21ST CENTURY HOLDING CO
Form 10-K/A
May 17, 2005

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K/A
AMENDMENT NO.2
FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

(Mark One)

|X| Annual Report under Section 13 or 15(d) of the Securities Act of 1934 For the fiscal year ended December 31, 2004

or

|_| Transition Report under Section 13 or 15(d) of the Securities Exchange Act of 1934 For the transition period of _____________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)	(I.R.S. Employer Identification No)

3661 West Oakland Park Boulevard, Suite 300, Lauderdale Lakes, Florida 33313
(Address of principal executive offices) (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Exchange Act: None

Securities registered pursuant to Section 12(g) of the Exchange Act:
Common Stock, par value $0.01 per share
Redeemable Warrants expiring July 31, 2006
Redeemable Warrants expiring September 30, 2007
(Title of Class)

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, and (2) has been subject to such filing requirements for the past 90 days.

Yes |X| No |_|

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-X is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. |_|

Indicate by check mark whether the registrant is an accelerated filer (as defined in the Exchange Act Rule 12b-2).

Yes |_| No |X|

The aggregate market value of the Issuer's common stock held by non-affiliates (based on the last sale price of the common stock as reported by the Nasdaq National Market) on June 30, 2004 was: $55,606,662.

As of June 30, 2004, there were 5,558,347 shares of the common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None.

21st Century Holding Company

21st Century Holding Company

General information about 21st Century Holding Company can be found at www.21stcenturyholding.com. 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.

FORWARD-LOOKING STATEMENTS

Statements in this report 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 comparable terminology are intended to identify forward-looking statements.

The risks and uncertainties include, without limitation, uncertainties related to estimates, assumptions and projections generally; inflation and other changes in economic conditions (including changes in interest rates and financial markets); catastrophe losses; weather conditions (including the severity and frequency of storms, hurricanes, tornadoes and hail); pricing competition and other initiatives by competitors; ability to obtain regulatory approval for requested rate changes and the timing thereof; legislative and regulatory developments, including with respect to state-sponsored catastrophe loss funds; the outcome of litigation pending against us, including the terms of any settlements; risks related to the nature and the type 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; the availability and terms of reinsurance; insurance agents; claims experience; ratings by industry services; changes in driving patterns and loss trends; reliance on key personnel; acts of war and terrorist activities; court decisions and trends in litigation; construction and property owners' repair costs; 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.

You are cautioned not to place reliance on these forward-looking statements, which are valid only as of the date they were made. We undertake 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, or GAAP, prescribes when a company may reserve for particular risks, including litigation exposures. Accordingly, results for a given reporting period could be significantly affected if and when a reserve is established for a major contingency. Reported results may therefore appear to be volatile in certain accounting periods.

PART I

ITEM 1. BUSINESS

GENERAL

21st Century Holding Company ("21st Century") is an insurance holding company, which, through our subsidiaries and our contractual relationships with our independent agents, controls substantially all aspects of the insurance underwriting, distribution and claims process. We underwrite personal automobile insurance, general liability insurance, homeowners' and mobile home property and casualty insurance in Florida, Georgia and Louisiana through our wholly owned subsidiaries, Federated National Insurance Company ("Federated National") and American Vehicle Insurance Company ("American Vehicle"). American Vehicle has recently been authorized to write commercial general liability policies in Kentucky and Texas and expects to begin writing policies in that state in the near future. American Vehicle is a fully admitted insurance carrier in Florida, Louisiana and Texas and is admitted as a surplus lines carrier in Georgia and Kentucky.

During the year ended December 31, 2004, 62.0%, 24.1%, 12.4% and 1.5% of the policies we underwrote were for homeowners' property and casualty insurance, personal automobile insurance, commercial general liability insurance, and mobile home property and casualty insurance, respectively. During the year ended

December 31, 2003, 67.5%, 23.0%, 2.4% and 7.1% of the policies we underwrote were for personal automobile insurance, homeowners' property and casualty insurance, mobile home property and casualty insurance, and commercial general liability insurance, respectively. We internally process claims made by our own and third-party 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").

Our executive offices are located at 3661 West Oakland Park Boulevard, Suite 300, Lauderdale Lakes, Florida and our telephone number is (954) 581-9993.

RECENT DEVELOPMENTS

Impact of 2004 Hurricane Season

In August and September 2004, the State of Florida experienced four hurricanes, Charley, Frances, Ivan and Jeanne. Since then, we have been receiving and processing claims made under our homeowners' and mobile home owners' policies, a process that is expected to be substantially completed during the first half of 2005. One of our subsidiaries, Federated National, incurred significant losses relative to its homeowners' insurance line of business. As of December 31, 2004, approximately 8,500 policyholders had filed hurricane-related claims totaling an estimated $105.4 million, of which we currently estimate that our share of the costs associated with these hurricanes will be approximately $43.5 million, net of our reinsurance recoveries and amortized reinstatement premiums.

We have a reinsurance structure that is a combination of private reinsurance and the Florida Hurricane Catastrophe Fund (FHCF). For each catastrophic occurrence, the excess of loss treaty will insure us for $24 million with the company retaining the first $10 million of loss and loss adjustment expense ("LAE") There are two layers involved with our excess of loss reinsurance treaties, the $24 million is considered the 1st layer. The treaty has a provision which, for an additional prorated premium will insure us for another $24 million of loss and LAE for subsequent occurrences with the company retaining the first $10 million in loss and LAE. As a result of the loss and LAE incurred in connection with the Hurricanes Charles and Frances the company has exhausted its recoveries of $48 million under the terms of this treaty.

The 2nd layer of our excess of loss treaty insures us for an additional $34 million in excess of the $34 million 1st layer noted above with the same reinstatement provision. The excess of loss treaties expire on June 30, 2005 and the company is negotiating a new reinsurance treaty.

The FCAT treat provides protection for 90% of loss and LAE and attaches at approximately $36.2 million. This treaty inures to the benefit of our excess of loss treaty and expires on June 1, 2005. For a further discussion of our reinsurance please see our section titled "REINSURANCE"

Since our initial preliminary provision for losses from these hurricanes of $33 million, net of reinsurance recoveries, as of September 30, 2004, we revised our provision for losses as described above. Because the storms occurred during the third quarter of 2004, we were not able to complete physical inspections of a sufficiently large percentage of claims, nor were complete repair estimates available. During the fourth quarter of 2004, as physical property inspections and repair estimates were completed, our initial estimates of losses for these storms were increased to reflect increased estimates of claim severity on our homeowners' policies in Florida. We do not currently anticipate further material increases to our loss estimates from the 2004 hurricanes.

In August 2004, A.M. Best Company notified us that Federated National and American Vehicle were being placed under review with negative implications. A.M. Best in 2003 had assigned Federated National a B rating ("Fair," which is the seventh of 14 rating categories) and American Vehicle a B+ rating ("Very Good," which is the sixth of 14 rating categories). In connection with this review, we requested that A.M. Best cease its ratings of these subsidiaries "NR-4 Not rated, company's request". The withdrawal of our ratings could limit or prevent us from writing or renewing desirable insurance policies, from obtaining adequate reinsurance, or from borrowing on our line of credit, as described below. Federated National and American Vehicle are currently rated "A" ("Unsurpassed," which is first of six ratings) by Demotech, Inc.

To retain our certificates of authority, Florida insurance laws and regulations require that our insurance company subsidiaries, Federated National and American Vehicle, maintain capital surplus equal to the greater of 10% of its liabilities or $4.0 million, as defined in the Florida Insurance Code. As of December 31, 2004, Federated National and American Vehicle were in compliance with statutory minimum capital and surplus requirement.

The insurance companies are also required to adhere to prescribed premium-to-capital surplus ratios. As of December 31, 2004, Federated National did not comply with the prescribed premium-to-capital surplus ratio, primarily based on the incurred losses associated with the four 2004 hurricanes. As a result of a $6.1 million capital contribution made during the first quarter of 2005 from 21st Century, Federated National's compliance with the prescribed premium-to-capital surplus ratios has been restored. American Vehicle has remained in compliance with the prescribed premium-to-capital surplus ratios.

Throughout the post-hurricane period, we have been and continue to be in regular communications with the Florida Office of Insurance Regulation and have complied with the office's verbal requests. We have relied on the office's verbal representation that regulatory action will not be imposed at this time because of Federated National's non-compliance with the prescribed premium-to-capital surplus ratio.

In the aftermath of the hurricanes in Florida, the Florida Office of Insurance Regulation issued emergency orders that imposed a moratorium on cancellations and non-renewals of various types of insurance coverages and that require mediation to resolve disputes over personal property insurance claims. For personal residential and commercial residential policies, the moratorium ran through November 30, 2004. The orders also prohibit cancellations or non-renewals based solely upon claims resulting from the hurricanes.

We believe that our company is sufficiently capitalized to operate our business as it now exists and as we currently plan to expand it. Our existing sources of funds include our revolving loan from Flatiron Funding Company LLC, sales of our securities such as our September 2004 private placement described below, possible sales of our investment securities, and our earnings from operations and investments. Additional unexpected catastrophic events in our market areas, such as the 2004 hurricanes, have resulted and will result in greater claims losses than anticipated, which could require us to limit or halt our growth while we redeploy our capital to pay these unanticipated claims unless we are able to raise additional capital or increase our earnings in our other divisions. During September 2004, we negotiated a new revolving loan agreement in which the maximum credit commitment available to us was reduced at our request to $2.0 million with built-in options to incrementally increase the maximum credit commitment up to $4.0 million over the next three years. Our lender could determine to change our available credit based on a number of factors, including the A.M. Best ratings of Federated National and American Vehicle. Pursuant to our loan agreement, if the A.M. Best rating of Federated National falls below a "C," or if the financial condition of American Vehicle, as determined by our lender (in its sole and absolute discretion) suffers a material adverse change, then under the terms of our loan agreement, policies written by that subsidiary will no longer be eligible collateral, causing our available credit to be reduced if we do not have other collateral qualifying as eligible collateral. As of December 31, 2004, policies written by Federated National were not considered by our lender to be eligible collateral. In March 2005, our lender agreed to permit policies written by Federated National to be eligible collateral up to $165,000. We currently believe that our available credit under this loan agreement will be sufficient based on our current operations. If policies written by our insurance subsidiaries again do not qualify as eligible collateral under our loan agreement and we are not able to obtain working capital from our operations or other sources, then we would have to restrict our growth and, possibly, our operations.

Although we believe that the occurrence of four hurricanes hitting Florida within one year has not previously occurred for as long as records for weather events have been kept, some weather analysts believe that a period of greater hurricane activity has begun. To address this possibility, we are exploring alternatives to reduce our exposure to these types of storms. Although these measures may increase operating expenses, management believes that they will assist us in protecting long-term profitability, although there can be no assurances that will be the case.

Sale of Assets Related to Our Non-Standard Automobile Insurance Agency Business

On December 31, 2004, we, along with our wholly owned subsidiaries, Federated Agency Group, Inc., Fed USA, Inc. and Assurance Managing General Agents, Inc., sold certain assets related to our non-standard automobile insurance agency business located in Florida to Fed USA Retail, Inc. and Fed USA Franchising, Inc. As consideration for these assets, we received a cash payment at closing of $7,000,000. In addition, we are entitled to receive an additional payment of up to $2,500,000 calculated based on 10% of the "Gross Net Written Premiums" (as defined in the asset purchase agreement) through our two insurance company subsidiaries, Federated National and American Vehicle, or through any insurance company affiliated with the buyers for gross net written premiums that exceed $15,000,000 in the aggregate and that are less than $40,000,000 in the aggregate with respect to agency business written by the buyers during the 12-month period following the closing. Fed USA Retail, Inc. and Fed USA Franchising, Inc., which also assumed certain liabilities related to the assets that were sold, are affiliates of Affirmative Insurance Holdings, Inc., an insurance holding company based in Addison, Texas. Affirmative has agreed to guarantee the buyers' obligations to make the post-closing payment described above.

Sale of Express Tax

Effective January 1, 2005, we sold our 80% interest in Express Tax Service, Inc. ("Express Tax"), along with its wholly owned subsidiary, EXPRESSTAX Franchise Corporation. The purchasers were Robert J. Kluba, the president of Express Tax and the holder of the 20% minority interest in Express Tax, and Robert H. Taylor. In exchange for our shares, we received a net cash payment of $311,351, which reflected a purchase price of $660,000 less $348,649. in inter-company receivables we owed to Express Tax. In addition, we received a payment of $1,200,000 in exchange for our agreement not to compete with the current businesses of Express Tax for five years after the sale.

Private Placement

On September 30, 2004, we completed a private placement of 6% Senior Subordinated Notes due September 30, 2007. These notes were offered and sold to accredited investors as units consisting of one note with a principal amount of $1,000 and warrants to purchase shares of our common stock, the terms of which are similar to our notes and warrants sold in July 2003, except as described below. We sold an aggregate of $12.5 million of units in this placement, which resulted in proceeds (net of placement agent fees of $700,000 and offering expenses of $32,500) to us of $11,767,500.

The notes pay interest at the annual rate of 6%, mature on September 30, 2007, and rank pari passu in terms of payment and priority to the 6% Senior Subordinated Notes due July 31, 2006 in the original principal amount of $7,500,000 that we sold in 2003. Quarterly payments of principal and interest due on these notes, like the notes we sold in 2003, may be made in cash or, at our option, in shares of our common stock. If paid in shares of common stock, the number of shares to be issued shall be determined by dividing the payment due by 95% of the weighted-average volume price for the common stock on Nasdaq as reported by Bloomberg Financial Markets for the 20 consecutive trading days preceding the payment date.

