

21st Century Holding Company TCHC (NAS)

Last Close	Industry	Sector
4.00 USD	Insurance - Property & Casualty	Financial Services

Profile

Pricing data through 19 Nov 2009

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21st Century Holding Company is an insurance holding company which, through its subsidiaries and its contractual relationships with its independent agents and general agents, controls nearly all aspects of the insurance underwriting, distribution and claims processes. It is authorized to underwrite fire, allied lines, homeowners' property and casualty insurance, commercial general liability insurance, commercial multi-peril, inland marine, personal automobile insurance and commercial automobile insurance in various states with various lines of authority through its wholly owned subsidiaries, Federated National Insurance Company and American Vehicle Insurance Company.

Federated National is authorized to underwrite fire, allied lines, personal automobile, and homeowners' property and casualty insurance in Florida as an admitted carrier. American Vehicle is authorized to underwrite commercial multi peril, inland marine and personal and commercial automobile insurance in Florida as an admitted carrier.

21st Century Holding Company TCHC

Sales USD Mil 62 **Mkt Cap USD Mil** 32 **Industry** Insurance **Sector** Financial Services
 - Property & Casualty

21st Century Holding is the holding company for several major insurance companies, including Federated Premium Finance, Federated National Insurance Company, and Federated Agency Group. Through its subsidiaries, 21st Century Holdings underwrites standard and nonstandard personal, automobile, property, and casualty insurance, in addition to providing an array of insurance-related services.

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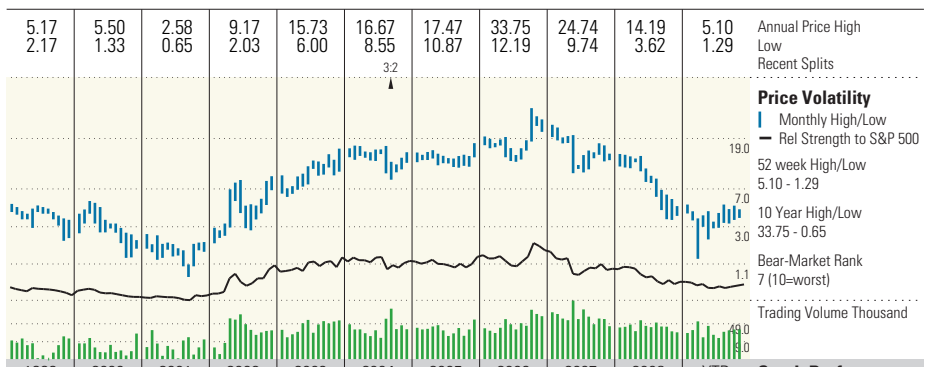
Growth Rates	Compound Annual				
	1 Yr	3 Yr	5 Yr	10 Yr	
Revenue %	-43.5	-10.7	2.3	12.5	
Operating Income %	—	—	—	—	
Earnings/Share %	—	—	—	—	
Dividends %	0.0	31.0	27.5	—	
Book Value/Share %	-4.3	14.3	8.4	12.3	
Stock Total Return %	8.2	-41.0	-12.0	7.8	
+/- Industry	-91.9	-27.1	-8.4	11.9	
+/- Market	-27.6	-33.1	-10.7	10.5	

Profitability Analysis	Current	5 Yr Avg	Ind	Mkt
	Return on Equity %	-7.3	10.1	0.2
Return on Assets %	-2.8	2.3	0.0	5.9
Revenue/Employee USD K	559.6	885.1	—	871.2

Financial Position	12-08 USD Mil	09-09 USD Mil
	Total Investments	26
Cash	125	48
Receivables	6	11
Def Policy Acquisition Cost	7	8
Accrued Inv Income	—	—
Other Assets	33	125
Total Assets	197	204
Claims Reserve	65	66
Unearned Premiums	41	46
Debt	9	11
Other Liabilities	6	6
Total Liabilities	121	129
Total Equity	76	75

Valuation Analysis	Current	5 Yr Avg	Ind	Mkt
	Price/Earnings	—	—	—
Forward P/E	—	—	—	16.4
Price/Cash Flow	—	—	5.8	7.1
Dividend Yield %	9.0	—	1.2	2.1
Price/Book	0.4	2.2	0.8	2.2
Price/Sales	0.5	1.1	0.8	1.2
PEG Ratio	—	—	—	1.8

Morningstar Rating — **Last Price** 4.00 **Fair Value** — **Uncertainty** — **Economic Moat™** — **Stewardship Grade** —
 per share prices in USD



Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	YTD	Stock Performance
Monthly High/Low	5.17 / 2.17	5.50 / 1.33	2.58 / 0.65	9.17 / 2.03	15.73 / 6.00	16.67 / 8.55	17.47 / 10.87	33.75 / 12.19	24.74 / 9.74	14.19 / 3.62	5.10 / 1.29	Annual Price High
52 week High/Low	5.10 - 1.29	5.10 - 1.29	5.10 - 1.29	5.10 - 1.29	5.10 - 1.29	5.10 - 1.29	5.10 - 1.29	5.10 - 1.29	5.10 - 1.29	5.10 - 1.29	5.10 - 1.29	Low
10 Year High/Low	33.75 - 0.65	33.75 - 0.65	33.75 - 0.65	33.75 - 0.65	33.75 - 0.65	33.75 - 0.65	33.75 - 0.65	33.75 - 0.65	33.75 - 0.65	33.75 - 0.65	33.75 - 0.65	Recent Splits
Bear-Market Rank	7 (10=worst)	7 (10=worst)	7 (10=worst)	7 (10=worst)	7 (10=worst)	7 (10=worst)	7 (10=worst)	7 (10=worst)	7 (10=worst)	7 (10=worst)	7 (10=worst)	Price Volatility
Trading Volume Thousand	49.0	49.0	49.0	49.0	49.0	49.0	49.0	49.0	49.0	49.0	49.0	Monthly High/Low
Total Return %	-41.1	-26.8	7.7	338.1	66.8	-0.6	19.4	41.6	-40.4	-60.2	-5.8	+/- Market
+/- Industry	-60.6	-16.7	20.7	361.5	40.4	-9.6	16.4	28.0	-43.9	-21.7	-27.0	+/- Industry
Dividend Yield %	—	—	—	—	—	—	—	—	—	—	—	Dividend Yield %
Market Cap USD Mil	14	10	10	41	76	88	110	184	110	37	32	Market Cap USD Mil

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	TTM	Financials
Premiums	13	20	20	29	45	66	83	89	99	65	53	Premiums
Investment Income	—	1	1	1	2	3	4	6	8	6	3	Investment Income
Fees & Other	12	16	14	10	14	7	8	9	12	-4	6	Fees & Other
Total Revenue	25	38	35	41	60	77	95	104	119	67	62	Total Revenue
Operating Income USD Mil	—	-1	-3	8	13	-21	17	22	33	-4	-8	Operating Income USD Mil
Operating Margin %	—	-2.6	-7.9	19.4	21.4	-27.6	18.1	21.1	27.4	-5.6	-13.1	Operating Margin %
Net Income	2	-1	-1	5	8	-11	12	14	21	-2	-6	Net Income
Earnings Per Share USD	0.31	-0.10	-0.21	1.01	1.67	-1.86	1.83	1.72	2.65	-0.31	-0.71	Earnings Per Share USD
Dividends USD	0.00	0.01	0.05	0.07	0.21	0.32	0.32	0.48	0.72	0.72	0.48	Dividends USD
Shares Mil	5	5	4	4	5	5	6	8	8	7	8	Shares Mil
Book Value/Share USD	3.12	2.97	3.12	4.04	6.35	4.16	6.37	8.53	9.93	9.50	9.37	Book Value/Share USD

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	TTM	Profitability
Return on Assets %	4.1	-1.1	-1.8	7.0	9.2	-8.0	5.3	5.5	9.9	-1.2	-2.8	Return on Assets %
Return on Equity %	10.2	-3.4	-6.8	28.3	33.4	-38.1	36.9	26.0	28.9	-3.1	-7.3	Return on Equity %
Net Margin %	6.2	-1.4	-2.8	11.3	13.9	-14.2	12.8	13.4	17.9	-3.7	-9.2	Net Margin %
Asset Turnover	0.66	0.80	0.64	0.62	0.66	0.57	0.42	0.41	0.55	0.32	0.31	Asset Turnover
Financial Leverage	2.5	3.7	4.0	4.2	3.3	6.5	7.1	3.2	2.7	2.6	2.7	Financial Leverage

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	09-09	Financial Health
Book Value/Prem	117.01	73.62	70.14	61.59	71.41	37.71	49.14	74.08	81.90	116.92	143.07	Book Value/Prem
Long-Term Debt USD Mil	—	8	7	4	11	19	12	4	0	—	—	Long-Term Debt USD Mil
Total Equity USD Mil	16	15	14	18	32	25	41	66	81	76	75	Total Equity USD Mil
Debt/Equity	—	0.54	0.47	0.24	0.34	0.76	—	0.06	—	—	—	Debt/Equity

