

# SECURITIES & EXCHANGE COMMISSION EDGAR FILING

**Form: 8-K**

**Date Filed: 2009-11-10**

**Corporate Issuer CIK: 1400810**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 8-K**

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**CURRENT REPORT**

Pursuant to Section 13 or 15(d) of the  
Securities and Exchange Act of 1934

Date of Report (or Date of Earliest Event Reported): November 4, 2009

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**Homeowners Choice, Inc.**

(Exact Name of Registrant as Specified in Its Charter)

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**Florida**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**001-34126**  
(Commission  
File Number)

**20-5961396**  
(I.R.S. Employer  
Identification Number)

**2340 Drew Street, Suite 200**  
**Clearwater, Florida 33765**  
(Address of Principal Executive Offices)

**(727) 213-3600**  
(Telephone Number, Including Area Code)

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Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

## Section 2 – Financial Information

### Item 2.02 Results of Operations and Financial Condition

On November 4, 2009, we issued a news release containing a statement addressed to our shareholders in which our chairman of the board announced that we would be profitable during the third quarter of 2009. The release appears as Exhibit 99.1

Today, November 10, 2009, we released our earnings for the three months ended September 30, 2009. We have scheduled an earnings conference call for today at 4:30 p.m. EST during which our chief executive officer and chief financial officer will discuss the results. Interested parties are invited to listen to the call live over the Internet at <http://www.ir-site.com/hcpqi/events.asp>. The call is also available by dialing (877) 407-9210 (toll-free). International participants should instead call (201) 689-8049. Participants should dial into the conference call approximately 10 minutes before the scheduled start time. Replays of the webcast will be available until February 10, 2010. Our earnings release appears as Exhibit 99.2.

## Section 9 – Financial Statements and Exhibits

### Item 9.01 Exhibits.

Exhibit 99.1 News Release November 4, 2009

Exhibit 99.2 Earnings Release

SIGNATURE

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, thereunto duly authorized.

Dated: November 10, 2009.

HOMEOWNERS CHOICE, INC.

BY:                     /S/    F.X. MCCAHERILL                    

Name: **F.X. McCahill**

Title: **Chief Executive Officer**

A signed original of this Form 8-K has been provided to Homeowners Choice, Inc. and will be retained by Homeowners Choice, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

**FOR IMMEDIATE RELEASE**

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**Homeowners Choice Drops Effort to Acquire 21<sup>st</sup> Century Holding Company**  
**Homeowners Choice Chairman Expects Profitable**  
**Third and Fourth Quarters**

**Clearwater, Fla. – Nov. 4, 2009** – Homeowners Choice, Inc. (NASDAQ:HCII), a Florida-based insurance holding company, announced today that its proposal to merge with 21<sup>st</sup> Century Holding Company (NASDAQ: TCHC) expired on Monday, Nov. 2, 2009, and it has ended for now its efforts to effect the merger. The proposal, publicly disclosed on Oct. 13, 2009, was an offer by Homeowners Choice of \$1.00 in cash and one-half share of Homeowners Choice common stock for each share of 21<sup>st</sup> Century common stock. 21<sup>st</sup> Century announced its rejection of the proposed offer on Oct. 29, 2009.

In conjunction with the announcement, Paresh Patel, Chairman of the Board of Homeowners Choice, issued a statement addressed to the company's shareholders. In the statement, presented in a question and answer format, he explains the rationale behind the proposed merger, discusses the performance of Homeowners Choice and anticipates future profits.

In answer to the question "Will Homeowners Choice consider a hostile acquisition of 21<sup>st</sup> Century?" Patel's responds, "We may do so at a later date, but the current answer is no." On performance and future profits, Patel states, "Homeowners Choice has been profitable for eight consecutive quarters. And, I am pleased to state that we expect to be profitable in the third and fourth quarters of 2009."

Following is the full text of the statement.

To my fellow shareholders of Homeowners Choice, Inc.:

As you probably are aware, Homeowners Choice proposed a merger with 21<sup>st</sup> Century Holding Company several weeks ago. A number of you had questions about the transaction and the future of our company. At the time, we asked for your patience as we thought it inappropriate to discuss an ongoing situation. We noted your questions and believe this is now the appropriate time for our response.

