1,473	4,224	3,029
Salaries and wages	1,897	1,763	3,806	3,521
Policy acquisition costs, net of amortization	2,915	3,787	5,659	7,623
Total expenses	16,094	19,517	31,537	34,541
Income before provision for income tax expense (benefit)	1,034	(4,090)	1,215	928
Provision for income tax expense (benefit)	250	(1,590)	128	(881)

Net income (loss)	$	784	$	(2,500)	$	1,087	$	1,809
Basic net income (loss) per share	$	0.10	$	(0.31)	$	0.14	$	0.23
Fully diluted net income (loss) per share	$	0.10	$	(0.31)	$	0.14	$	0.23
Weighted average number of common shares outstanding		8,013,894		7,974,053		8,013,894		7,944,305
Weighted average number of common shares outstanding (assuming dilution)		8,013,894		7,974,053		8,013,894		7,975,057
Dividends paid per share	$	0.06	$	0.18	$	0.24	$	0.36

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
	(Dollars in Thousands)	
Cash flow from operating activities:		
Net income	$ 1,087	$ 1,809
Adjustments to reconcile net income to net cash provided by (used) operating activities:		
Amortization of investment discount, net	(233)	(106)
Depreciation and amortization of property plant and equipment, net	94	166
Net realized investment losses	(468)	(6,314)
Provision (recovery) for credit losses, net	26	(7)
Provision for uncollectible premiums receivable	70	50
Non-cash compensation	229	503
Changes in operating assets and liabilities:		
Premiums receivable	(1,278)	(1,417)
Prepaid reinsurance premiums	4,396	7,680
Reinsurance recoverable, net	(1,999)	6,146
Income taxes recoverable	(614)	(1,710)
Deferred income tax expense	1,096	(2,515)
Policy acquisition costs, net of amortization	(3,290)	152
Premium finance contracts receivable	-	226
Other assets	(1,324)	(223)
Unpaid losses and LAE	2,996	(1,337)
Unearned premiums	16,182	(973)
Premium deposits and customer credit balances	325	(620)
Income taxes payable	-	(4,226)
Bank overdraft	(302)	321
Accounts payable and accrued expenses	(1,252)	(1,230)
Net cash provided by (used) operating activities	15,741	(3,625)
Cash flow (used) provided by investing activities:		
Proceeds from sale of investment securities	26,966	81,595
Purchases of investment securities available for sale	(103,128)	(34,830)
Purchases of property and equipment	(9)	(42)
Net cash (used) provided by investing activities	(76,171)	46,723
Cash flow (used) by financing activities:		
Exercised stock options	-	1,337
Dividends paid	(962)	(2,814)
Acquisition of Common Stock	-	(144)
Tax benefit (provision) related to non-cash compensation	51	(207)
Net cash (used) by financing activities	(911)	(1,828)
Net (decrease) increase in cash and short term investments	(61,341)	41,270
Cash and short term investments at beginning of period	124,577	22,524
Cash and short term investments at end of period	$ 63,236	$ 63,794

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(continued)	Six Months Ended June 30, 2009	2008
	(Dollars in Thousands)	
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income taxes	$ 178	$ 8,125
Non-cash investing and finance activities:		
Accrued dividends payable	$ 481	$ 1,445

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

21st Century Holding Company
Notes to Consolidated Financial Statements

(1) Organization and Business

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

21st Century is an insurance holding company. Through our subsidiaries and contractual relationships we control substantially all aspects of the insurance underwriting, distribution and claims processes for most products offered . We are authorized to underwrite homeowners’ multiple peril, commercial general liability, personal and commercial automobile, fire, allied lines, surety, commercial multi-peril and inland marine in various states on behalf of our wholly owned subsidiaries, Federated National Insurance Company (“Federated National”) and American Vehicle Insurance Company (“American Vehicle”).

Federated National is licensed as an admitted carrier in Florida. Through contractual relationships with a network of approximately 1,500 independent and a select number of general agents, Federated National is authorized to underwrite fire, allied lines, personal automobile, and homeowners’ multi-peril insurance in Florida.

American Vehicle is licensed as an admitted carrier in Alabama, Florida, Louisiana and Texas, and is authorized to underwrite homeowners’ multi-peril, commercial multi-peril, inland marine, surety and personal and commercial automobile insurance in Florida as an admitted carrier. American Vehicle is licensed as a non-admitted carrier in Arkansas, California, Georgia, Kentucky, Maryland, Missouri, Nevada, Oklahoma, South Carolina, Tennessee, and Virginia, and is authorized to underwrite commercial general liability insurance in all of these states. We will continue to deploy commercial general liability and other commercial insurance products into new states. This expansion will be achieved primarily through partnerships with other insurance companies that hold appropriate licensing and product offerings. New partnerships formed in 2009 will enable us to deploy products for which we have a risk appetite, and those products that will be deployed to capture fee income.

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. 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 six months ended June 30, 2009, 83.3%, 13.6%, 2.8% and 0.3% of the premiums we underwrote were for homeowners’ property and casualty insurance, commercial general liability insurance, federal flood, and personal automobile insurance, respectively. During the six months ended June 30, 2008, 72.8%, 26.6% and 0.6% of the premiums we underwrote were for homeowners’ property and casualty insurance, commercial general liability insurance and personal automobile insurance, respectively.

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

Assurance Managing General Agents, Inc. (“Assurance MGA”), a wholly owned subsidiary, acts as Federated National’s and American Vehicle’s exclusive managing general agent in the state of Florida and is also licensed as a managing general agent in the states of Alabama, Arkansas, Georgia, Illinois, Louisiana, Mississippi, Missouri, New York, Nevada, Texas and Virginia. During the first six months of 2009, Assurance MGA contracted with two third party insurance companies to sell commercial general liability, workers compensation and inland marine through Assurance MGA’s existing network of distributors. This process will continue throughout 2009 as Assurance MGA benefits from the arrangement by receiving commission revenue from policies sold by its insurance partners, while minimizing its risks.

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 to the public to serve all of their insurance needs. Insure-Link will expand its’ business through marketing and by acquiring other insurance agencies.

(2) Basis of Presentation

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

(3) Summary of Significant Accounting Policies and Practices

(A) Critical Accounting Policies

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

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

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

21st Century Holding Company
Notes to Consolidated Financial Statements

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

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

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

We are required to review the contractual terms of all our reinsurance purchases to ensure compliance with SFAS Number 113, Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts (SFAS No. 113"). The statement establishes the conditions required for a contract with a reinsurer to be accounted for as reinsurance and prescribes accounting and reporting standards for those contracts. Contracts that do not result in the reasonable possibility that the reinsurer may realize a significant loss from the insurance risk assumed generally do not meet the conditions for reinsurance accounting and must be accounted for as deposits. SFAS No. 113 also requires us to disclose the nature, purpose and effect of reinsurance transactions, including the premium amounts associated with reinsurance assumed and ceded. It also requires disclosure of concentrations of credit risk associated with reinsurance receivables and prepaid reinsurance premiums.

21st Century Holding Company
Notes to Consolidated Financial Statements

(B) Impact of New Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board "(FASB") issued Statement of Financial Accounting Standards ("SFAS") 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162" ("SFAS No. 168"). SFAS No. 168 provides for the FASB Accounting Standards Codification (the "Codification") to become the single official source of authoritative, nongovernmental U.S. generally accepted accounting principles (GAAP). The Codification did not change GAAP but reorganizes the literature. SFAS No. 168 is effective for interim and annual periods ending after September 15, 2009.

In May 2009, FASB issued SFAS Number 165, "Subsequent Events" ("SFAS No. 165"). The objective of this Statement is to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are