We also issued warrants to purchase shares of our common stock to the purchasers of the notes and to the placement agent in the offering, J. Giordano Securities Group. Each warrant entitles the holder to purchase one share of our common stock at an exercise price of $12.75 per share and will be exercisable until September 30, 2007. The number of shares issuable upon exercise of the warrants issued to the purchasers in our 2004 private placement equaled $12.5 million divided by the exercise price of the warrants, and totaled 980,392. The number of shares issuable upon exercise of the warrants issued to J. Giordano equaled $500,000 divided by the exercise price of the warrants, and totaled 39,216. The terms of the warrants provide for adjustment of the exercise price and the number of shares issuable thereunder upon the occurrence of certain events typical for private offerings of this type.

Stock Split

On September 7, 2004, we completed a three-for-two stock split in the form of a stock dividend, whereby shareholders received three shares of common stock for every two shares of our common stock held on the record date. Just prior to the three-for-two stock split, we had approximately 3,957,000 shares outstanding, and following the stock split, we had approximately 5,936,000 shares outstanding.

BUSINESS STRATEGY

Although our operations were dominated in the latter part of 2004 by the claims made in connection with the four hurricanes, we expect that in 2005 we will return to a focus on the key aspects of our business strategy. We will seek continued growth of our business by capitalizing on the efficiencies of our business model and by:

- expanding into additional states. Currently, we have obtained licenses to underwrite and sell our insurance products in Alabama, Texas and Louisiana;

- a shift in emphasis of our product mix to balance our nonstandard automobile insurance products with our continued emphasis on homeowners' and commercial general liability lines of insurance and by expanding our product offerings to include other insurance products, subject to regulatory approval;

- employing our business practices developed and used in Florida in our expansion to other selected states;

- maintaining a commitment to provide high quality customer service to our agents and insureds;

- encouraging agents to place a high volume of high quality business with us by providing them with attractive commission structures tied to premium levels and loss ratios;

- forming a strategic relationship with Affirmative, the parent company of the purchasers of our non-standard agency assets located in Florida, which is intended to enable us to market our insurance products through Affirmative's retail distribution network and which, in turn, should increase our revenues. For more information regarding this strategic relationship, please see Note 24 to our Consolidated Financial Statements included under Item 8 of this Report on Form 10-K; and

- additional strategies that may include possible acquisitions or further dispositions of assets, and development of procedures to improve claims history and mitigate losses from claims.

There can be no assurances, however, that any of the foregoing strategies will be developed or successfully implemented or, if implemented, that they will positively affect our results of operations.

INSURANCE OPERATIONS AND RELATED SERVICES

General

We underwrite personal automobile, homeowners' and mobile home property casualty insurance through Federated National and personal automobile property and casualty insurance and commercial general liability insurance through American Vehicle. Federated National and American Vehicle are both currently licensed to conduct business in Florida as domestic admitted insurers. American Vehicle is also licensed to conduct business in Texas and Louisiana as an admitted foreign insurer and in Georgia and Kentucky as a non-admitted foreign insurer. American Vehicle has been approved for admission into Alabama, subject to our funding of a statutorily required deposit, which is in process.

The following tables set forth the amount and percentages of our gross premiums written, premiums ceded to reinsurers and net premiums written by line of business for the periods indicated.

	Years Ended Decembe			
	2004		2003	
	Premium	Percent	Premium	Per
	(Dollars in Thousa			
Gross written premiums:				
Automobile	$ 24,239	24.1%	$ 49,298	6
Homeowners	62,400	62.0%	16,804	2
Mobile Home	1,513	1.5%	1,739	
Commercial General Liability	12,510	12.4%	5,151	
Total gross written premiums	$ 100,662	100.0%	$ 72,992	10
Ceded premiums:				
Automobile	$ (992)	(6.4%)	$ 22,091	10
Homeowners	14,932	96.4%	--	
Mobile Home	1,546	10.0%	--	
Commercial General Liability	--	0.0%	--	
Total ceded premiums	$ 15,486	100.0%	$ 22,091	10
Net written premiums				
Automobile	$ 25,231	29.6%	$ 27,207	5
Homeowners	47,468	55.7%	16,804	3
Mobile Home	(33)	0.0%	1,739	
Commercial General Liability	12,510	14.7%	5,151	1
Total net written premiums	$ 85,176	100.0%	$ 50,901	10

During the years ended December 31, 2004, 2003 and 2002, we marketed our insurance products through a network of company-owned agencies, franchised agencies, independent agents and general agents. Because we sold our company-owned agencies and franchised agencies at the end of 2004, in 2005 and thereafter we expect to continue to market our products through our existing network of independent agents and general agents.

NONSTANDARD AUTOMOBILE

Nonstandard personal automobile insurance is principally provided to insureds who are unable to obtain standard insurance coverage because of their driving record, age, vehicle type or other factors, including market conditions. Underwriting standards for preferred and standard coverage have become more restrictive, thereby requiring more insureds to seek nonstandard coverage and contributing to the increase in the size of the nonstandard automobile market. Nonstandard automobile insurance, however, generally involves the potential for increased loss exposure and higher claims experience. Loss exposure is mitigated because premiums usually are written at higher rates than those written for standard insurance coverage.

Both of our insurance subsidiaries currently underwrite nonstandard personal automobile insurance only in Florida, where the minimum limits are $10,000 per individual, $20,000 per accident for bodily injury, $10,000 per accident for property damage and comprehensive, and $50,000 for collision. The average annual premium on policies currently in force is approximately $1,057, as compared to $751 for 2003, and represented approximately 97.25% of our written premiums for automobile insurance as of the year ended December 31, 2004. Both Federated National and American Vehicle underwrite this coverage on an annual and semi-annual basis.

Due to the purchasing habits of nonstandard automobile insureds (for example, nonstandard automobile insureds tend seek the least expensive insurance required of the policyholder by statute that satisfies the requirements of state laws to register a vehicle), policy renewal rates tend to be low compared to standard policies. Our experience has been that a significant number of existing nonstandard policyholders allow their policies to lapse and then reapply for insurance as new policyholders. Our average policy renewal rate for our nonstandard policies is 35% to 40% on policies that mature to full term. The success of our nonstandard automobile insurance program, therefore, depends in part on our ability to replace non-renewing insureds with new policyholders through marketing efforts.

STANDARD AUTOMOBILE

Standard personal automobile insurance is principally provided to insureds who present an average risk profile in terms of driving record, vehicle type and other factors. Limits on standard personal automobile insurance are generally significantly higher than those for nonstandard coverage, but typically provide for deductibles and other restrictive terms. Federated National underwrites standard personal automobile insurance policies providing coverage no higher than $100,000 per individual, $300,000 per accident for bodily injury, $50,000 per accident for property damage and comprehensive and collision up to $50,000 per accident, with deductibles ranging from $200 to $1,000. The average premium on the policies currently in force is approximately $1,402, as compared to $1,472 for 2003, and represented approximately 2.75% of our written premiums for automobile insurance as of the year ended December 31, 2004.

HOMEOWNERS' AND MOBILE HOMEOWNERS'

We underwrite homeowners' insurance principally in Central and Southern Florida. Homeowners' insurance generally protects an owner of real and personal property against covered causes of loss to that property. Limits on homeowners' insurance are generally significantly higher than those for mobile homes, but typically provide for deductibles and other restrictive terms. Our property insurance products typically provide maximum coverage in the amount of $200,000, with the average policy limit being approximately $250,000. The approximate average premium on the policies currently in force is approximately $1,571, as compared to $1,050 for 2003, and the typical deductible is $1,000 for non-hurricane-related claims and generally 2% of the coverage amount for the structure for hurricane-related claims.

We underwrite homeowners' insurance for mobile homes, principally in Central and Northern Florida, where we believe that the risk of catastrophe loss from hurricanes is in a typical year less than in other areas of the state. Mobile homeowners' insurance generally involves the potential for above-average loss exposure, as compared to homeowners' insurance. In the absence of major catastrophe losses, however, loss exposure is limited because premiums usually are at higher rates than those charged for non-mobile home-property and casualty insurance. Additionally, our property lines for mobile homes typically provide maximum coverage in the amount of $75,000, with the average policy limit being approximately $31,000. In addition, we presently limit our mobile home coverage to no more than 10% of our underwriting exposure. The average annual premium on policies currently in force is approximately $315 and remains unchanged from 2003. The typical non-hurricane deductible is $500 and generally 2% of the coverage amount for the structure for hurricane-related claims.

Federated National incurred significant losses relative to its homeowner's and mobile homeowners' insurance lines of business as a result of the four Florida hurricanes in 2004. Approximately 8,500 policyholders have filed hurricane-related claims totaling an estimated $105.4 million, of which we estimate that our share of the costs associated with these hurricanes will be approximately $43.5 million, net of reinsurance recoveries and amortized reinstatement premiums. For a further discussion of our reinsurance please see our section titled "REINSURANCE"

Since our initial preliminary provision for losses from these hurricanes of $33 million, net of reinsurance recoveries, as of September 30, 2004, we revised our provision for losses as described above. Because the storms occurred during the third quarter of 2004, we were not able to complete physical inspections of a sufficiently large percentage of claims, nor were complete repair estimates available. During the fourth quarter of 2004, as physical property inspections and repair estimates were completed, our initial estimates of losses for these storms were increased to reflect increased estimates of claim severity on our homeowners' policies in Florida. We do not currently anticipate further materials increases to our loss estimates from the 2004 hurricanes.

We continue to evaluate the premium rates that our property insurance policyholders are charged and have implemented an average rate increase of 21.9% for new and renewal policies in effect as of December 1, 2004 and December 15, 2004, respectively. These increases in premium rates are subject to approval by the Florida Office of Insurance Regulation. There can be no assurances that our requested rate increases will be approved.

FLOOD

We write flood insurance through the National Flood Insurance Program ("NFIP"). We write the policy for the NFIP, which assumes 100% of the flood risk while we retain a commission for our service. The average flood policy premium is $300 with limits up to $250,000.

COMMERCIAL GENERAL LIABILITY

We underwrite commercial general liability insurance for approximately 250 classes of artisan contracting trades (excluding home-builders and developers) and for certain special events. The limits of liability range from $100,000 per occurrence and $200,000 policy aggregate to $1 million per occurrence and $2 million policy aggregate. The average policy premium is approximately $520 with deductibles of $250 to $500 per claim. We market the commercial general liability insurance products through a limited number of general agencies unaffiliated with the Company.

FUTURE PRODUCTS

We currently intend to expand our product offerings by underwriting additional insurance products and programs, and marketing them through our distribution network. Expansion of our product offerings will result in increases in expenses due to additional costs incurred in actuarial rate justifications, software and personnel. Offering additional insurance products may also require regulatory approval, further increasing our costs.

ASSURANCE MGA

Assurance Managing General Agents, Inc. ("Assurance MGA"), a wholly owned subsidiary, acts as Federated National's and American Vehicle's exclusive managing general agent. Assurance MGA currently provides all underwriting policy administration, marketing, accounting and financial services to Federated National and American Vehicle, and participates in the negotiation of reinsurance contracts. Assurance MGA generates revenue through policy fee income and other administrative fees from the marketing of companies' products through the Company's distribution network. Assurance MGA plans to establish relationships with additional carriers and add additional insurance products in the future.

SUPERIOR ADJUSTING

Superior processes claims made by insureds from Federated National, American Vehicle and third-party insurance companies. Our agents have no authority to settle claims or otherwise exercise control over the claims process. Furthermore, we believe that the employment of salaried claims personnel, as opposed to independent adjusters, results in reduced ultimate loss payments, lower loss adjustment expenses and improved customer service for most of our insurance products. Where this is not the case, we retain independent appraisers and adjusters. We also employ an in-house legal department to cost-effectively manage claims-related litigation and to monitor our claims handling practices for efficiency and regulatory compliance.

FEDERATED PREMIUM FINANCE

Federated Premium provides premium financing to Federated National's, American Vehicle's and third-party's insureds. Premium financing has been marketed through our distribution network of general agencies and a small number of independent agents whose customer base and operational history meets our strict criteria for creditworthiness and, prior to our sale at the end of 2004 of our company-owned and franchised agencies, also through those agencies. Lending operations are supported by Federated Premium's own capital base and are currently leveraged through our credit facility with FlatIron Funding Company LLC, which is described in more detail below.

Premiums for property and casualty insurance are typically payable at the time a policy is placed in force or renewed. Federated Premium's services allow the insured to pay a portion of the premium when the policy is placed in force and the balance in monthly installments over a specified term, generally between six and eight months. As security, Federated Premium retains a contractual right, if a premium installment is not paid when due, to cancel the insurance policy and to receive the unearned premium from the insurer, or in the event of insolvency of an insurer, from the Florida Guarantee Association, subject to a $100 per policy deductible. In the event of cancellation, Federated Premium applies the unearned premium towards the payment obligation of the insured.

At times, Federated Premium may advance funds for financed premiums to independent insurance agencies that represent third-party insurers. A risk exists if remittance is not made by the agency to the third-party insurer, as advances made by Federated Premium may only be recoverable to the extent that the agency's receipt of such advances is received by the third-party insurer. In order to reduce this risk, we have in place strict criteria for the creditworthiness of the agency's operational history and customer base. Additionally, we closely monitor these agencies on an ongoing basis.

The following table sets forth the amount and percentages of premiums financed for Federated National, American Vehicle and other insurers for the periods indicated:

	Years Ended December 31,					
	2004		2003		2002	
	Premium	Percent	Premium	Percent	Premium	Percent
			(Dollars in Thousands)			
Federated National	$ 11,510	34.0%	$ 19,227	49.9%	$ 22,331	55.4%
American Vehicle	9,390	27.8%	15,519	40.3%	12,850	31.9%
Other insurers	12,925	38.2%	3,767	9.8%	5,124	12.7%
Total	$ 33,825	100.0%	$ 38,513	100.0%	$ 40,305	100.0%

Federated Premium's operations are funded by a revolving loan agreement ("Revolving Agreement") with FlatIron Funding Company LLC ("FlatIron"). The Revolving Agreement is structured as a sale of contracts receivable under a sale and assignment agreement with WPAC (Westchester Premium Acceptance Corporation) (a wholly-owned subsidiary of FlatIron), which gives WPAC the right to sell or assign these contracts receivable. Federated Premium, which services these contracts, has recorded transactions under the Revolving Agreement as secured borrowings.