**What is the rationale behind the proposal?**

When Homeowners Choice was founded, management outlined a strategy for steady, prudent growth. We continue to implement that strategy, which has produced the following results over the past two years:

- Increased book value from \$2.50 to \$6.83

- Eight consecutive quarters of profitability
- More than 53,000 policyholders
- Proven capability of our management team to grow the business

A merger of Homeowners Choice and 21<sup>st</sup> Century represented an opportunity to enhance shareholder value in continuance of our growth strategy. 21<sup>st</sup> Century has an array of business lines and geographic markets which would provide a combined entity with diversification and avenues for growth. 21<sup>st</sup> Century, however, has struggled in managing these valuable assets. According to 21<sup>st</sup> Century Chief Executive Officer Michael Braun, 21<sup>st</sup> Century will not be profitable during the third and fourth quarters of 2009. That means 21<sup>st</sup> Century will report losses in four out of six quarters.

Mr. Braun blames these losses on the economic environment, reinsurance costs and wind mitigation credits. We of course sympathize with 21<sup>st</sup> Century since we face that same economic environment and the same challenges of reinsurance costs and wind mitigation credits. However, Homeowners Choice has been profitable for eight consecutive quarters. And I am pleased to state that we expect to be profitable in the third and fourth quarters of 2009, reaching 10 consecutive quarters of profitability.

Frankly, our track record indicates we could add substantial value to 21<sup>st</sup> Century's assets.

Beyond that, the combined entity would be larger, stronger and better able to pursue growth. Also, a larger market capitalization should be accompanied by greater share trading volume and liquidity, which would make the shares more attractive to institutional investors and ultimately lead to a greater overall market valuation.

### **Did you undervalue 21st Century?**

No. We believe we offered a fair price to 21<sup>st</sup> Century shareholders. Publicly-held companies are valued each day through their share prices. Those valuations are based on, among other things, their assets, the performance of the management team and future prospects.

21<sup>st</sup> Century has been trading below book value for more than a year. The market is substantially discounting the assets of 21<sup>st</sup> Century, perhaps because of past performance of its management and concerns for its future prospects.

Note that while 21<sup>st</sup> Century's share price jumped substantially on our offer, it never neared our offer price. We believe this is a strong indication that the market viewed our offer as fair, if not generous. Putting it differently, the market does not believe 21<sup>st</sup> Century is worth more than our offer.

While 21<sup>st</sup> Century described our offer of approximately \$5.30 as “wholly inadequate,” consider the following: (1) 21<sup>st</sup> Century’s management never asked for a higher offer or engaged in any serious discussions with us and (2) after rejecting our proposed offer, 21<sup>st</sup> Century has now initiated a share buy-back program by which it proposes to purchase shares from its own shareholders at market prices approaching \$4.00.

**Will Homeowners Choice consider a hostile acquisition of 21st Century?**

We may do so at a later date, but the current answer is no.

**Can you comment on the share price of Homeowners Choice?**

We don’t typically comment on our share price, preferring to focus on managing the business. As I noted above, the market generally values a company’s assets, performance and prospects. In terms of assets, we have increased book value per share from \$2.50 to \$6.83 in two years. As for performance, we have had eight straight quarters of profitability, and expect to reach 10 straight quarters during 2009.

In terms of our future prospects, one need only look at what our insiders are doing. We have been buying our own stock. The board authorized a \$3 million share buyback several months ago based on a determination that buying Homeowners Choice stock was the best use of a portion of our investment cash.

Not one member of the Homeowners Choice board, which includes some of our largest shareholders, has sold a single share of Homeowners Choice stock.

Finally, I am the second largest shareholder of Homeowners Choice and, as reported to the Securities and Exchange Commission, since November of last year I have been purchasing Homeowners Choice warrants on the open market. The exercise price of those warrants is \$9.10 per share. (The warrants trade on the Nasdaq Global Market under the ticker symbol “HCIIW.” Two warrants must be exercised to purchase one Homeowners Choice share.)

**Are you worried about wind mitigation credits?**

Wind mitigation credits have been in force for several years. They do cause uncertainty to the premiums collected. However, it is an industry-wide issue and not a new item. Our management team factored the issue into our business planning 18 months ago and our results reflect that.

**What about reinsurance?**

Reinsurance is our single biggest cost. The Florida Office of Insurance Regulation regulates Homeowners Choice as it does all insurers in Florida. At the start of each hurricane season, that office reviews all insurers in the state – large or small, new or

old - for their ability to pay claims in the event of a hurricane. Every year we buy enough reinsurance to meet or exceed regulatory requirements.

The result is that we transfer most of the potential hurricane losses to our reinsurers. This transfer of risk costs 30 percent to 55 percent of our premiums every year. We incur this cost even in hurricane-free years.

This hurricane season, the cost of reinsurance has been particularly high, which has caused stress to all property insurance companies. The management team of Homeowners Choice had the foresight to take appropriate action well in advance. Our results, contrasted with those of our competitors, reflect that prudent management.