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	TTM	Valuation
Price/Earnings	9.0	—	—	9.0	9.0	—	10.3	13.8	5.1	—	—	Price/Earnings
P/E vs. Market	—	—	—	0.5	0.4	—	0.6	0.8	0.3	—	—	P/E vs. Market
Price/Sales	0.6	0.3	0.3	1.0	1.3	1.1	1.1	1.8	0.9	0.6	0.5	Price/Sales
Price/Book	0.9	0.7	0.7	2.3	2.4	3.5	2.7	2.8	1.4	0.5	0.4	Price/Book

Quarterly Results						
Revenue USD Mil	Dec 08	Mar 09	Jun 09	Sep 09		
Most Recent Period	15.9	15.6	17.1	12.9		
Prior Year Period	29.5	20.0	15.4	16.0		
Rev Growth %	Dec 08	Mar 09	Jun 09	Sep 09		
Most Recent Period	-46.0	-22.1	11.0	-19.4		
Prior Year Period	35.9	-21.7	-55.3	-46.0		
Earnings Per Share USD	Dec 08	Mar 09	Jun 09	Sep 09		
Most Recent Period	-0.35	0.04	0.10	-0.50		
Prior Year Period	1.01	0.54	-0.31	-0.19		

Industry Peers by Market Cap				
	Mkt Cap USD Mil	Rev USD Mil	P/E	ROE%
21st Century Holding	32	62	—	-7.3
Allianz SE	56586	120684	14.5	-8.6
Allianz SE	3405	4639	—	-3.9

Major Fund Holders		% of shares
DFA US Small Cap Value I		2.04
Vanguard Extended Market Idx		1.59
DFA US Micro Cap I		0.93

TTM data based on rolling quarterly data if available; otherwise most recent annual data shown.

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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
LAWSON EDWARD J	Director,Former Officer	480,921	06 Mar 2009	-
LAWSON MICHELE	Former Officer	269,163	09 Mar 2009	-
SIMBERG BRUCE	Chairman Of Board,Director	193,779	16 Mar 2009	-
WILCOX RICHARD W JR	Director	75,250	13 May 2009	-
YOUNG STEPHEN C	President	34,800	12 Dec 2008	-
BRAUN MICHAEL H	Chief Executive Officer,Director	17,900	12 Dec 2008	-
PRYGELSKI PETER J	Treasurer,Chief Financial Officer, Director	1,000	12 Dec 2008	-
HART CHARLES B JR	Director	0	22 May 2008	-
DORF CARL	Director	0	15 May 2008	-

*Report date represents the date on which the owner's common shares held was audited.

Fund Ownership

Top Owners	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
DFA US Small Cap Value I	QQQ	2.04	0.01	0	30 Jun 2009
Vanguard Extended Market Idx	QQQ	1.59	0.00	0	30 Jun 2009
DFA US Micro Cap I	QQQ	0.93	0.01	0	30 Jun 2009
Tamarack Micro Cap Value S	QQQ	0.88	0.15	0	30 Jun 2009
DFA Tax-Managed US Targeted Value	QQ	0.71	0.01	0	30 Jun 2009

Concentrated Holders

NA		NA	NA	NA	NA
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Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
Marketocracy Masters 100	QQ	0.05	0.07	4	30 Jun 2009

Top 5 Sellers

DFA Tax-Managed US Marketwide Value II	QQ	0.19	0.00	-6	30 Jun 2009
DFA Tax-Managed US Marketwide Value	QQ	0.19	0.00	-6	30 Jun 2009

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Industry Focus: Insurance - Property & Casualty

The Looming Threat of Municipal Bond Defaults

06 July 2009

Jim Ryan
Senior Stock Analyst

Can insurers take another hit?

The arsenal of stimulus programs seemingly has stemmed the tide of capital market disasters and some think "green shoots" are taking root. But a new problem, perhaps even more daunting, is popping up: Municipalities across the U. S. have deep budgetary problems and the chance of default on their bonds grows every day. Recent estimates put the State of California budget deficit in excess of \$24 billion, about a quarter of the size of the total budget, a shortfall that must be addressed in the next 30 days. What's more, while California has become the poster child for the problem, many other state and local governments are in the same fix. Some estimates put the total shortfall for all state budgets at almost \$170 billion.