During September 2004, we negotiated a new revolving loan agreement in which the maximum credit commitment available to us was reduced at our request to $2.0 million with built-in options to incrementally increase the maximum credit commitment up $4.0 million over the next three years. Our lender could determine to change our available credit based on a number of factors, including the A.M. Best ratings of Federated National and American Vehicle. Pursuant to our loan agreement, if the A.M. Best rating of Federated National falls below a "C," or if the financial condition of American Vehicle, as determined by our lender (in its sole and absolute discretion) suffers a material adverse change, then under the terms of our loan agreement, policies written by that subsidiary will no longer be eligible collateral, causing our available credit to be reduced if we do not have other collateral qualifying as eligible collateral. As of December 31, 2004, policies written by Federated National were not considered by our lender to be eligible collateral. In March 2005, our lender agreed to permit policies written by Federated National to be eligible collateral and agreed to increase our total available credit by $0.5 million from $2.0 million to $2.5 million. We currently believe that this higher available credit limit will be sufficient based on our current operations. If policies written by our insurance subsidiaries again do not qualify as eligible collateral under our loan agreement and we are not able to obtain working capital from our operations or other sources, then we would have to restrict our growth and, possibly, our operations.

Direct billing is when the insurance company accepts from the insured, as a receivable, a promise to pay the premium, as opposed to requiring payment of the full amount of the policy, either directly from the insured or from a premium finance company. We believe that the direct billing program does not increase our risk because the insurance policy, which serves as collateral, is managed by our computer system. Underwriting criteria are designed with down payment requirements and monthly payments that create policyholder equity, also called unearned premium, in the insurance policy. The equity in the policy is collateral for the extension of credit to the insured. Through our monitoring systems, we track delinquent payments and, in accordance with the terms of the extension of credit, cancel the policy before the policyholder's equity is extinguished. If any excess premium remains after cancellation of the policy and deduction of applicable penalties, this excess is refunded to the policyholder. Similarly, we believe that the premium financing that we offer to our own insureds involves limited credit risk. By primarily financing policies underwritten by our own insurance carriers, our credit risks are reduced because we can more securely rely on the underwriting processes of our own insurance carriers. Furthermore, the direct bill program enables us to closely manage our risk while providing credit to our insureds.

The amount of WPAC's advances are subject to availability under a borrowing base calculation, with maximum advances outstanding not to exceed the maximum credit commitment. The annual interest rate on advances under the Revolving Agreement equals the prime rate plus additional interest varying from 1.25% to 3.25% based on the prior month's ratio of contracts receivable related to insurance companies with an A. M. Best rating of B or lower to total contracts receivable. The effective interest rate on this line of credit, based on our average outstanding borrowings under the Revolving Agreement, was 5.71%, 4.83% and 6.23% for the years ended December 31, 2004, 2003 and 2002, respectively.

Outstanding borrowings under the Revolving Agreement as of December 31, 2004 were approximately $2.1 million. Outstanding borrowings under the line of credit agreement as previously in effect as of December 31, 2003 was approximately $4.1. Outstanding borrowings in excess of the $2.0 million and $4.0 million respective credit limits totaled $148,542 and $98,786 as of December 31, 2004 and 2003, respectively. The excess amounts are permissible by reason of a compensating cash balance of $156,095 and $200,430 for December 31 2004 and 2003, respectively, that was held for the benefit of WPAC and was included in other assets. Interest expense on this revolving credit line for the years ended December 31, 2004, 2003 and 2002 totaled approximately $178,000, $203,000 and $342,000, respectively.

DISCONTINUED OPERATIONS

TAX PREPARATION SERVICES AND ANCILLARY SERVICES

During 2004, we also offered other services at our company-owned and franchised agencies, including tax return preparation and electronic filing and the issuance and renewal of license tags. On January 13, 2005, with an effective date of January 1, 2005, we sold our 80% interest in Express Tax Service, Inc. (along with its wholly owned subsidiary, EXPRESSTAX Franchise Corporation) to Robert J. Kluba, the president of Express Tax and the holder of the 20% minority interest in Express Tax, and Robert H. Taylor. In exchange for our shares, we received a net cash payment of $311,351. which reflected a purchase price of $660,000 less $348,649. in intercompany receivables we owed to Express Tax. In addition, we received a payment of $1,200,000 in exchange for our agreement not to compete with the current businesses of Express Tax for five years after the sale. For further information about this transaction, please see Note 24 to our Consolidated Financial Statements included under Item 8 of this Report on Form 10-K.

FRANCHISE OPERATIONS

On December 31, 2004, we sold most of the non-current assets related to our franchise operations to Fed USA Retail, Inc. and Fed USA Franchising, Inc. We retained ownership of the current assets and liabilities. For further information about this transaction, please see "Recent Developments" above and Note 24 to our Consolidated Financial Statements included under Item 8 of this Report on Form 10-K.

At the time of sale, we had 42 operating franchises and six pending franchises. The form of franchise agreement in effect during 2004 granted the franchisee a license for the operation of an agency within an exclusive territory for a 10-year period, with two additional 10-year options. We collected from the franchisees a non-refundable initial franchise fee of $14,950, royalty fees, advertising fees, and other fees. Our rights under these franchise agreements were among the assets sold.

In addition, at the time of the sale of our interest in Express Tax, 231 EXPRESSTAX franchises had been granted. The form of EXPRESSTAX franchise agreement in effect during 2004 granted the franchisee a non-exclusive license to open and operate a center for a 10-year period, with two additional 10-year options. As a result of the sale of our interest in Express Tax, we will no longer be entering into such franchise agreements.

MARKETING AND DISTRIBUTION

During 2004, we marketed and distributed our own and third-party insurers' products and other services primarily in Central and South Florida, through a network of 24 agencies owned by Federated Agency Group, Inc. ("Federated Agency Group"), a wholly owned subsidiary, 42 franchised agencies, approximately 1,500 independent agents and a select number of general agents. Our independent agents and general agents are primarily responsible for the distribution of our homeowners' insurance and commercial general liability products. As described above, on December 31, 2004, we sold most of the non-current assets and the deferred policy acquisition liability related to our network of 24 company-owned agencies and 48 franchised agencies located in Florida, including our franchise operations. The company-owned agencies sold were located in Miami-Dade, Broward, Palm Beach, Martin, Orange, Osceola, Volusia and Seminole counties in Florida. The franchised agencies sold were located in Miami-Dade, Broward, Palm Beach, Martin, St. Lucie, Orange, Lee and Collier counties in Florida. Our independent agents are located primarily in South Florida.

As a result of this sale, we are focusing our marketing efforts on continuing to continue to expand our distribution network and market our products and services in other regions of Florida and 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 states other than Florida, Georgia , Kentucky, Louisiana and Texas.

Our agents have the authority to sell and bind insurance coverage in accordance with procedures established by Assurance MGA. Assurance MGA reviews all coverage bound by the agents promptly and generally accepts all coverage that falls within stated underwriting criteria. For automobile and commercial general liability policies, Assurance MGA also has the right, within a period of

60 days from a policy's inception, to cancel any policy, upon 45 days' notice, even if the risk falls within our underwriting criteria.

Except for the period as defined by the Florida Office of Insurance Regulation, which following the four Florida hurricanes in the third quarter of 2004 issued an emergency order that imposed a moratorium on cancellations and non-renewals of various types of insurance coverages, our homeowners' and mobile home policies as underwritten by Assurance MGA provided for the right, within a period of 90 days from a policy's inception, of Assurance MGA to cancel any policy upon 25 days' notice or after 90 days from policy inception with 95 days' notice, even if the risk falls within our underwriting criteria.

We believe that our integrated computer system, which allows for rapid automated premium quotation and policy issuance by our agents, is a key element in providing quality service to both our agents and insureds. For example, upon entering a customer's basic personal information, the customer's driving record is accessed and a premium rate is quoted. If the customer chooses to purchase the insurance, the system can generate the policy on-site.

We believe that the management of our distribution system now centers on our ability to capture and maintain relevant data by producing agent, none of whom will be affiliated with us. We believe that information management of agent production coupled with loss experience will enable us to maximize profitability.

The following table sets forth the amount and percentages of insurance premiums written through company-owned agencies, franchised agencies and independent agents for the periods indicated:

	Years Ended December 31, (Dollars in Thousands)					
	2004		2003		2002	
	Premium	Percent	Premium	Percent	Premium	Percent
Company-owned agencies	$ 11,421	11.4%	$ 22,320	30.6%	$ 20,403	32.3%
Franchised agencies	7,999	7.9%	11,630	15.9%	11,761	18.7%
Independent agencies	81,242	80.7%	39,041	53.5%	30,872	49.0%
Total	$ 100,662	100.0%	$ 72,991	100.0%	$ 63,036	100.0%

REINSURANCE

We follow industry practice of reinsuring a portion of our risks and paying for that protection based upon premiums received on all policies subject to such reinsurance. Reinsurance involves an insurance company transferring or "ceding" all or a portion of its exposure on insurance underwritten by it to another insurer, known as a "reinsurer." The reinsurer assumes a portion of the exposure in return for a portion, or quota share, of the premium, and pays the ceding company a commission based upon the amount of insurance ceded. The ceding of insurance does not legally discharge the insurer from its primary liability for the full amount of the policies. If the reinsurer fails to meet its obligations under the reinsurance agreement, the ceding company is still required to pay the loss.

Reinsurance is ceded under separate contracts or "treaties" for the separate lines of business underwritten and terms of coverage. The Company collectively ceded $15.5 million and $22.1 million in premiums written for the years ended December 31, 2004 and 2003, respectively. During 2004, we primarily reinsured Federated National's homeowners' insurance lines of business, while during 2003 we primarily reinsured our American Vehicle's and Federated National's automobile insurance lines of business. The Company's reinsurance for homeowners' is with several participants, all of which are AM Best rated "A" or better.

In August and September 2004, the State of Florida experienced four hurricanes, Charley, Frances, Ivan and Jeanne. One of our subsidiaries, Federated National, incurred significant losses relative to its homeowners' and mobile homeowners' insurance lines of business. Approximately 8,500 policyholders have filed hurricane-related claims totaling an estimated $105.4 million, of which we estimate that our share of the costs associated with these hurricanes will be approximately $43.5 million, net of reinsurance recoveries and amortized reinstatement premiums.

For each catastrophic occurrence, the excess of loss treaty will insure us for $24 million with the company retaining the first $10 million of loss and LAE. The treaty has a provision which, for an additional prorated premium will insure us for another $24 million of loss and LAE for subsequent occurrences with the company retaining the first $10 million in loss and LAE. As a result of the loss and LAE incurred in connection with the Hurricanes Charles and Frances the company has exhausted its recoveries of $48 million under the terms of this treaty.

The excess of loss treaty also insures us for an additional $34 million in excess of the company's $10 million retention plus the next $24 million as described above. Accordingly, loss and LAE incurred for Hurricanes Ivan, Jeanne and any subsequent catastrophic events through June 30, 2005, up to $34 million each, are the responsibility of the company, as illustrated in the accompanying table.

	(in millions)		
Hurricane	Gross Losses	Reinsurance Recoveries	Net Losses
Charley (August 13)	$ 44.2	$ 34.2	$ 10.0
Frances (September 3)	37.7	27.7	10.0
Ivan (September 14)	13.7	--	13.7
Jeanne (September 25)	9.8	--	9.8
Total Loss Estimate	$ 105.4	$ 61.9	$ 43.5

Furthermore, as a result of the 2004 hurricanes, we incurred a net reinstatement insurance premium of $3.0 million that is amortized through operations from the reinstatement date of August 13, 2004 to June 30, 2005.

We continue to participate in the Florida Hurricane Catastrophe Fund ("FCAT") and we subscribe to an excess of loss reinsurance policy to protect our interest in the insurable risks associated with our homeowner and mobile home owner insurance products. Maximum coverage afforded from the combined policies of our FCAT and excess of loss policies in effect for varying dates from June 1, 2004 to June 30, 2005 total approximately $200.0 million where we will retain the first $10 million of insurable losses on each event. Our amount of reinsurance coverage was determined by subjecting our homeowner and mobile homeowner exposures to statistical forecasting models that are designed to quantify a catastrophic event in terms of the frequency of a storm occurring once in every "n" years. Our reinsurance coverage contemplated a catastrophic event occurring once every 100 years.

We are selective in choosing a reinsurer and consider numerous factors, the most important of which is 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. Our current policy is to use only reinsurers that have an A.M. Best rating of "A" (Excellent) or better.

The Company's reinsurance for automobile insurance was ceded with Transatlantic Reinsurance Company ("Transatlantic"), an A+ rated reinsurance company. During 2004, Federated National did not reinsure any of its automobile insurance. In 2003 and 2002, Federated National ceded 40% of its automobile premiums written and losses incurred to Transatlantic. Beginning in November 2001, and continuing through December 31, 2003, American Vehicle reinsured all of its automobile insurance with Transatlantic at various levels. During 2004 American Vehicle did not reinsure any of its products.

The automobile quota-share reinsurance treaties for 2003 include loss corridors with varying layers of coverage based on ultimate incurred loss ratio results whereby the two insurance companies will retain 100% of the losses between incurred loss ratios of 66% and 86% for policies with an effective date of 2003. Despite the loss corridor, the reinsurer assumes significant insurance risk under the reinsured portions of the underlying insurance contracts and it is reasonably possible that the reinsurer may realize a significant loss from the transaction. Our ultimate incurred loss ratios for these treaties are estimated to be 69.2% and 72.5% for Federated National and American Vehicle, respectively.