**Is Homeowners Choice profitable only because there have been no hurricanes?**

No. Maintaining profitability is not as simple as dodging hurricanes. First, as noted above, we transfer most of the hurricane risks to our reinsurers. Second, homeowners' insurance is a complicated business. It requires the balance of many competing variables, including rates, underwriting criteria, risk dispersal, reinsurance costs and operating expenses.

In general, our rates are limited to the rates charged by Citizens Property Insurance Corporation, from which we assume most of our policies. Selecting policies with rates commensurate to the risks and without undue geographic concentrations requires adherence to our own complex set of underwriting criteria. Miami-Dade County, Florida is a particularly challenging environment for comparing rates and risks. Yet we are profitable there. Dispersing our risks geographically plays a role in managing reinsurance costs, our single largest cost.

We have been profitable for eight consecutive quarters. Our competitors have operated during this same hurricane-free period. Yet many of them have reported losses or gone out of business. For example, we were recently selected by the Florida Department of Financial Services as the replacement insurer for policyholders of American Keystone Insurance Company, which is in receivership. Being profitable is not easy. It requires diligence and foresight.

**Is Homeowners Choice prepared for an active wind season?**

Yes. We believe our consistent profitability positions us well to surmount an active wind season. As I stated above, we transfer most of the hurricane risks to our reinsurers. In the event of a hurricane, we have plans in place for handling the additional service levels required and the higher expenses for investigating and estimating policyholder losses.



### **What will Homeowners Choice do next?**

We will continue to move forward. We have a proven strategy that produces above average results. We do not need to develop alternative strategies in order to improve results.

Although the past two years have seen Homeowners Choice grow prudently, profitably and quickly, we have captured less than 2 percent of the Florida homeowners' insurance market. We have a great deal of opportunity ahead of us.

We recently announced that we have been approved by the Florida Department of Insurance Regulation to assume 60,000 policies from Citizens Property Insurance Corporation, the state-owned insurance company. We have a solid track record of handling these assumptions.

Finally, we will evaluate opportunities for growth whether organic or by acquisition as those opportunities arise.

In conclusion, Homeowners Choice has exceeded expectations during the past two years, not by accident or luck, but rather by having an outstanding management team. This team will continue to pursue opportunities to enhance shareholder value.

### **About Homeowners Choice, Inc.**

Homeowners Choice, Inc. is a Florida-based insurance holding company headquartered in Clearwater. Through its subsidiary corporations, Homeowners Choice provides property and casualty homeowners' insurance, condominium owners' insurance and tenants' insurance solely to Florida property owners. Founded in 2006, Homeowners Choice today serves approximately 53,000 policyholders throughout Florida representing approximately \$100 million in annualized premiums. The company's common shares trade on the NASDAQ Global Market under the ticker symbol HCII and were recently added to the Russell Microcap Index. Warrants trade on the same market under the ticker symbol HCIIW. More information about Homeowners Choice, Inc. is available at [www.hcpci.com](http://www.hcpci.com).

### **Forward-Looking Statements**

This news release may contain forward-looking statements made pursuant to the Private Securities Litigation Reform Act of 1995. Words such as "anticipate," "estimate," "expect," "intend," "plan" and "project" and other similar words and expressions are intended to signify forward-looking statements. The forward-looking statements in this news release include statements regarding the company's expectations regarding future profits. Forward-looking statements are not guarantees of future results and conditions but rather are subject to various risks and uncertainties. Some of these risks and uncertainties are identified in the company's registration statement filed with the Securities and Exchange Commission. Should any risks or uncertainties develop into actual events, these developments could have material adverse effects on the company's business, financial condition, and results of operations. Homeowners Choice, Inc. disclaims all obligations to update any forward-looking statements.



## FOR IMMEDIATE RELEASE

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### Homeowners Choice Reports Profitable Third Quarter

- **Ninth consecutive quarter of profitability**
- **Strong balance sheet: \$109 million in cash and short term and liquid investments with no debt**
- **Book value of \$6.99 per share is up 29% year to date**

**Clearwater, Fla. (Nov. 10, 2009)** – Homeowners Choice, Inc. (NASDAQ:HCII), a Florida-based provider of homeowners' insurance, today announced its results of operations for the three- and nine-month periods ended Sept. 30, 2009.

Net income for the third quarter of 2009 increased 2% to \$815,000, or \$0.11 per diluted share, compared with net income of \$802,000, or \$0.12 per diluted share, for the third quarter of 2008. Book value increased from \$5.43 at Dec. 31, 2008 to \$6.99 at Sept. 30, 2009, an increase of 29%.