To be fair, some municipal bond holders are somewhat better protected than others. As pointed out in an article by Charles Schwab Company, state general obligation bondholders in California are second in line for payment after mandatory education benefits are paid. Furthermore, because the bonds are backed by the full faith and credit of the state, alternatives such as raising state taxes to pay bond creditors is still possible and allowable under the California state constitution. However, payments from the state to local municipalities could be cut, endangering the ability of those bond issuers to meet their payments. Not all municipal bonds are state-backed general obligation bonds, and the spill-over effects from defaults at the state level to local government, especially those backed by only specific revenue districts, can be equally dramatic. Even if default never occurs, the credit rating of the bond could be cut, reducing the value of the bond in the near term.

A Bailout Could Create a Moral Hazard

As we have seen repeatedly over the past year or so, things can get out of hand rather quickly in our current financial environment. If the economy does not turn around and the

employment picture does not improve soon, states will have less revenue and municipalities could run the risk of not being able to pay their bondholders. In that case the federal government will face a very tough choice. It could decide, as the administration has suggested lately, to do nothing. On the other hand, inaction seems out of step with the federal government's recent habit of granting relief with a free hand. California alone accounts for about 12% of our nation's gross domestic product, which makes it difficult for the federal government to look the other way while trying to prop up the national economy. It's difficult to tell what the federal government will do, but the ramifications of a bailout are something to consider. The trade-off essentially would be between avoiding a potential near-term disaster and setting up further disasters down the road.

If the federal government decides to bail out California it would be tough not to do the same across the nation. Many other states are in a similar condition and a weakening economy could set those wheels in motion. It might also motivate other states, scrambling to make ends meet, to curtail their current efforts to reduce deficits. Why cut spending if Uncle Sam will pick up the tab? The federal government would essentially be incentivizing state and local government to act irresponsibly, knowing that someone else would bear the risk. This would create a classic (and, in this case, massive) moral hazard.

Impact of Muni Defaults on the Insurance Industry

But if municipal bonds default in large numbers, financial markets will be deeply affected. Although the effects would be much wider, our focus in this article is the impact on the insurance industry. At the front line are the bond insurers. Already on shaky footing, they could see their capital severely diminished if municipal bonds defaulted en masse. Historically, about half of all municipal bonds have been insured by one of the major bond insurers like MBIA, MBI, Ambac, ABK, Financial Security Guaranty, or Assured Guaranty AGO. As of the end of the first quarter of 2009, the four major guarantors had gross municipal bond insurance outstanding of about \$1.2 trillion.

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Industry Focus: Insurance - Property & Casualty

Bond insurance, unlike most other forms of insurance, does not guarantee to pay off the insured bondholder in total in the event of a default. Rather, the policies are structured to pick up the interest payment to the investor until such time as the bond default can be cured. Consequently, bond insurers have historically held relatively small capital against possible claims, understandably so given past municipal bond default rates. For example, the two leading bond insurers, Ambac and MBIA, only tout a total of about \$25 billion in claims-paying resources to back a total of around \$783 billion in outstanding municipal bond insurance. The reserves also stand behind another \$350 billion in other more risky insurance that insures other debt instruments such as mortgage-backed securities. Obviously, these reserves don't provide a cushion big enough to contain a large level of defaults.

Other areas of the insurance industry would be affected as well. Insurance companies, particularly property and casualty (PC), own about 15% of the \$2.7 trillion in outstanding municipal bonds. Of the top PC companies that Morningstar covers, almost 40% of their fixed-income investment portfolios are in municipal bonds as opposed to 3% for life insurance companies.

The concern we have is similar in kind to the problems recently experienced by the life insurance companies. Life insurance stocks plummeted in the fall of 2008 as write-downs of fixed-income securities, mainly corporate bonds and asset-backed securities, threatened to wipe out shareholders' equity. Because PC companies are so wed to municipal bonds in their investment portfolios, a wave of defaults could have a similar, though probably less dramatic impact.

Fortunately, PC companies have a much greater equity cushion to absorb investment losses, which lessens the consequences of defaults, but it does not eliminate the risk. If the value of municipal bonds in our PC coverage universe decreased 20%, for example, equity would drop 23%, on

average. This would be a material but probably not life-threatening hit to the industry's capital base. However, some PC insurers have a larger portion of municipal bonds in their investment portfolio than others. Travelers TRV, Chubb CB, WR Berkley WRB and Mercury General MCY all have more than 50% of their fixed-income portfolio in municipal bonds so the effect would be worse for them. For this reason we have raised our fair value uncertainty rating on each of these stocks until we have greater insight into the direction of the municipal bond market.

Whether or not to assist state governments would be a tricky issue for the federal government. The issue is fraught with moral hazard compounded by the equally unpleasant risk of inaction. Hopefully the "green shoots" will take hold and the decision can be avoided.