During 2002, Federated National entered into a 10% quota-share agreement with our affiliate American Vehicle. The agreement ceded 10% of its premium and losses on all policies with an effective date of 2002. For presentation purposes, and in accordance with the principles of consolidation, the agreement between the two affiliated insurance companies has been eliminated.

LIABILITY FOR UNPAID LOSSES AND LAE

We are directly liable for loss and loss adjustment expense ("LAE") payments under the terms of the insurance policies that we write. In many cases there may be a time lag between the occurrence and reporting of an insured loss and our payment of that loss. As required by insurance regulations and accounting rules, we reflect the liability for the ultimate payment of all incurred losses and LAE by establishing a liability for those unpaid losses and LAE for both reported and unreported claims, which represent estimates of future amounts needed to pay claims and related expenses.

When a claim, other than personal automobile, involving a probable loss is reported, we establish a liability for the estimated amount of our ultimate loss and LAE payments. The estimate of the amount of the ultimate loss is based upon such factors as the type of loss, jurisdiction of the occurrence, knowledge of the circumstances surrounding the claim, severity of injury or damage, potential for ultimate exposure, estimate of liability on the part of the insured, past experience with similar claims and the applicable policy provisions.

All newly reported claims received with respect to personal automobile policies are set up with an initial average liability. The average liability for these claims is determined no less than annually by dividing the number of reported claims into the total amount paid during the same period. If a claim is open more than 45 days, that open case liability is evaluated and the liability is adjusted upward or downward according to the facts and circumstances of that particular claim.

In addition, management provides for a liability on an aggregate basis to provide for losses incurred but not reported ("IBNR"). We utilize independent actuaries to help establish liability for unpaid losses and LAE. We do not discount the liability for unpaid losses and LAE for financial statement purposes.

The estimates of the liability for unpaid losses and LAE are subject to the effect of trends in claims severity and frequency and are continually reviewed. As part of this process, we review historical data and consider various factors, including known and anticipated legal developments, changes in social attitudes, inflation and economic conditions. As experience develops and other data become available, these estimates are revised, as required, resulting in increases or decreases to the existing liability for unpaid losses and LAE. Adjustments are reflected in results of operations in the period in which they are made and the liabilities may deviate substantially from prior estimates. Among our classes of insurance, the automobile and homeowners' liability claims historically tend to have longer time lapses between the occurrence of the event, the reporting of the claim and the final settlement, than do automobile physical damage and homeowners' property claims. Liability claims often involve parties filing suit and therefore may result in litigation. By comparison, property damage claims tend to be reported in a relatively shorter period of time and settled in a shorter time frame with less occurrence of litigation. We do not experience changes in payment patterns due to portfolio loss transfers or structured settlements.

There can be no assurance that our liability for unpaid losses and LAE will be adequate to cover actual losses. If our liability for unpaid losses and LAE proves to be inadequate, we will be required to increase the liability with a corresponding reduction in our net income in the period in which the deficiency is identified. Future loss experience substantially in excess of established liability for unpaid losses and LAE could have a material adverse effect on our business, results of operations and financial condition.

The following table sets forth a reconciliation of beginning and ending liability for unpaid losses and LAE as shown in our consolidated financial statements for the periods indicated.

	For the years ending December 31,		
	2004	2003	2002
	(Dollars in Thousands)		
Balance at January 1:	$ 24,570	$ 16,984	$ 11,005
Less reinsurance recoverables	(9,761)	(7,848)	(4,798)
Net balance at January 1	$ 14,809	$ 9,136	$ 6,207

Incurred related to:			
Current year	$ 76,423	$ 26,275	$ 15,896
Prior years	(1,430)	1,234	91
Total incurred	$ 74,993	$ 27,509	$ 15,987
Paid related to:			
Current year	$ 42,304	$ 14,205	$ 8,148
Prior years	10,342	7,631	4,910
Total paid	$ 52,646	$ 21,836	$ 13,058
Net balance at year-end	$ 37,156	$ 14,809	$ 9,136
Plus reinsurance recoverables	9,415	9,761	7,848
Balance at year-end	$ 46,571	$ 24,570	$ 16,984

As shown above, and as a result of our review of liability for losses and LAE, which includes a re-evaluation of the adequacy of reserve levels for prior year's claims, we decreased the liability for loss and LAE for claims occurring in prior years by $1,431,000 for the year ended December 31, 2004 and we increased the liability for loss and LAE for claims occurring in prior years by $1,234,000 and $91,000 for the years ended December 31, 2003 and 2002, respectively. There can be no assurance concerning future adjustments of reserves, positive or negative, for claims through December 31, 2004.

Based upon discussions with our independent actuarial consultants and their statements of opinion on losses and LAE, we believe that the liability for unpaid losses and LAE is currently adequate to cover all claims and related expenses which may arise from incidents reported and IBNR.

The following table presents total unpaid loss and LAE, net, and total reinsurance recoverables due (to) or from our automobile reinsures as shown in our consolidated financial statements for the periods indicated.

Transatlantic Reinsurance Company (A+ A.M. Best Rated):	
Unearned premiums	$
Reinsurance recoverable on paid losses and loss adjustment expenses	
Unpaid losses and loss adjustment expenses	
	$
Amounts due from reinsurers consisted of amounts related to:	
Unpaid losses and loss adjustment expenses	$
Reinsurance recoverable on paid losses and loss adjustment expenses	
Reinsurance receivable (payable)	
	$

In addition to our reinsurance recoverable from our automobile reinsurers, we also have reinsurance recoveries due from our catastrophic reinsurance companies relating to the four hurricanes that occurred in August and September of 2004. The following table presents total unpaid loss and LAE, net, and total reinsurance recoverables due from our catastrophic reinsurers as shown in our consolidated financial statements.

	As of December 31, 2004	As of December 31, 2003
Catastrophe Excess of Loss (Various participants) and Florida Hurricane Catastrophe Fund:		
Reinsurance recoverable on paid losses and loss adjustment expenses	$ 18,191,799	$ --
Unpaid losses and loss adjustment expenses	6,907,390	
	$ 25,099,189	$ --
Amounts due from reinsurers consisted of amounts related to:		
Unpaid losses and loss adjustment expenses	$ 6,907,390	$ --
Reinsurance recoverable on paid losses and loss adjustment expenses	18,191,799	--
Reinsurance receivable (payable)	(3,371,458)	
	$ 21,727,731	$ --

The following table presents the liability for unpaid losses and LAE for the years ended December 31, 1995 through 2004. The top line of the table shows the estimated net liabilities for unpaid losses and LAE at the balance sheet date for each of the periods indicated. These figures represent the estimated amount of unpaid losses and LAE for claims arising in all prior years that were unpaid at the balance sheet date, including losses that had been incurred but not yet reported. The portion of the table labeled "Cumulative paid as of" shows the net cumulative payments for losses and LAE made in succeeding years for losses incurred prior to the balance sheet date. The lower portion of the table shows the re-estimated amount of the previously recorded liability based on experience as of the end of each succeeding year.

Years Ended December 31,

	2004	2003	2002	2001	2000	1999	1998
					Dollars in Thousands		
Balance Sheet Liability	$37,156	$14,809	$9,136	$6,207	$6,976	$4,428	$5,366
Cumulative paid as of:							
One year later		9,969	7,622	5,275	8,228	4,289	3,460
Two years later			9,401	7,222	9,568	5,799	4,499
Three years later				7,711	10,101	6,328	5,111
Four years later					10,352	6,408	5,387
Five years later						6,542	5,227
Six years later							5,216
Seven years later							
Eight years later							
Nine years later							

	2004	2003	2002	2001	2000	1999	1998	
Re-estimated net liability as of:								
End of year	$ 37,156	$ 14,809	$ 9,136	$ 6,207	$ 6,976	$ 4,428	$ 5,366	$
One year later		14,256	10,897	6,954	9,445	5,872	4,676	
Two years later			10,625	7,842	10,200	6,284	5,157	
Three years later				8,069	10,425	6,605	5,352	
Four years later					10,616	6,561	5,515	
Five years later						6,664	5,384	
Six years later							5,396	
Seven years later								
Eight years later								
Nine years later								
Cumulative redundancy (deficiency)		$ 553	$ (1,489)	$ (1,862)	$ (3,640)	$ (2,236)	$ (30)	$
Cumulative redundancy -deficiency as a % of reserves originally established		3.7%	-16.3%	-30.0%	-52.2%	-50.5%	-0.6%	

The cumulative redundancy or deficiency represents the aggregate change in the estimates over all prior years. A deficiency indicates that the latest estimate of the liability for losses and LAE is higher than the liability that was originally estimated and a redundancy indicates that such estimate is lower. It should be emphasized that the table presents a run-off of balance sheet liability for the periods indicated rather than accident or policy loss development for those periods. Therefore, each amount in the table includes the cumulative effects of changes in liability for all prior periods. Conditions and trends that have affected liabilities in the past may not necessarily occur in the future.

The table below sets forth the differences between loss and LAE reserves as disclosed for GAAP basis compared to Statutory Accounting Principles ("SAP") basis of presentation for the years ended 2004 and 2003.

21st Century Holding Company

	Years Ended December 31, 2004	2003
GAAP basis Loss and LAE reserves	$46,571	$24,570
Less unpaid Losses and LAE ceded	9,415	9,761
Balance Sheet Liability	37,156	14,809
Add Insurance Apportionment Plan	234	505
SAP basis Loss and LAE reserves	$37,390	$15,314

The table below sets forth the differences between loss and LAE incurred as disclosed for GAAP basis compared to SAP basis presentation for the years ended 2004, 2003 and 2002.

	Years Ended December 31, 2004	2003	2002
	(Dollars in Thousands)		
GAAP basis Loss and LAE incurred	$ 74,993	$ 27,509	$ 15,987
Intercompany adjusting and other expenses	5,597	3,579	2,484
Insurance apportionment plan	185	1,940	700
SAP basis Loss and LAE incurred	$ 80,775	$ 33,028	$ 19,171

Underwriting results of insurance companies are frequently measured by their Combined Ratios. However, investment income, federal income taxes and other non-underwriting income or expense are not reflected in the Combined Ratio. The profitability of property and casualty insurance companies depends on income from underwriting, investment and service operations. Underwriting results are considered profitable when the Combined Ratio is under 100% and unprofitable when the Combined Ratio is over 100%.

The following table sets forth Loss Ratios, Expense Ratios and Combined Ratios for the periods indicated for the insurance business of Federated National and American Vehicle for 2004, 2003 and 2002. The ratios, inclusive of unallocated loss adjustment expenses ("ULAE"), are shown in the table below, and are computed based upon SAP.

	Years Ended December 31, 2004	2003	2002
Loss Ratio	117.7%	67.4%	59.6%
Expense Ratio	23.1%	25.7%	24.7%
Combined Ratio	140.8%	93.1%	84.3%

The 47.8% increase in the SAP loss ratio from 2004 to 2003 in part reflects our experience relating to the four hurricanes that occurred in August and September of 2004, net of improved non-catastrophic loss ratio experience as the following table reflects.

		Calendar year 2004		
		Non-Catastrophic experience	Catastrophic experience	Total
Net Written Premiums	(a)	$ 83,660	$ 3,000	$ 86,660
Net Earned Premiums	(b)	$ 67,293	$ 1,308	$ 68,601
Net Incurred Losses & LAE	(c)	$ 39,791	$ 40,984	$ 80,775
Net Underwriting Expense	(d)	$ 18,743	$ 1,286	$ 20,029
Loss Ratio	(c/b)	59.1%	3132.4%	117.7%
Expense Ratio	(d/a)	22.4%	42.9%	23.1%
Combined Ratio		81.5%	3175.3%	140.8%

Main factors for the improved, non-catastrophic ratios between 2004 and 2003 include, but are not limited to, the termination of unprofitable agency relations, increased scrutiny over fraudulently asserted claims, streamlined paperless claims processing system, new claims management supervision, in house legal counsel, as well as overall stricter underwriting guidelines.

An increase in severity primarily associated with the personal injury protection line of automobile insurance can be attributed to the $1.2 million adverse development incurred in 2003 relative to accidents that occurred prior to 2003. Main factors for the 2003 loss ratio include unanticipated severity associated with adjusting personal injury protection claims which were mitigated by favorable loss experience associated with the property and commercial general liability lines of insurance. Additionally, during 2003, both of the insurance companies revised their respective automobile rates and the available deductibles limits.

COMPETITION

We operate in highly competitive markets and face competition from both national and regional insurance companies, many of whom are larger and have greater financial and other resources, have better A.M. Best ratings and offer more diversified insurance coverage. Our competitors include companies which market their products through agents, as well as companies which 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. We may also face competition from new or temporary entrants in our niche markets. In some cases, such entrants may, because of inexperience, desire for new business or other reasons, price their insurance below ours. 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 instead tend to compete on the basis of underwriting criteria, our distribution network and superior service to our agents and insureds. With respect to automobile insurance in Florida, we compete with more than 100 companies, which underwrite personal automobile insurance. Comparable companies which compete with us in the personal automobile insurance market include U.S. Security Insurance Company, United Automobile Insurance Company, Direct General Insurance Company and Security National Insurance Company, as well as major insurers such as Progressive Casualty Insurance Company. Comparable companies which compete with us in the homeowners' market include Florida Family Insurance Company, Florida Select Insurance Company, Atlantic Preferred Insurance Company and Vanguard Insurance Company. Comparable companies which compete with us in the general liability insurance market include Century Surety Insurance Company, Atlantic Casualty Insurance Company, Colony Insurance Company and Burlington/First Financial Insurance Companies. Competition could have a material adverse effect on our business, results of operations and financial condition.

