

REPORT ON EXAMINATION
OF
AMERICAN VEHICLE
INSURANCE COMPANY
LAUDERDALE LAKES, FLORIDA

AS OF
DECEMBER 31, 2005

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

February 12, 2007

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Commissioner
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Honorable Alfred W. Gross
Chairman, NAIC Commission (E)
Virginia Bureau of Insurance, State Corporation Commission
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Dear Sirs and Madam:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination of December 31, 2005, of the financial condition and corporate affairs of:

**AMERICAN VEHICLE INSURANCE COMPANY
3661 W. OAKLAND PARK BLVD.
LAUDERDALE LAKES, FLORIDA 33311**

Hereinafter referred to as the "Company". Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2003 through December 31, 2005. This examination commenced, with planning at the Office, on October 16, 2006, to October 20, 2006. The fieldwork commenced on October 30, 2006, and was concluded as of January 5, 2007. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

This financial examination was an association zone statutory financial examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

In this examination, emphasis was directed to the quality, value and integrity of the statement assets and the determination of liabilities, as those balances affect the financial solvency of the Company.

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC IRIS ratio report, the A.M. Best Report, the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) were reviewed and utilized where applicable within the scope of this examination.

We valued and verified the integrity of the balances of the Company's assets and liabilities as reported in its annual statement as of December 31, 2005, as those balances affect the financial solvency of the Company.

Transactions subsequent to year-end 2005 were reviewed where relevant and deemed significant to the Company's financial condition.

This report of examination is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which are deemed to require special explanation or description.

Status of Adverse Findings from Prior Examination

The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2002. The following is a summary of adverse findings contained in the Office's prior examination report along with the resulting action taken by the Company.

General

The Company had not written insurance coverage in certain lines of business for a period of two years. **Resolution:** The Company has not complied with this directive by not requesting from the Office that these lines of business be removed from its certificate of authority.

The Company did not file an unclaimed property report, which was in violation of Section 717.117, Florida Statutes. **Resolution:** The Company filed an unclaimed property report subsequent to the 2002 examination date and in future periods.

The Company did not document in the board of director's minutes that the Company directors reviewed the previous examination report. **Resolution:** The Company documented in subsequent board of director's meeting minutes the review of the previous examination report.

HISTORY

General

The Company was incorporated in Florida on November 23, 1983 and commenced business on March 1, 1984 as American Vehicle Insurance Company, Inc. The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code.

In accordance with Section 624.401(1), Florida Statutes, the Company was authorized to transact the following insurance coverage in Florida on December 31, 2005:

Homeowners Multi Peril	Private Passenger Auto Physical Damage
Other Liability	Private Passenger Auto Liability
Commercial Automobile Liability	Commercial Auto Physical Damage

The Company has not written insurance coverage during the period of this examination in the lines of business of commercial auto liability and commercial auto physical damage.

The articles of incorporation were amended during the period covered by this examination. The Company amended the articles of incorporation on August 16, 2005 to change the Company address to 3661 W. Oakland Park Blvd., Lauderdale Lakes, FL 33311.

Capital Stock

As of December 31, 2005, the Company's capitalization was as follows:

Number of authorized common capital shares	500,000
Number of shares issued and outstanding	500,000
Total common capital stock	\$1,500,000
Par value per share	\$3.00

Control of the Company was maintained by its parent, 21st Century Holding Company, who owned 100 percent of the stock issued by the Company.

Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of examination, as reported in the filed Annual Statement.

	2005	2004	2003
Premiums Earned	37,793,605	21,491,945	16,152,470
Net Underwriting Gain/(Loss)	2,383,340	2,017,051	(433,306)
Net Income	2,883,031	2,031,596	848,324
Total Assets	56,798,037	42,913,403	28,247,603
Total Liabilities Surplus As Regards Policyholders	38,811,853	25,797,416	17,511,580
	17,986,184	17,115,987	10,736,022

Dividends to Stockholders

The Company did not declare or pay dividends to its stockholders in 2003, 2004 and 2005.

Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2005, were:

Directors

Name and Location	Principal Occupation
Irwin D. Giesecke, Jr. Weston, Florida	President, American Vehicle Insurance Co.
Christopher Brain Turnau Fort Lauderdale, Florida	President, Superior Adjusting, Inc.
Donald G. Braun, Jr. Fort Lauderdale, Florida	GAAP Controller, American Vehicle Insurance Co.
Kevin G. Turner Fort Lauderdale, Florida	Internal Actuary, American Vehicle Insurance Co.
Carissa M. Lawson Plantation, Florida	Vice President, American Vehicle Insurance Co.