Gross premiums earned for the third quarter of 2009 more than doubled to \$25.2 million from \$12 million in the prior year quarter. Net premiums earned for the third quarter of 2009 increased 49% to \$12.0 million from \$8.1 million in the prior year quarter. "Net premiums earned" is gross premiums earned reduced by the premiums ceded to reinsurance companies.

Reinsurance costs increased significantly beginning June 1, 2009 when the company renewed its reinsurance policies. The company's Condensed Consolidated Statements of Earnings, which appear below, indicate that during the third quarter the company ceded more than half of its gross premiums earned to reinsurers. Homeowners Choice also reported investment income of \$516,000 for the third quarter compared with \$425,000 in the prior year period.

Losses and loss adjustment expenses for the third quarter were \$6.7 million compared with \$4.6 million in the prior year period. This reflects increases in actual claims incurred and claim reserves primarily due to higher numbers of policies and insured values. At Sept. 30, 2009, policies in force were approximately 53,000 compared with approximately 20,000 at Sept. 30, 2008. Policy acquisition and other underwriting expenses for the three months ended 2009 and 2008 were \$3.4 million and \$1.4 million, respectively. Other operating expenses, which include a variety of general and administrative costs, for the three months ended Sept. 30, 2009 and 2008 were \$1.4 million in both periods.

For the nine months ended Sept. 30, 2009, net income increased 34% to \$10.1 million, or \$1.40 per diluted share, from net income of \$7.5 million, or \$1.33 per diluted share, for the prior year period.

Gross premiums earned for the nine months ended Sept. 30, 2009 more than doubled to \$84.1 million from \$37.0 million in the prior year period. Net premiums earned for the first nine months of 2009 increased 87% to \$53.0 million from \$28.3 million in the prior year period. Investment income for the nine month period ended Sept. 30, 2009 was \$1.2 million, up 7% from the prior year period.

Losses and loss adjustment expenses for the nine months ended Sept. 30, 2009 were \$29.3 million compared with \$11.0 million in the prior year period, which reflects an increase in outstanding policies and insured values. Policy acquisition and other underwriting expenses for the nine months ended Sept. 30, 2009 and 2008 were \$5.7 million and \$4.2 million, respectively. Other operating expenses were \$4.1 million for the nine month period ended Sept. 30, 2009 compared with \$2.7 million in the prior year period.

“We are pleased to continue to report profitable underwriting operations despite what has been a challenging environment, particularly with regard to reinsurance costs,” said Homeowners Choice Chief Executive Officer F.X. McCahill. “Our business strategy continues to focus on prudent risk mitigation and as such we rely on adequate levels of reinsurance to protect the company and policy holders in the event of a major storm. In 2009, the cost of reinsurance reduced our net premiums earned in the quarter by more than 50%, or \$13.2 million, with rates well above those charged in prior years.

“Having successfully navigated the third quarter, we are now well positioned to resume policy growth. As we recently announced, we have been approved by the Florida Office of Insurance Regulation to assume 60,000 policies from Citizens, with a maximum of 30,000 policies in December 2009. Also, we were recently selected by the Florida Department of Financial Services as the replacement insurer for policyholders of American Keystone Insurance Company, which is in receivership. We plan to pursue strategic growth opportunities as they arise, including potential acquisitions and opportunities derived from the anticipated pullback by larger national carriers.”

Homeowners Choice Executive Chairman Paresh Patel added, “While we have dropped recent efforts to acquire 21<sup>st</sup> Century Holding Company, we still have opportunities to grow significantly, whether organically or through other means. Despite our rapid growth over the last two years, we still have less than two percent of the Florida homeowners’ insurance market today. With our experienced management team and solid financial condition, we are well positioned to compete and grow our market share in Florida and further increase book value for our shareholders.”

### **Conference Call**

The Company will host an earnings conference call today, Tuesday, Nov. 10, 2009, at 4:30 p.m. E.S.T. to discuss its third quarter results. Interested parties are invited to listen to the call live over the Internet at <http://www.ir-site.com/hcpci/events.asp>. The call is also available by dialing (877) 407-9210 (toll-free). International participants should instead call (201) 689-8049. Participants should dial into the conference call approximately 10 minutes before the scheduled start time. Replays of the webcast will be available until Feb. 10, 2010.