REGULATION

GENERAL

We are subject to the laws and regulations in Florida, Georgia, Kentucky, Louisiana and Texas, and will be subject to the laws and regulations of any other states in which we seek to conduct business in the future. The regulations cover all aspects of our business and are generally designed to protect the interests of insurance policyholders, as opposed to the interests of shareholders. Such regulations relate to authorized lines of business, capital and surplus requirements, allowable rates and forms (particularly for the nonstandard auto segment), investment parameters, underwriting limitations, transactions with affiliates, dividend limitations, changes in control, market conduct, maximum amount allowable for premium financing service charges and a variety of other financial and non-financial components of our business. Our failure to comply with certain provisions of applicable insurance laws and regulations could have a material adverse effect on our business, results of operations or financial condition. In addition, any changes in such laws and regulations, including the adoption of consumer initiatives regarding rates charged for automobile or other insurance coverage, could materially adversely affect our operations or our ability to expand. We are, however, unaware of any consumer initiatives which could have a material adverse effect on our business, results of operations or financial condition.

Many states have also enacted laws which restrict an insurer's underwriting discretion, such as the ability to terminate policies, terminate agents or reject insurance coverage applications, and many state regulators have the power to reduce, or to disallow increases in, premium rates. These laws may adversely affect the ability of an insurer to earn a profit on its underwriting operations.

Most states have insurance laws requiring that rate schedules and other information be filed with the state's insurance regulatory authority, either directly or through a rating organization with which the insurer is affiliated. The regulatory authority may disapprove a rate filing if it finds that the rates are inadequate, excessive or unfairly discriminatory. Rates, which are not necessarily uniform for all insurers, vary by class of business, hazard covered, and size of risk. Certain states have recently adopted laws or are considering proposed legislation which, among other things, limit the ability of insurance companies to effect rate increases or to cancel, reduce or non-renew insurance coverage with respect to existing policies, particularly personal automobile insurance.

The Company's experience in Florida to date, however, has been that although legislative proposals of this type have been considered from time to time, none have yet been adopted. Nevertheless, the Florida legislature may adopt laws of this type in the future, which could adversely affect the Company's business.

Most states require licensure or regulatory approval prior to the marketing of new insurance products. Typically, licensure review is comprehensive and includes a review of a company's business plan, solvency, reinsurance, character of officers and directors, rates, forms and other financial and non-financial aspects of a company. The regulatory authorities may not allow entry into a new market by not granting a license or by withholding approval.

All insurance companies must file quarterly and annual statements with certain regulatory agencies and are subject to regular and special examinations by those agencies. The last regulatory examination of Federated National covered the three-year period ended on December 31, 2001. The last regulatory examination of American Vehicle covered the three-year period ended on December 31, 2002. No material deficiencies were found during either of the regulatory examinations. In some instances, various states routinely require deposits of assets for the protection of policyholders either in those states or for all policyholders. As of December 31, 2004, Federated National and American Vehicle held investment securities with a fair value of approximately $1,024,000, each as deposits with the State of Florida. Additionally, as of December 31, 2004, American Vehicle has a $100,000 deposit with the State of Louisiana and is in the process of funding a $400,000 deposit in connection with its approval in Alabama.

Under Florida law, a domestic insurer may not pay any dividend or distribute cash or other property to its shareholders except out of that part of its available and accumulated capital surplus funds which is derived from realized net operating profits on its business and net realized capital gains. A Florida domestic insurer may not make dividend payments or distributions to shareholders without prior approval of the Florida Office of Insurance Regulation if the dividend or distribution would exceed the larger of (i) the lesser of (a) 10.0% of its capital surplus or (b) net income, not including realized capital gains, plus a two-year carryforward, (ii) 10.0% of capital surplus with dividends payable constrained to unassigned funds minus 25% of unrealized capital gains or (iii) the lesser of (a) 10.0% of capital surplus or (b) net investment income plus a three-year carryforward with dividends payable constrained to unassigned funds minus 25.0% of unrealized capital gains. Alternatively, a Florida domestic insurer may pay a dividend or distribution without the prior written approval of the Florida Office of Insurance Regulation (i) if the dividend is equal to or less than the greater of (a) 10.0% of the insurer's capital surplus as regards policyholders derived from realized net operating profits on its business and net realized capital gains or (b) the insurer's entire net operating profits and realized net capital gains derived during the immediately preceding calendar year, (ii) the insurer will have policy holder capital surplus equal to or exceeding 115.0% of the minimum required statutory capital surplus after the dividend or distribution, (iii) the insurer files a notice of the dividend or distribution with the Florida Office of Insurance Regulation at least ten business days prior to the dividend payment or distribution and (iv) the notice includes a certification by an officer of the insurer attesting that, after the payment of the dividend or distribution, the insurer will have at least 115% of required statutory capital surplus as to policyholders. Except as provided above, a Florida domiciled insurer may only pay a dividend or make a distribution (i) subject to prior approval by the Florida Office of Insurance Regulation or (ii) 30 days after the Florida Office of Insurance Regulation has received notice of such dividend or distribution and has not disapproved it within such time.

Under these laws, based on their respective 2004 surplus and income, Federated National and American Vehicle would not be permitted to pay dividends in 2004. No dividends were paid by Federated National or American Vehicle in 2003, 2002 or 2001, and none are anticipated in 2005. Although we believe that amounts required to meet our financial and operating obligations will be available from sources other than dividends from insurance subsidiaries, there can be no assurance in this regard. Further, there can be no assurance that, if requested, the Florida Office of Insurance Regulation will allow any dividends in excess of the amount available, to be paid by Federated National and American Vehicle to us in the future. The maximum dividends permitted by state law are not necessarily indicative of an insurer's actual ability to pay dividends or other distributions to a parent company, which also may be constrained by business and regulatory considerations, such as the impact of dividends on capital surplus, which could affect an insurer's competitive position, the amount of premiums that can be written and the ability to pay future dividends. Further, state insurance laws and regulations require that the statutory capital surplus of an insurance company following any dividend or distribution by it be reasonable in relation to its outstanding liabilities and adequate for its financial needs.

While the non-insurance company subsidiaries are not subject directly to the dividend and other distribution limitations, insurance holding company regulations govern the amount that any affiliate within the holding company system may charge any of the insurance companies for service (e.g., management fees and commissions). In order to enhance the regulation of insurer solvency, the National Association of Insurance Commissioners ("NAIC") established risk-based capital requirements for insurance companies that are designed to assess capital adequacy and to raise the level of protection that statutory surplus provides for policy holders. These requirements measure three major areas of risk facing property and casualty insurers: (i) underwriting risks, which encompass the risk of adverse loss developments and inadequate pricing; (ii) declines in asset values arising from credit risk; and

(iii) other business risks from investments. Insurers having less statutory surplus than required will be subject to varying degrees of regulatory action, depending on the level of capital inadequacy. Based upon the 2004 statutory financial statements for American Vehicle, statutory surplus exceeded all regulatory action levels established by the NAIC. Based upon the 2004 statutory financial statements for Federated National, statutory surplus did not exceed regulatory action levels established by the NAIC. Federated National's results required us to submit a plan containing corrective actions. Federated has submitted its plan for corrective action and is currently in discussions with the Florida Office of Insurance Regulation regarding the merits of the action plan points. The regulatory action level permits the insurance regulators to perform an examination or other analysis and issue a corrective order. Federated National is scheduled to have its statutorily required triennial examination during 2005 for the three years ended December 31, 2004 to be performed by the Florida Office of Insurance Regulation. We may be subject of additional targeted examinations or analysis. These examinations or analysis may result in one or more corrective orders being issued by the Florida Office of Insurance Regulation.

The Florida Office of Insurance Regulation, which follows these requirements, could require Federated National or American Vehicle to cease operations in the event they fail to maintain the required statutory capital.

Based on Risk Based Capital requirements, the extent of regulatory intervention and action increases as the ratio of an insurer's statutory surplus to its Authorized Control Level ("ACL"), as calculated under the NAIC's requirements, decreases. The first action level, the Company Action Level, requires an insurer to submit a plan of corrective actions to the insurance regulators if statutory surplus falls below 200.0% of the ACL amount. The second action level, the Regulatory Action Level, requires an insurer to submit a plan containing corrective actions and permits the insurance regulators to perform an examination or other analysis and issue a corrective order if statutory surplus falls below 150.0% of the ACL amount. The Authorized Control Level, the third action level, allows the regulators to rehabilitate or liquidate an insurer in addition to the aforementioned actions if statutory surplus falls below the ACL amount. The fourth action level is the Mandatory Control Level, which requires the regulators to rehabilitate or liquidate the insurer if statutory surplus falls below 70.0% of the ACL amount. Federated National's ratio of statutory surplus to its ACL was 125.5%, 434.2% and 274.2% at December 31, 2004, 2003 and 2002, respectively. American Vehicle's ratio of statutory surplus to its ACL was 545.1%, 585.2% and 401.6% at December 31, 2004, 2003 and 2002, respectively.

The NAIC has also developed Insurance Regulatory Information Systems ("IRIS") ratios to assist state insurance regulators in identifying companies which may be developing performance or solvency problems, as signaled by significant changes in the companies' operations. Such changes may not necessarily result from any problems with an insurance company, but may merely indicate changes in certain ratios outside the ranges defined as normal by the NAIC. When an insurance company has four or more ratios falling outside "usual ranges," state regulators may investigate to determine the reasons for the variance and whether corrective action is warranted.

As of December 31, 2004, Federated National was outside NAIC's usual ranges with respect to its IRIS tests on seven out of twelve ratios. With the exception of two of these test results, all of test results can be attributed to the significant degradation of policyholders' surplus stemming from the losses incurred in its homeowners' line of business as a result of the four Florida hurricanes in 2004. The change in net writings and two-year reserve development to policyholders' surplus resulted from test ratio results that do not employ current year policyholders' surplus, and were unusual due to the increase in written premiums from 2004 compared to 2003 and the increased estimates of the costs to settle private passenger automobile liability claims in relation to Federated National's surplus level as of December 31, 2002.

As of December 31, 2003, Federated National was outside NAIC's usual ranges with respect to its IRIS tests on five out of twelve ratios. The first ratio relates to a larger than expected change in net writings, the second ratio relates to higher surplus growth that stemmed from 21st Century's capital contributions totaling $3.9 million during the year and the third ratio relates to an investment yield that was less than expected. The fourth and fifth ratios involved the one and two year reserve development to policyholder surplus ratios that were in excess of the "usual ranges" and relate to modest, but adverse, development which incurred in 2003 relating to 2002 and 2001 loss reserves.

As of December 31, 2004, American Vehicle was outside NAIC's usual ranges for three out of twelve ratios. The first ratio relates to a larger than anticipated change in net writings, the second ratio relates to higher surplus growth that stemmed from the Parent company's capital contributions totaling $4.3 million during the year and the third ratio relates to an investment yield that was slightly less than expected.

As of December 31, 2003, American Vehicle was outside NAIC's usual ranges for three out of twelve ratios. The first ratio relates to a larger than anticipated change in net writings, the second ratio relates to higher surplus growth that stemmed from the Parent company's capital contributions totaling

$5.9 million during the year and the third ratio relates to an investment yield that was slightly less than expected.

We do not currently believe that the Florida Office of Insurance Regulation will take any significant action with respect to Federated National or American Vehicle regarding the IRIS ratios, although there can be no assurance that will be the case.

INSURANCE HOLDING COMPANY REGULATION

We are subject to laws governing insurance holding companies in Florida where Federated National and American Vehicle are domiciled. These laws, among other things, (i) require us to file periodic information with the Florida Office of Insurance Regulation, including information concerning our capital structure, ownership, financial condition and general business operations, (ii) regulate certain transactions between us and our affiliates, including the amount of dividends and other distributions and the terms of surplus notes and (iii) restrict the ability of any one person to acquire certain levels of our voting securities without prior regulatory approval. Any purchaser of 5% or more of the outstanding shares of our Common Stock will be presumed to have acquired control of Federated National and American Vehicle unless the Florida Office of Insurance Regulation, upon application, determines otherwise.

FINANCE COMPANY REGULATION

Our financing program is also subject to certain laws governing the operation of premium finance companies. These laws pertain to such matters as books and records that must be kept, forms, licensing, fees and charges. For example, in Florida, the maximum late payment fee Federated Premium may charge is the greater of $10 per month or 5% of the amount of the overdue payment.

UNDERWRITING AND MARKETING RESTRICTIONS

During the past several years, various regulatory and legislative bodies have adopted or proposed new laws or regulations to address the cyclical nature of the insurance industry, catastrophic events and insurance capacity and pricing. These regulations include (i) the creation of "market assistance plans" under which insurers are induced to provide certain coverages, (ii) restrictions on the ability of insurers to rescind or otherwise cancel certain policies in mid-term, (iii) advance notice requirements or limitations imposed for certain policy non-renewals and (iv) limitations upon or decreases in rates permitted to be charged.

LEGISLATION

From time to time, new regulations and legislation are proposed to limit damage awards, to control plaintiffs' counsel fees, to bring the industry under regulation by the Federal government, to control premiums, policy terminations and other policy terms and to impose new taxes and assessments. It is not possible to predict whether, in what form or in what jurisdictions, any of these proposals might be adopted, or the effect, if any, on us.

INDUSTRY RATINGS SERVICES

In August 2004, A.M. Best Company notified us that Federated National and American Vehicle were being placed under review with negative implications. A.M. Best in 2003 had assigned Federated National a B rating ("Fair," which is the seventh of 14 rating categories) and American Vehicle a B+ rating ("Very Good," which is the sixth of 14 rating categories). In connection with this review, we requested that A.M. Best cease its ratings of these subsidiaries "NR-4 - Not rated, company's request". The withdrawal of our ratings could limit or prevent us from writing or renewing desirable insurance policies, obtaining adequate reinsurance or borrowing on our line of credit. Federated National and American Vehicle are currently rated "A" ("Unsurpassed," which is first of six ratings) by Demotech, Inc. A.M. Best's and Demotech's ratings are based upon factors of concern to agents, reinsurers and policyholders and are not primarily directed toward the protection of investors.