The Board of Directors in accordance with the Company's bylaws appointed the following senior officers:

Senior Officers

Name	Title
Irwin Davis Giesecke, Jr.	President
Carissa Marie Lawson	Vice President
Marite Nicole Messina	Secretary
Dominick Rosario Sindone	Treasurer

The Company did not have any internal committees. All committees were formed under the parent company, 21st Century Holding Company. The Board of Directors approved the actions taken by the committees in the minutes.

Conflict of Interest Procedure

The Company had adopted a policy statement requiring annual disclosure of conflicts of interest, in accordance with Section 607.0832, Florida Statutes. No exceptions were noted during this examination period.

Corporate Records

The recorded minutes of the shareholder, Board of Directors, and certain parent company committees adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales Through Reinsurance

The Company had no acquisitions, mergers, disposals, dissolutions, and purchases or sales through reinsurance during the period of this examination.

Surplus Debentures

The Company's surplus note in the amount of \$4,800,000 was waived by the parent company, 21st Century Holding Company subsequent to December 31, 2005, but prior to the filing of the 2005 statutory statements. The company recorded the amount as a contribution to the Company's additional paid-in-capital in the 2005 annual statement.

AFFILIATED COMPANIES

The latest holding company registration statement was filed with the State of Florida on October 23, 2006, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

The following agreements were in effect between the Company and its affiliates:

Tax Allocation Agreement

The Company, along with its parent, filed a consolidated federal income tax return. On December 31, 2005, the method of allocation between the Company and its parent was to compute its separate tax liability as if it had filed a separate tax return.

Cost Sharing Agreement

The Company had Cost Sharing Agreements with 21st Century Holding Company, Superior Adjusting, Inc. and RPA Financial Corporation, at December 31 2005. The agreements called for the Company, parent and affiliates to reimburse each other for expenses that were paid by one on behalf of the other within ninety days of the payment being made.

Management Agreement

The Company had a Management Agreement with 21st Century Holding Company, parent company, dated March 1, 2005. The agreement called for the Company to pay a fee of \$78,876 per year as consideration for management assistance from 21st Century Holding Company.

MGA Agreement

The Company entered into a Managing General Agent Agreement with Assurance Managing General Agents, Inc. (AMGA), an affiliate, on January 1, 2005. The agreement authorized AMGA to solicit and process policy applications for new and renewal business. The Company agreed to pay AMGA a commission of 6% of net written premiums on all business written. In addition to the commission rate of 6% at December 31, 2005, the Company paid a \$25 fee per policy to AMGA.

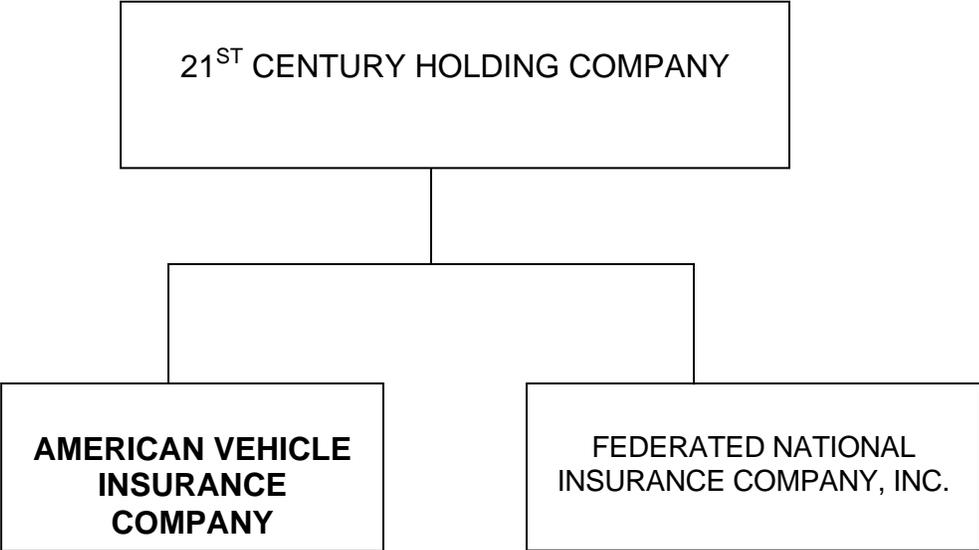
Claims Agreement

The Company entered into a Claims Agreement with Superior Adjusting, Inc. (Adjuster), an affiliate, dated December 27, 2005. The agreement authorized Adjuster to process claims and claims legal administration for all lines of business written by the Company. The Company agreed to pay Adjuster a fee equal to 4.5% of the earned premiums, net of premiums cancellations and endorsements. Additionally, Adjuster was entitled to a 15% collection fee for all subrogation receipts and a 10% cancellation fee for all salvage collection receipts.