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## **Forward-Looking Statements**

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—financial tables to follow—

**HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES**  
**Condensed Consolidated Statements of Earnings**  
**(Unaudited)**  
**(Dollars in thousands, except per share amounts)**

|  | <u>Three Months Ended</u><br><u>September 30,</u> |             | <u>Nine Months Ended</u><br><u>September 30,</u> |             |
|--|---|-------------|--|-------------|
|  | <u>2009</u>                                       | <u>2008</u> | <u>2009</u>                                      | <u>2008</u> |
| <b>Revenue</b>                                     |   |             |  |             |
| Gross premiums earned                              | \$ 25,204   | 12,017      | \$ 84,155  | 36,986      |
| Ceded premiums earned                              | (13,193)  | (3,966)     | (31,199)   | (8,677)     |
| Net premiums earned                                | 12,011  | 8,051       | 52,956   | 28,309      |
| Net investment income                              | 516   | 425         | 1,236  | 1,152       |
| Other  | 254   | 189         | 1,264  | 591         |
| Total revenue                                      | 12,781  | 8,665       | 55,456   | 30,052      |
| <b>Expenses</b>                                    |   |             |  |             |
| Losses and loss adjustment expenses                | 6,650   | 4,565       | 29,277   | 11,011      |
| Policy acquisition and other underwriting expenses | 3,430   | 1,421       | 5,670  | 4,163       |
| Other operating expenses                           | 1,365   | 1,353       | 4,124  | 2,730       |
| Total expenses                                     | 11,445  | 7,339       | 39,071   | 17,904      |
| Income before income taxes                         | 1,336   | 1,326       | 16,385   | 12,148      |
| Income taxes                                       | 521   | 524         | 6,282  | 4,610       |
| Net income   | \$ 815  | 802         | \$ 10,103  | 7,538       |
| Basic earnings per share                           | \$ 0.12   | 0.13        | \$ 1.48  | 1.36        |
| Diluted earnings per share                         | \$ 0.11   | 0.12        | \$ 1.40  | 1.33        |
| Dividends per share                                | \$ —  | —           | \$ —   | —           |

**HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES**  
**Condensed Consolidated Balance Sheets**  
(Dollars in thousands)

|   | <u>At September 30, 2009</u><br>(Unaudited) | <u>At December 31, 2008</u> |
|---|---|-----------------------------|
| <b>Assets</b>   |   |                             |
| Investment in fixed maturity securities, held-to-maturity, at amortized cost (fair value \$2,136 at September 30, 2009)   | \$ 1,898                                    | —                           |
| Investment in fixed maturity securities, available-for-sale, at fair value (amortized cost \$19,715 at September 30, 2009)  | 19,954                                      | —                           |
| Short-term investments  | 28,052                                      | 27,582                      |
| Cash and cash equivalents   | 61,102                                      | 81,060                      |
| Accrued interest and dividends receivable   | 187   | 63                          |
| Premiums receivable   | 18,360                                      | 5,021                       |
| Note receivable   | —   | 450                         |
| Reinsurance balances receivable   | —   | 157                         |
| Prepaid reinsurance premiums  | 1,867                                       | 7,122                       |
| Deferred policy acquisition costs   | 11,339                                      | 6,292                       |
| Property and equipment, net   | 346   | 267                         |
| Deferred income taxes   | 2,361                                       | 3,563                       |
| Income taxes receivable   | 84  | —                           |
| Other assets  | 335   | 412                         |
|   | <hr/>                                       | <hr/>                       |
| Total assets  | \$ 145,885                                  | 131,989                     |
| <b>Liabilities and Stockholders' Equity</b>   |   |                             |
| Losses and loss adjustment expenses   | 21,732                                      | 14,763                      |
| Unearned premiums   | 73,361                                      | 67,219                      |
| Reinsurance balances payable  | —   | 6,136                       |
| Accrued expenses  | 4,222                                       | 1,535                       |
| Income taxes payable  | —   | 4,704                       |
| Other liabilities   | 582   | 239                         |
|   | <hr/>                                       | <hr/>                       |
| Total liabilities   | 99,897                                      | 94,596                      |
| <b>Stockholders' equity:</b>  |   |                             |
| Preferred stock (no par value 20,000,000 shares authorized, no shares issued or outstanding)  | —   | —                           |
| Common stock, (no par value, 40,000,000 shares authorized, 6,581,265 and 6,892,668 shares issued and outstanding at September 30, 2009 and December 31, 2008, respectively) | —   | —                           |
| Additional paid-in capital  | 22,128                                      | 23,783                      |
| Retained earnings   | 23,713                                      | 13,610                      |
| Accumulated other comprehensive income  | 147   | —                           |
|   | <hr/>                                       | <hr/>                       |
| Total stockholders' equity  | 45,988                                      | 37,393                      |
|   | <hr/>                                       | <hr/>                       |
| Total liabilities and stockholders' equity  | \$ 145,885                                  | 131,989                     |