EMPLOYEES

As of December 31, 2004, and subsequent to the sale of our discontinued operations (see "Recent Developments" and "Discontinued Operations" above and Note 24 to our Consolidated Financial Statements included under Item 8 of this Report on Form 10-K) we had approximately 135 employees, including four executive officers. We are not a party to any collective bargaining agreement and we have not experienced work stoppages or strikes as a result of labor disputes. We consider relations with our employees to be satisfactory.

SENIOR MANAGEMENT

Set forth below is certain information concerning our executive officers who are not also directors:

James Gordon Jennings, III was appointed Chief Financial Officer of 21st Century in August 2002. Mr. Jennings became our Controller in May 2000 and for approximately 10 years prior thereto was employed by American Vehicle, where he was formally involved with all aspects of property and casualty insurance. Mr. Jennings', formerly a certified public accountant, also holds a Certificate in General Insurance and an Associate in Insurance Services as designated by the Insurance Institute of America.

Kent M. Linder assumed the position of Chief Operating Officer of 21st Century in September 2003 and was designated an executive officer by our Board of Directors in March 2005. Prior to this position, Mr. Linder served 21st Century as Director of Franchise Development and previous to that as the President of Federated Agency Group, Inc. Prior to joining our management team, Mr. Linder owned and operated a group of 18 insurance agencies in the Orlando, Florida area. Mr. Linder acquired his management experience while spending 12 years with United Parcel Service, in which he served in various management positions. Mr. Linder holds a bachelor's degree from the University of South Florida in Finance and is a licensed 220 property and casualty agent and 215 life agent.

GLOSSARY OF SELECTED TERMS

CEDE	To transfer to an insurer or reinsurer all or part of the insurance written by an insurance entity.
CEDING COMMISSION	A payment by a reinsurer to the ceding company, generally on a proportional basis, to compensate the ceding company for its policy acquisition costs.
COMBINED RATIO	The total of the Loss Ratio plus the Expense Ratio on either SAP or GAAP basis.

EXPENSE RATIO	Under SAP, the ratio of underwriting expenses to net written premiums. Using GAAP basis, the ratio of underwriting expenses to net premiums earned.
GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("GAAP")	Accounting practices and principles, as defined principally by the American Institute of Certified Public Accountants, the Financial Accounting Standards Board. GAAP is the method of accounting typically used by the Company for reporting to persons or entities other than insurance regulatory authorities.
GROSS PREMIUMS WRITTEN	The total of premiums received or to be received for insurance written by an insurer during a specific period of time without any reduction for reinsurance ceded.
HARD MARKET	The portion of the market cycle of the property and casualty insurance industry characterized by constricted industry capital and underwriting capacity, increasing premium rates and, typically, enhanced underwriting performance.
INCURRED BUT NOT REPORTED LOSSES ("IBNR")	The estimated liability of an insurer, at a given point in time, with respect to losses that have been incurred but not yet reported to the insurer, and for potential future developments on reported claims.
INSURANCE REGULATORY INFORMATION SYSTEM ("IRIS")	A system of ratio analysis developed by the NAIC primarily intended to assist the state insurance Department of Financial Services in executing their statutory mandates to oversee the financial condition of insurance companies.
LOSS ADJUSTMENT EXPENSE ("LAE")	The expense of investigating and settling claims, including legal fees, outside adjustment expenses and other general expenses of administering the claims adjustment process.
LOSS RATIO	Under both SAP and GAAP, net losses and LAE incurred, divided by net premiums earned, expressed as a percentage.

LOSS RESERVES	The estimated liability of an insurer, at a given point in time, with respect to unpaid incurred losses, including losses, which are IBNR and related LAE.
LOSSES INCURRED	The total of all policy losses sustained by an insurance company during a period, whether paid or unpaid. Incurred

	losses include a provision for claims that have occurred but have not yet been reported to the insurer.
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS ("NAIC")	A voluntary organization of state insurance officials that promulgates model laws regulating the insurance industry, values securities owned by insurers, develops and modifies insurer financial reporting, statements and insurer performance criteria and performs other services with respect to the insurance industry.
NET PREMIUMS EARNED	The amount of net premiums written allocable to the expired period of an insurance policy or policies.
NET PREMIUMS WRITTEN	The gross premiums written during a specific period of time, less the portion of such premiums ceded to (reinsured by) other insurers.
NONSTANDARD	Risks that generally have been found unacceptable by standard lines insurers for various underwriting reasons.
REINSURANCE	A procedure whereby a primary insurer transfers (or "cedes") a portion of its risk to a reinsurer in consideration of a payment of premiums by the primary insurer to the reinsurer for their assumption of such portion of the risk. Reinsurance can be affected by a treaty or individual risk basis. Reinsurance does not legally discharge the primary insurer from its liabilities with respect to its obligations to the insured.
REINSURERS	Insurers (known as the reinsurer or assuming company) who agree to indemnify another insurer (known as the reinsured or ceding company) against all or part of a loss that the latter may incur under a policy or policies it has issued.
RISK-BASED CAPITAL REQUIREMENTS ("RBC")	Capital requirements for property and casualty insurance companies adopted by the NAIC to assess minimum capital requirements and to raise the level of protection that statutory surplus provides for policy holder obligations.
SOFT MARKET	The portion of the market cycle of the property and casualty insurance industry characterized by heightened premium rate competition among insurers, increased underwriting capacity and, typically, depressed underwriting performance.
STANDARD AUTOMOBILE INSURANCE	Personal automobile insurance written for those individuals presenting an average risk profile in terms of loss history, driving record, type of vehicle driven and other factors.
STATUTORY ACCOUNTING PRACTICES ("SAP")	Those accounting principles and practices which provide the framework for the preparation of financial statements, and

the recording of transactions, in accordance with the rules and procedures adopted by regulatory authorities, generally emphasizing solvency consideration rather than a going concern concept of accounting. The principal differences between SAP and GAAP are as follows: (a) under SAP, certain assets (non-admitted assets) are eliminated from the balance sheet; (b) under SAP, policy acquisition costs are expensed upon policy inception, while under GAAP they are deferred and amortized over the term of the policies; and (c) under SAP, certain reserves are recognized which are not recognized under GAAP.

UNDERWRITING	The process whereby an underwriter reviews applications submitted for insurance coverage and determines whether it will provide all or part of the coverage being requested, and the price of such premiums. Underwriting also includes an ongoing review of existing policies and their pricing.
UNDERWRITING EXPENSE	The aggregate of policy acquisition costs, including that portion of general and administrative expenses attributable to underwriting operations.
UNEARNED PREMIUMS	The portion of premiums written representing unexpired policy terms as of a certain date.

ITEM 2. PROPERTIES

As of December 31, 2004, Federated National owned and partially occupied a three-story building with approximately 39,250 square feet of office space in Lauderdale Lakes, Florida. During 2004, our executive offices and our underwriting and mailroom departments relocated to the Lauderdale Lakes property, joining our other operations, including claims, accounting and premium finance, which had relocated in 2003 to that building. Approximately 55% of the Lauderdale Lakes building is occupied by our operations and 45% is leased to third parties or is vacant.

Effective March 1, 2005, Federated National sold its interest in the Lauderdale Lakes property to 21st Century at the property's net book value of approximately $2.9 million.

We believe that this building is adequate for our current needs.

ITEM 3. LEGAL PROCEEDINGS

We are involved in various claims and legal actions arising in the ordinary course of business. 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.

In June 2000, a lawsuit was filed against us, our directors and our executive officers seeking compensatory damages in an undisclosed amount on the basis of allegations that our amended registration statement dated November 4, 1998 was inaccurate and misleading concerning the manner in which we recognized ceded insurance commission income, in violation of Sections 11 and 15 of the

Securities Act of 1933 and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. The lawsuit was filed in the United States District Court for the Southern District of New York. The plaintiff class purportedly includes purchasers of our common stock between November 5, 1998 and August 13, 1999.

Specifically, the plaintiffs allege that we recognized ceded commission income on a written basis, rather than amortized on a pro rata basis. The plaintiffs allege that this was contrary to the Statement of Financial Accounting Concepts Nos. 1, 2 and 5. We believe, however, that the lawsuit is without merit and we have vigorously defended the action, because we reasonably relied upon outside subject matter experts to make these determinations at the time. We have also since accounted for ceded commission on a pro rata basis and have done so since these matters were brought to our attention in 1998. Nevertheless, we have also continued to actively participate in settlement negotiations with the plaintiffs and have agreed to settle the case for $525,000. The Court has issued a Preliminary Order approving the settlement and the full amount was funded in February 2005. Notices have been sent to class members and the Court has set the Final Settlement Hearing for July 26, 2005. We anticipate our active involvement with this matter to be concluded.

We had reserved and charged against forth quarter 2003 earnings $600,000 for the potential settlement and associated costs.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

(A) MARKET INFORMATION

Our common stock has been listed for trading on the Nasdaq National Market under the symbol "TCHC" since November 5, 1998. For the calendar quarters indicated, the table below sets forth the high and low closing prices per share of the common stock based on published financial resources.

Quarter Ended	High	Low
March 31, 2004	$25.00	$19.00
June 30, 2004	$23.19	$18.58
September 30, 2004	$24.84	$9.04
December 31, 2004	$14.68	$9.91
March 31, 2003	$9.33	$6.00
June 30, 2003	$11.17	$6.97
September 30, 2003	$12.50	$9.27
December 31, 2003	$15.73	$9.33

(B) HOLDERS

As of March 29, 2005, there were approximately 36 holders of record of our common stock. We believe that the number of beneficial owners of our common stock is in excess of 3,000.

(C) DIVIDENDS

During 2003, we paid quarterly dividends of $0.05, $0.06, $0.07 and $0.08 per share for the first, second, third and fourth quarters, respectively. During 2004, we paid quarterly dividends of $0.08 per share for each quarter. Although we continued the $0.08 per share dividend for the first quarter of 2005, payment of dividends in the future will depend on our earnings and financial position and such other factors, as our Board of Directors deems relevant. Moreover, our ability to continue to pay dividends may be restricted by regulatory limits on the amount of dividends that Federated National and American Vehicle are permitted to pay to the parent company. All of the foregoing per-share amounts reflect our three-for-two stock split in September 2004.

(D) SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table summarizes our equity compensation plans as of December 31, 2004. We do not currently have any equity compensation plans not approved by security holders.

EQUITY COMPENSATION PLAN INFORMATION

PLAN CATEGORY	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS (A)	WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS (B)	NUMBER OF SECURIT REMAINING AVAILABL FUTURE ISSUANCE U EQUITY COMPENSAT PLANS (EXCLUDIN SECURITIES REFLECT COLUMN (A)) (C)
Equity compensation plans approved by security holders*	1,119,575	$9.954	1,527,864

* Includes options from the 1998 Stock Option Plan, 2001 Franchise Program Stock Option Plan and the 2002 Stock Option Plan.

For additional information concerning our capitalization please see Note 16 to our Consolidated Financial Statements included under Item 8 of this Report on Form 10-K.

ITEM 6. SELECTED FINANCIAL DATA

	As of or for the year ended		
	2004	2003	2002

BALANCE SHEET DATA				
Total assets	163,601,372	106,695,593	75,318,011	5
Investments	84,382,173	47,290,420	25,377,796	1
Finance contracts, consumer loans and pay advances receivable, net	8,289,356	9,891,642	7,217,873	1
Total liabilities	138,624,637	74,649,217	57,220,348	4
Unpaid losses and loss adjustment expenses	46,570,679	24,570,198	16,983,756	1
Unearned premiums	50,152,711	34,122,663	28,934,486	1
Revolving credit outstanding	2,148,542	4,098,786	4,312,420	
Total shareholders' equity	$ 24,976,735	$ 32,046,376	$ 18,097,664	$ 1
Book value per share	$ 4.15	$ 5.89	$ 4.03	$

	As of or for the year end		
	2004	2003	2002
OPERATIONS DATA:			
Revenue:			
Gross premiums written	$ 100,662,025	$ 72,991,434	$ 63,036,468
Gross premiums ceded	(15,485,917)	(22,090,644)	(27,765,267
Net premiums written	85,176,108	50,900,790	35,271,201
Increase (decrease) in prepaid reinsurance premiums	(2,904,716)	(3,427,818)	5,691,283
(Increase) decrease in unearned premiums	(16,030,048)	(5,188,177)	(14,047,919
Net change in prepaid reinsurance premiums and unearned premiums	(18,934,764)	(8,615,995)	(8,356,636
Net premiums earned	66,241,344	42,284,795	26,914,565
Commission income	--	--	--
Finance revenue	3,667,837	4,327,675	4,452,626
Managing general agent fees	2,039,783	2,328,681	1,970,226
Net investment income	3,171,620	1,624,216	1,253,765
Net realized investment gains (losses)	688,676	2,231,333	(1,369,961
Other income	762,164	791,718	769,915
Total revenue	76,571,424	53,588,418	33,991,136

Expenses:

Loss and loss adjustment expenses	74,992,781	27,508,979	15,987,125
Operating and underwriting expenses	8,139,812	7,249,440	6,367,633
Salaries and wages	6,134,168	5,425,538	4,562,115
Interest expense	1,087,494	606,910	353,225
Amortization of deferred acquisition costs, net	8,422,808	(854,279)	(2,064,314
Amortization of goodwill	--	--	--
Total expenses	98,777,063	39,936,588	25,205,784
Income (loss) from continuing operations before provision (benefit for income tax expense)	(22,205,639)	13,651,830	8,785,252
Provision (benefit) for income tax expense	(8,600,911)	4,357,961	3,685,572
Net income (loss) from continuing operation before extraordinary gain	(13,604,728)	9,293,869	5,099,781
Extraordinary gain	--	--	--
Net income (loss) from continuing operations and extraordinary gain	(13,604,728)	9,293,869	5,099,781
Discontinued operations:			
Income (loss) on discontinued operations	(900,473)	(1,364,605)	(912,303
Gain on sale or disposal	5,384,050	--	--
Income on discontinued operations before tax provision (benefit)	4,483,577	(1,364,605)	(912,303
Provision (benefit) for income tax expense	1,736,624	(435,611)	(382,723
Income (loss) on discontinued operations	2,746,953	(928,994)	(529,580
Net income (loss)	$ (10,857,775)	$ 8,364,875	$ 4,570,201
Basic net income (loss) per share from continuing operations	$ (2.34)	$ 1.96	$ 1.13
Extraordinary gain	--	--	--
Basic net income (loss) per share from discontinued operations	$ 0.47	$ (0.20)	$ (0.12
Basic net income (loss) per share	$ (1.86)	$ 1.76	$ 1.01
Fully diluted net income (loss) per share from continuing operations	$ (2.34)	$ 1.85	$ 1.13
Fully diluted extraordinary gain	$ --	$ --	$ --
Fully diluted net income (loss) per share from discontinued operations	$ 0.47	$ (0.18)	$ (0.12
Fully diluted net income (loss) per share	$ (1.86)	$ 1.67	$ 1.01
Cash dividends declared per share	$ 0.32	$ 0.25	$ 0.10

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

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

We are an insurance holding company, which, through our subsidiaries and our contractual relationships with our independent agents, control substantially all aspects of the insurance underwriting, distribution and claims process. We underwrite personal automobile insurance, general liability insurance, homeowners' insurance and mobile home property and casualty insurance in Florida and Georgia through our wholly owned subsidiaries, Federated National and American Vehicle. We internally process claims made by our own and third party insureds through our wholly owned claims adjusting company, Superior Adjusting, Inc. We also offer premium financing to our own and third-party insureds through our wholly owned subsidiary, Federated Premium Finance, Inc.