A simplified organizational chart as of December 31, 2005, reflecting the holding company system is shown below. Schedule Y of the Company's 2005 annual statement provided a list of all related companies of the holding company group.

**AMERICAN VEHICLE INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2005



FIDELITY BOND AND OTHER INSURANCE

21st Century Holding Company, parent company, maintained fidelity bond coverage up to \$5,000,000 with a deductible of \$150,000, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC. Other insurance included worker's compensation that covered up to \$500,000 per employee. Property and equipment insurance was considered adequately covered.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no pension, stock ownership, or insurance plans.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes:

STATE	DESCRIPTION	RATE	MATURITY DATE	PAR VALUE	MARKET VALUE
FL	USTNS	4.4%	08/15/12	\$ 1,000,000	\$ 972,100
TOTAL FL DEPOSITS				\$ 1,000,000	\$ 972,100
LA	BANK ONE CD	2.9%	05/24/06	105,884	105,884
AL	USNTS	3.4%	10/15/09	400,000	385,328
TOTAL OTHER DEPOSITS				\$ 505,884	\$ 491,212
TOTAL SPECIAL DEPOSITS				\$ 1,505,884	\$ 1,463,312

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory

The Company has not written insurance coverage in the last two years in the lines of business of commercial auto physical damage and commercial auto liability.

Treatment of Policyholders

The Company established procedures for handling written complaints in accordance with Section 626.9541(1) (j), Florida Statutes.

The Company utilized the services of Superior Adjusting, Inc., an affiliate, in handling claim procedures in accordance with Section 626.954(1)(i)3,a, Florida Statutes.

REINSURANCE

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

The above mentioned contracts complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

Assumed

The Company assumed risk on an excess of loss basis from its affiliate, Federated National Insurance Company.

Ceded

The Company ceded risk on a quota share and excess of loss basis to Transatlantic Reinsurance Company.

ACCOUNTS AND RECORDS

The Company's accounting records were maintained on a computerized system. The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Office.

The Company maintained its principal operational offices in Lauderdale Lakes, Florida, where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2003, 2004 and 2005, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company had custodial agreements with Salem Trust and Merrill Lynch. The agreements were in accordance with Rule 69O-143.042, Florida Administrative Code.

Independent Auditor Agreement

The Company hired the firm of De Meo, Young, McGrath as its independent auditors to perform an audit of its GAAP and Statutory financial statements for the years 2003, 2004 and 2005.

Risk-Based Capital

The Company reported its risk-based capital at an adequate level.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2005, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

AMERICAN VEHICLE INSURANCE COMPANY
Assets

DECEMBER 31, 2005

Assets	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 44,610,950		\$ 44,610,950
Stocks:			
Common	3,571,040		3,571,040
Cash and Shor-term Investments	(514,679)		(514,679)
Interest and dividend income due & accrued	438,644		438,644
Agents' Balances:			
Uncollected premium	4,659,044		4,659,044
Deferred premium	2,453,403		2,453,403
Reinsurance Recoverable	(7,781)		(7,781)
Net deferred tax asset	1,587,416		1,587,416
Totals Assets	\$ 56,798,037	\$ -	\$ 56,798,037

AMERICAN VEHICLE INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2005

Liabilities	Per Company	Examination Adjustments	Per Examination
Losses	\$12,728,823	\$2,054,000	\$14,782,823
Reinsurance payables	53,519		53,519
Loss adjustment expenses	2,034,008		2,034,008
Other expenses	64,624		64,624
Taxes, licenses and fees	621,769		621,769
Current federal and foreign income taxes	2,171,037		2,171,037
Unearned premium	19,969,296		19,969,296
Advance premiums	111,834		111,834
Ceded reinsurance premiums payable	(452)		(452)
Payable to parent, subsidiaries and affiliates	1,047,336		1,047,336
Payable for securities	7,313		7,313
Aggregate write-ins for liabilities	2,746		2,746
Total Liabilities	\$38,811,853	\$2,054,000	\$40,865,853
Common capital stock	\$1,500,000		\$1,500,000
Gross paid in and contributed surplus	25,715,048		25,715,048
Unassigned funds (surplus)	(9,228,864)	(2,054,000)	(11,282,864)
Surplus as regards policyholders	\$17,986,184		\$15,932,184
Total liabilities, surplus and other funds	<u>\$56,798,037</u>	<u>\$0</u>	<u>\$56,798,037</u>