Assurance MGA, a wholly owned subsidiary, acts as Federated National's and American Vehicle's exclusive managing general agent. Assurance MGA currently provides all underwriting policy administration, marketing, accounting and financial services to Federated National and American Vehicle, and participates in the negotiation of reinsurance contracts. Assurance MGA generates revenue through policy fee income and other administrative fees from the marketing of companies' products through our distribution network.

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. Also, if our estimated liabilities for unpaid losses and LAE are less than actual losses and LAE, we will be required to increase reserves with a corresponding reduction in our net income in the period in which the deficiency is identified.

The most significant events affecting our results of operations and financial condition in 2004 were the four hurricanes that struck the State of Florida in the third quarter. Since then, we have been receiving and processing claims made under our homeowners' and mobile home owners' policies, a process that is expected to be substantially completed during the first half of 2005. Federated National incurred significant losses relative to its homeowners' insurance line of business. As of December 31, 2004, approximately 8,500 policyholders had filed hurricane-related claims totaling an estimated $105.4 million, of which we currently estimate that our share of the costs associated with these hurricanes will be approximately $43.5 million, net of our reinsurance recoveries and amortized reinstatement premiums. For a further discussion of our reinsurance please see our section titled "REINSURANCE"

Since our initial preliminary provision for losses from these hurricanes of $33 million, net of reinsurance recoveries, as of September 30, 2004, we revised our provision for losses as described above. Because the storms occurred during the third quarter of 2004, we were not able to complete physical inspections of a sufficiently large percentage of claims, nor were complete repair estimates available. During the fourth quarter of 2004, as physical property inspections and repair estimates were completed, our initial estimates of losses for these storms were increased to reflect increased estimates of claim severity on our homeowners' policies in Florida. We do not currently anticipate further materials increases to our loss estimates from the 2004 hurricanes.

We have operated in a competitive market and face competition from both national and regional insurance companies, although the number of competitors in the homeowners' line of business has been somewhat reduced because of the effects of the 2004 hurricanes. Many of our competitors are larger and have greater financial and other resources, have better industry ratings and offer more diversified insurance coverage. Our competitors include other companies which market their products through agents, as well as companies which 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. We may also face competition from new or temporary entrants in our niche markets. In some cases, such entrants may, because of inexperience, desire for new business or other reasons, price their insurance below ours. 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 instead tend to compete on the basis of underwriting criteria, our distribution network and superior service to our agents and insureds. Competition could have a material adverse effect on our business, results of operations and financial condition.

CRITICAL ACCOUNTING POLICIES

Our accounting policies are more fully described in Note 2 of Notes to Consolidated Financial Statements. As disclosed therein, 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 liability for unpaid losses and loss adjustment expense, the recoverability of goodwill and amortization of deferred policy acquisition costs. In addition, significant estimates form the bases 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. 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 loss adjustment expense, an actuarial valuation. Management constantly reevaluates these significant factors and makes adjustments where facts and circumstances dictate. See Note 2 of the Notes to Consolidated Financial Statements.

ACCOUNTING CHANGES

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123, Share-Based Payments (revised 2004) ("SFAS No. 123R"). This statement eliminates the option to apply the intrinsic value measurement provisions of APB No. 25 to stock compensation awards issued to employees. Rather, SFAS No. 123R requires companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award - the requisite service period (usually the vesting period). SFAS No. 123R will also require companies to measure the cost of employee services received in exchange for employee stock purchase plan awards. SFAS No. 123R will be effective for 21st Century's fiscal quarter beginning July 1, 2005. We have not yet determined the effect on us of the adoption of SFAS No. 123R.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities ("FIN 46"), which requires the consolidation of certain entities considered to be variable interest entities ("VIEs"). An entity is considered to be a VIE when it has equity investors who lack the characteristics of having a controlling financial interest, or its capital is insufficient to permit it to finance its activities without additional subordinated financial support. Consolidation of a VIE by an investor is required when it is determined that the investor will absorb a majority of the VIE's expected losses if they occur, receive a majority of the entity's expected residual returns if they occur, or both. The adoption of Interpretation No. 46 did not have any impact on our Consolidated Financial Statements.

In May 2003, the FASB issued Statement of Financial Accounting Standard Number 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity and it requires that an issuer classify a financial instrument that is within its scope as a liability because the financial instrument embodies an obligation of the issuer. This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective in the first interim period beginning after June 15, 2003. In July 2003 and September 2004, we completed private placements of our 6% Senior Subordinated Notes. These notes fall within the definition of financial instruments as described in Financial Accounting Standard Number 150 and were originally presented as a liability in conformity with Statement of Financial Accounting Standard Number 150. As such, the adoption of this Statement did not have any impact on our Consolidated Financial Statements.

ANALYSIS OF FINANCIAL CONDITION AS OF DECEMBER 31, 2004 AS COMPARED TO DECEMBER 31, 2003

INVESTMENTS.

Investments increased $37.1 million or 78.4% to $84.4 million as of December 31, 2004 from $47.3 million as of December 31, 2003 primarily as a result an increase in written insurance premiums.

As a result of the adverse market conditions which occurred in 2002, management more carefully monitors its concentrations, industries and asset allocations. There were no other instances of large concentrations of investment securities requiring write-downs. We did not hold any non-traded investment securities during 2004 or 2003.

Below is a summary of unrealized losses loss at December 31, 2004 and 2003 by category.

	Net Unrealized Gains (Losses) Years Ended December 31,	
	2004	2003
Fixed maturities:		
U.S. government obligations	$(582,310)	$(793,613)
Obligations of states and political subdivisions	(4,501)	(4,840)
	(586,811)	(798,453)
Corporate securities:		
Communications	23,299	209,226
Financial	(11,220)	14,694
Other	64,377	45,475
	76,456	269,395
Equity securities:		
Preferred stocks	--	400
Common stocks	(312,410)	3,154
	(312,410)	3,554
Total fixed, corporate and equity securities	$(822,765)	$(525,504)

RECEIVABLE FOR INVESTMENTS SOLD.

Receivable for investments in 2003 were realized in 2004. The receivable is a result of investment trading activity that occurred in late December 2003 and did not settle until early January 2004.

FINANCE CONTRACTS.

Finance contracts receivable decreased $1.6 million or 16.2% from $8.3 million as of December 31, 2004 as compared to $9.9 million as of December 31, 2003. The decrease of the finance contracts receivable is primarily the result of our requested credit reduction.

PREPAID REINSURANCE PREMIUMS.

Prepaid reinsurance premiums decrease was $2.9 million, net or 34.5% to $5.5 million as of December 31, 2004 from $8.4 million as of December 31, 2003. The decrease in Federated National's and American Vehicle's ceded quota-share reinsurance totaled $4.0 million and $3.8 million, respectively. This decrease was mitigated by an increase in ceded unearned premiums relative to Federated National's homeowners' and mobile homeowners' insurance products.

Results of Operations

PREMIUMS RECEIVABLE.

Premiums receivable decreased $1.3 million, or 17.8% to $6.0 million as of December 31, 2004, from $7.3 million as of December 31, 2003. The decline can be attributed to the decline in automobile written premiums and the diversification of our product lines. The predominate user of the finance products is the automobile customer. There is less of a tendency to finance homeowner premiums due to policyholder mortgage escrow arrangements and only a modest need to finance commercial general liability insurance.

REINSURANCE RECOVERABLE - NET.

Reinsurance recoverable increased $14.4 million or 130.6% to $25.5 million as of December 31, 2004 from $11.1 million as of December 31, 2003. This increase is the result of the increase in loss and loss adjustment expenses incurred relative to the four hurricanes that affected Florida in August and September 2004 and, to a lesser extent, the timing of settlements with our reinsurers. All amounts are considered current and are primarily associated with the catastrophic weather events.

DEFERRED ACQUISITION COSTS - NET.

Deferred acquisition costs increased $5.3 million to $7.0 million as of December 31, 2004 from $1.7 million as of December 31, 2003. At December 31, 2004, commission expense net of commissions income was approximately $6.1 million and expenses connected with the writing of premiums such as salaries and premium taxes, net of policy fees totaled approximately $0.9 million. Deferred policy acquisition costs, net, increased primarily due to a $2.5 million increase of deferred commission expenses and a $2.3 million decrease in ceded unearned commissions income during the year ended December 31, 2004. The increase of deferred commission expenses continues to be primarily related to the increase in lines of insurance other than automobile, which are not subject to quota-share agreements. The decrease in ceded commissions income is due to a $7.8 million decline of ceded commissions.

At December 31, 2003, commission expense net of commissions income was approximately $1.2 million and expenses connected with the writing of premiums such as salaries and premium taxes, net of policy fees totaled approximately $0.5 million. Deferred policy acquisition costs, net, increased primarily due to a $0.84 million increase of deferred commission expenses and a $0.82 million decrease in ceded unearned commissions income during the year ended December 31, 2003. The increase of deferred commission expenses primarily related to the increase in lines of insurance other than automobile, which are not subject to quota-share agreements. The decrease in ceded commissions income is due to a $3.4 million decline of ceded commissions.

INCOME TAX RECOVERABLE.

Income tax recoverable increased by 887.5% to $7.9 as of December 31, 2004 as compared to $0.8 million as of December 31, 2003 and is primarily due to the effects of the current year net operating loss. Income tax provisions allows us to carry back our current year net operating loss two years and receive a tax refund for taxes paid in profitable years. The tax benefit is recognized as a receivable for the refundable amount. Further, the tax benefit reduces the current year's tax expense based on the tax rates in effect in the carryback period.

GOODWILL.

Goodwill declined by approximately $1.6 million, or 91.2% to approximately $154,000 as of December 31, 2004 as compared to approximately $1,740,000 as of December 31, 2003 due to the sale of our captive and franchised agencies on December 31, 2004. Goodwill otherwise remained unchanged during 2004 due to the adoption of SFAS 142, wherein our assessment of goodwill indicated no impairment of the remaining goodwill associated with Express Tax. Please see "Recent

Developments" and "Discontinued Operations" above and Note 24 to our Consolidated Financial Statements included under Item 8 of this Report on Form 10-K for a description of our January 1, 2005 sale of our interest in Express Tax.

OTHER ASSETS.

Other assets increased by $2.5 million, or 108.7% to $4.8 million as of December 31, 2004 as compared to $2.3 million as of December 31, 2003. The largest contribution to the increase in other assets is associated with our receivable due in connection with our sale in December 2004 of our assets related to our non-standard automobile insurance agency business in Florida (please see "Recent Developments" and "Discontinued Operations" above and Note 24 to our Consolidated Financial Statements included under Item 8 of this Report on Form 10-K for a description of this transaction). Major components of other assets are as follows:

	December 31, 2004	December 31, 2003
Accrued interest income	$ 605,484	$ 680,017
Notes receivable	64,320	460,145
Unamortized loan costs	837,665	430,803
Compensating cash balances	156,070	200,430
Due from sale of discontinued operations (see note 24)	2,587,343	--
Other	572,060	568,261
Total	$4,822,942	$2,339,656

UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES.

Unpaid losses and loss adjustment expenses increased $22.0 million or 89.5% to $46.6 million as of December 31, 2004 as compared to $24.6 million as of December 31, 2003. The increase is most notably associated with the four hurricanes that occurred in August and September of 2004.

Federated National's reserves increased by $23.0 million in 2004 as compared to 2003 and American Vehicle's reserves decreased by $1.4 million in 2004 as compared to 2003. Factors, other than the four hurricanes that struck Florida in August and September 2004, that affect unpaid losses and loss adjustment expenses include the estimates made on a claim-by-claim basis known as case reserves coupled with bulk estimates known as "incurred but not 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 past 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. For further discussion, see "Losses and LAE."

UNEARNED PREMIUM.