AMERICAN VEHICLE INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2005

Underwriting Income

Premiums earned	\$37,793,605
DEDUCTIONS:	
Losses incurred	16,490,777
Loss expenses incurred	4,257,119
Other underwriting expenses incurred	14,662,369
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$35,410,265</u>
Net underwriting gain or (loss)	\$2,383,340

Investment Income

Net investment income earned	\$1,592,462
Net realized capital gains or (losses)	473,789
Net investment gain or (loss)	<u>\$2,066,251</u>

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$0
Finance and service charges not included in premiums	589,832
Aggregate write-ins for miscellaneous income	14,645
Total other income	<u>\$604,477</u>

Net income before dividends to policyholders and before federal & foreign income taxes	\$5,054,068
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	\$5,054,068
Federal & foreign income taxes	<u>2,171,037</u>
Net Income	\$2,883,031

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$17,115,987
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Gains and (Losses) in Surplus

Net Income	\$2,883,031
Net unrealized capital gains or losses	(479,289)
Change in net deferred income taxes	588,548
Change in non-admitted assets	(2,122,093)
Change in provision for reinsurance	0
Changed in surplus notes	(4,800,000)
Surplus adjustments: Paid in	4,800,000
Aggregate write-ins for gains and losses in surplus	0
Examination Adjustment	<u>(2,054,000)</u>
Change in surplus as regards policyholders for the year	(\$1,183,803)
Surplus as regards policyholders, December 31 current year	<u><u>\$15,932,184</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses	<u>\$16,816,831</u>
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An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2005, make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office actuary reviewed work papers provided by the Company and was not in concurrence with this opinion. The Office actuary concluded that the Company's loss and loss adjustment expense reserves as of December 31, 2005 were deficient by \$2,054,000. Pursuant to Sections 625.041(1) and 625.101, Florida Statutes, the Company is required to make adjustments to book an additional amount of \$2,054,000 in reserves which will increase the total amount of losses and loss adjustment expenses to \$16,816,831.

**AMERICAN VEHICLE INSURANCE COMPANY
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2005

The following is a reconciliation of surplus as regards policyholders between that reported by the Company and as determined by the examination.

Surplus as Regards Policyholders
per December 31, 2005, Annual Statement \$ 17,986,184

	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No adjustment			\$ -
LIABILITIES:			
Losses and LAE	\$ 14,762,831	\$ 16,816,831	\$ (2,054,000)
Net Change in Surplus:			<u>(2,054,000)</u>
Surplus as Regards Policyholders December 31, 2005, Per Examination			<u><u>\$ 15,932,184</u></u>

SUMMARY OF FINDINGS

Compliance with previous directives

The Company has taken the necessary actions to comply with two of the three comments made in the 2002 examination report issued by the Office. The Company has not requested that the Office remove from its certificate of authority the lines of business not written.

Current examination comments and corrective action

The following is a brief summary of items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2005.

Losses and Loss Adjustment Expenses

The Company's loss and loss adjustment expense reserves as of December 31, 2005 were deficient by \$2,054,000. **We recommend the Company comply with Sections 625.041(1) and 625.101, Florida Statutes by making the necessary adjustments to book an additional amount of \$2,054,000 in reserves which will increase the total amount of losses and loss adjustment expenses to \$16,816,831.**

Territory

The Company has not written insurance coverage in certain lines of business during the period of this examination. **We recommend that the Company comply with Section 624.430(1), Florida Statutes, and either begin writing in these lines or request that these lines of insurance be removed from its certificate of authority.**

SUBSEQUENT EVENTS

The Company had no material subsequent events.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **American Vehicle Insurance Company** as of December 31, 2005, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$15,932,184, which was in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Jay Ambler, Financial Examiner/Analyst II, and Joseph Boor FCAS, Office Actuary, participated in the examination.

Respectfully submitted,

Jerry T. Golden
Financial Examiner/Analyst II
Florida Office of Insurance Regulation

Michael F. Hampton CPA, CFE, DABFA, CFE, CPM
Financial Examiner/Analyst Supervisor
Florida Office of Insurance Regulation