Unearned premiums increased by $16.0 million or 47.0% to $50.1 million as of December 31, 2004 as compared to $34.1 million as of December 31, 2003. The increase was due to a $18.9 million increase in unearned homeowner's insurance premiums and $2.7 million in unearned premiums associated with the commercial liability program. Offsetting these increases was a $5.5 million decrease in automobile unearned premiums. These changes reflect our continued emphasis in 2004 on property and commercial general liability insurance products.

BANK OVERDRAFT.

Bank overdraft increased $14.3 million to $14.8 million for the year ended December 31, 2004 as compared to $0.6 million for the year ended December 31, 2003. The significant increase primarily relates to hurricane-related loss and LAE checks issued but not yet paid by the bank.

DEFERRED INCOME FROM SALE OF AGENCY OPERATIONS.

Deferred income from sale of agency operations was $2.5 million as of December 31, 2004 as compared to zero as of December 31, 2003. This reflects the contractual provisions associated with the December 31, 2004 sale of our non-standard automobile insurance agency business in Florida that provide for a post-closing payment of up to $2.5 million provided that certain performance criteria are met. The company believes it will meet these criteria during 2005. For further information about this transaction, please see "Recent Developments" above and Note 24 to our Consolidated Financial Statements included under Item 8 of this Report on Form 10-K.

SUBORDINATED DEBT.

On September 30, 2004, we completed a private placement of 6% Senior Subordinated Notes due September 30, 2007 (the "September 2004 Notes"). These notes were offered and sold to accredited investors as units consisting of one September 2004 Note with a principal amount of $1,000 and warrants to purchase shares of our Common Stock (the "2004 Warrants"), the terms of which are similar to our subordinated notes and warrants sold in our July 2003 private placement described below. We sold an aggregate of $12.5 million of units in this placement, which resulted in proceeds (net of placement agent fees of $700,000 and offering expenses of $32,500) to us of $11,767,500. By comparison, the subordinated notes that we sold in 2003 (the "July 2003 Notes") resulted in net proceeds to us of $6,938,498. Please see Note 22 to our Consolidated Financial Statements included under Item 8 of this Report on Form 10-K, for further discussion.

RESULTS OF OPERATIONS YEAR ENDED DECEMBER 31, 2004 COMPARED TO YEAR ENDED DECEMBER 31, 2003

GROSS PREMIUMS WRITTEN.

Gross premiums written increased $27.7 million, or 37.9%, to $100.7 million for the year ended December 31, 2004, as compared to $73.0 million for the comparable period in 2003. The following table denotes gross premiums written by major product line.

	Year eneded December 31, 2004		2003	
Automobile	$ 24,239,001	24.1%	$ 49,297,915	67.5%
Homeowners'	62,400,283	62.0%	16,804,497	23.0%
Commercial liability	12,509,942	12.4%	5,149,944	7.1%
Mobile home owners'	1,512,799	1.5%	1,739,078	2.4%
Gross written premiums	$100,662,025	100.0%	$ 72,991,434	100.0%

This table reflects the success of our efforts to expand our line of insurance products to include products other than automobile insurance.

GROSS PREMIUMS CEDED.

Gross premiums ceded decreased $6.6 million or 29.9% to $15.5 million for the year ended December 31, 2004, from $22.1 million for the year ended December 31, 2003. The decrease due to decline in our ceded quota-share reinsurance associated with our automobile insurance totaled $20.5 million and was offset by a $13.9 million increase in ceded premiums associated with our property lines of business.

INCREASE (DECREASE) IN PREPAID REINSURANCE PREMIUMS.

Prepaid reinsurance premiums decreased $0.5 million or 15.3%, to ($2.9) million as of December 31, 2004, from ($3.4) million for the year ended December 31, 2003. The decrease is due primarily to our decreased reliance on quota-share reinsurance on its automobile insurance products.

INCREASE IN UNEARNED PREMIUMS.

The increase in unearned premiums rose by $10.8 million, or 209.0% to ($16.0) million as of December 31, 2004, as compared to ($5.2) million as of December 31, 2003. The unearned premium liability increase of $16.0 million during 2004 is net of homeowner and commercial liability unearned premiums increases of $18.9 million and $2.7 million, respectively, and is offset by automobile unearned premiums decreases of $5.5 million. These changes reflect our continued emphasis in 2004 on property and commercial general liability insurance products.

MANAGING GENERAL AGENT FEES.

Managing General Agent Fees decreased modestly by $0.2 million or 11.0% to $2.1 million as compared to $2.3 million as of December 31, 2003. The decrease reflects an overall decrease in the production of insurance policies mitigated by policies with higher rates and volume of one-year term policies.

NET INVESTMENT INCOME.

Net investment income increased by $1.6 million or 95.3% to $3.2 million for the year ended December 31, 2004, as compared to $1.6 million for the year ended December 31, 2003. The increase in investment income is a result of the additional amounts of invested assets. Our overall investment yield increased by .35%, from 4.47% for the year ended December 31, 2003 to 4.82% for the year ended December 31, 2004.

NET REALIZED INVESTMENT GAINS (LOSSES).

Net realized investment gains decreased by $1.5 million, or 69.1%, to $0.7 million for the year ended December 31, 2004 as compared $2.2 million for the year ended December 31, 2003. The table below reflects the gains and losses by investment category.

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

	For the year ending December 31, 2004	2003
Realized gains:		
Fixed securities	$ 62,513	$ 1,590,937
Equity securities	894,883	1,230,118
Total realized gains	957,396	2,821,055
Realized losses:		
Fixed securities	(42,911)	(508,299)
Equity securities	(225,809)	(81,422)
Total realized losses	(268,720)	(589,721)
Net realized gains (losses) on investments	$ 688,676	$ 2,231,334

LOSSES AND LAE.

Loss and loss adjustment expenses increased by $47.5 million, or 172.6%, to $75.0 million for the year ended December 31, 2004, as compared to $27.5 million as of December 31, 2003. The increase is due to the impact of the 2004 hurricane season wherein August and September of 2004, the State of Florida experienced four hurricanes, Charley, Frances, Ivan and Jeanne. One of our subsidiaries, Federated National, incurred significant losses relative to its homeowners' insurance line of business. The Company's loss ratio, as determined in accordance with GAAP, for the year ended December 31, 2004 was 113.21% compared with 61.30% for the same period in 2003. The table below reflects the loss ratios by product line.

	For the year ending December 31, 2004	2003
Automobile	73.24%	79.51%
Home owners	166.54%	21.30%
Commercial liability	18.74%	18.50%
Mobile home owners	238.79%	28.74%
All Product Lines	113.21%	61.30%

Approximately 8,500 policyholders have filed hurricane-related claims totaling an estimated $105.4 million, of which we estimate that our share of the costs associated with these hurricanes will be approximately $39.1 million and $4.4 million for homeowners' and mobile homeowners', respectively, net of reinsurance recoveries and amortized reinstatement premiums. As of September 30, 2004 approximately 7,500 policyholders had filed hurricane-related claims totaling an estimated $62.0 million, of which we estimated that our share of the costs associated with these hurricanes will be approximately $33.0 million, net of reinsurance recoveries and amortized reinstatement premiums.

For each catastrophic occurrence, the excess of loss treaty will insure us for $24 million with the company retaining the first $10 million of loss and

LAE. The treaty has a provision which, for an additional prorated premium will insure us for another $24 million of loss and LAE for subsequent occurrences with the company retaining the first $10 million in loss and LAE. As a result of the loss and LAE incurred in connection with the Hurricanes Charles and Frances the company has exhausted its recoveries of $48 million under the terms of this treaty.

The excess of loss treaty also insures us for an additional $34 million in excess of the company's $10 million retention plus the next $24 million as described above. Accordingly, loss and LAE incurred for Hurricanes Ivan, Jeanne and any subsequent catastrophic events through June 30, 2005, up to $34 million each, are the responsibility of the company, as illustrated in the accompanying table.

(in millions)

Hurricane	Gross Losses	Reinsurance Recoveries	Net Losses
Charley (August 13)	$ 44.2	$ 34.2	$ 10.0
Frances (September 3)	37.7	27.7	10.0
Ivan (September 14)	13.7	--	13.7
Jeanne (September 25)	9.8	--	9.8
Total Loss Estimate	$ 105.4	$ 61.9	$ 43.5

Furthermore, as a result of the 2004 hurricanes, we incurred a net reinstatement insurance premium of $3.0 million that is amortized through operations from the reinstatement date of August 13, 2004 to June 30, 2005.

The All Products Lines loss ratio of 113.21% as of December 31, 2004 would have been 47.42% without the impact of the four hurricanes in August and September of 2004. The four hurricanes in August and September of 2004 increased our homeowners' and mobile homeowners' loss ratio for the year ended December 31, 2004 by approximately 129.14 percentage points and 205.67 percentage points, respectively.

Losses and loss adjustment expenses, the Company's most significant expense, represent actual payments made and changes in estimated future payments to be made to or on behalf of its policyholders, including expenses required to settle claims and losses. Management revises its estimates based on the results of its analysis of estimated future payments to be made. This process assumes that past experience, adjusted for the effects of current developments and anticipated trends, is an appropriate basis for predicting future events.

The Company attributes the overall increase in the loss ratio to be clearly related to the four hurricanes in August and September of 2004. If we were to segregate the affects of the four hurricanes in August and September of 2004 we estimate that our All Products Lines loss ratio would have been approximately 47.42% as of December 31, 2004 as compared to 61.30% as of December 31, 2003 and attribute that decrease to the increasingly significant operational contributions made by our lines of business other than automobile.

SALARIES AND WAGES.

Salaries and wages increased $0.7 million, or 13.0%, to $6.1 million for the year ended December 31, 2004, as compared to $5.4 million for the year ended December 31, 2003. Management believes that the increase in salaries and wages is consistent with retaining quality management and increased premium production.

INTEREST EXPENSE.

Interest expense increased by $0.5 million, or 79.2%, to $1.1 million for the year ended December 31, 2004, as compared to $0.6 million as of December 31, 2003. The increase in interest expense is attributable to our July 2003 and September 2004 Notes. For further discussion relative to the Notes see footnote 22 titled Subordinated Debt.

POLICY ACQUISITION COSTS, NET OF AMORTIZATION.

Policy acquisition costs, net of amortization, increased by $9.3 million, charging earnings by $8.4 million for the year ended December 31, 2004, as compared to a credit of $0.9 million as of December 31, 2003. 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.

During the year ended December 31, 2004, the difference between the ceded commissions earned of $1.5 million and amortized costs of $9.9 million resulted in a charge to earnings of $8.4 million. The $9.3 million increase in policy acquisition costs, net of amortization, in the 2004 period as compared to the 2003 period is attributable to the decrease in ceded commissions earned during the year ended December 31, 2004 totaling $5.2 million, netted against amortized costs of $4.1 million during the same period.

RESULTS OF OPERATIONS YEAR ENDED DECEMBER 31, 2003 COMPARED TO YEAR ENDED DECEMBER 31, 2002

GROSS PREMIUMS WRITTEN.

Gross premiums written increased $10.0 million, or 15.8%, to $73.0 million for the year ended December 31, 2003, as compared to $63.0 million for the comparable period in 2002. The following table denotes gross premiums written by major product line.

	Year eneded December 31,			
	2003			2002
Automobile	$49,297,915	67.5%	$52,586,436	83.4%
Homeowners'	16,804,497	23.0%	8,669,642	13.8%
Commercial liability	5,149,944	7.1%	--	0.0%
Mobile home owners'	1,739,078	2.4%	1,780,390	2.8%
Gross written premiums	$72,991,434	100.0%	$63,036,468	100.0%

This table reflects the success of our efforts to expand our line of insurance products to include products other than automobile insurance.

GROSS PREMIUMS CEDED.

Gross premiums ceded decreased $5.7 million or 25.8% to $22.1 million for the year ended December 31, 2003, from $25.3 million for the year ended December 31, 2002. The decrease is primarily due to the decline in our ceded quota-share reinsurance associated with our automobile insurance.

INCREASE (DECREASE) IN PREPAID REINSURANCE PREMIUMS.

Prepaid reinsurance premiums decreased $9.1 million or 160.2%, to ($3.4) million as of December 31, 2003, from $5.7 million for the year ended December 31, 2002. The decrease is due primarily to American Vehicle's decreased reliance on quota-share reinsurance on its automobile insurance products.

INCREASE IN UNEARNED PREMIUMS.

The increase in unearned premiums declined by $8.8 million, or 63.1% to ($5.2) million as of December 31, 2003, as compared to ($14.0) million as of December 31, 2002. The unearned premium liability increase of $5.2 million during 2003 is net of homeowner and commercial liability unearned premiums increases of $5.7 million and $3.8 million, respectively, and is offset by automobile unearned premiums decreases of $4.3 million. These changes reflect our emphasis in 2003 on property and commercial general liability insurance products.

MANAGING GENERAL AGENT FEES.

Managing General Agent Fees increased modestly from $2.0 million for the year ended 2002 to $2.3 million for the year ended December 31, 2003. The increase reflects an overall increase in the production of insurance policies.

NET INVESTMENT INCOME.

Net investment income increased by $0.3 million or 29.5% to $1.6 million for the year ended December 31, 2003, as compared to $1.3 million for the year ended December 31, 2002. The increase in investment income is a result of the additional amounts of invested assets. Although the Company's net investment income has increased during 2003 compared to 2002, our overall investment yield declined by 1.5%, from 4.9% for the year ended December 31, 2002 to 3.4% for the year ended December 31, 2003.

NET REALIZED INVESTMENT GAINS (LOSSES).

Net realized investment gains increased by $3.6 million to $2.2 million for the year ended December 31, 2003 as compared to a loss of $1.4 million for the year ended December 31, 2002. The table below reflects the gains and losses by investment category.

	For the year ending December 31,	
	2003	2002
Realized gains:		
Fixed securities	$ 1,590,937	$ 774,931
Equity securities	1,230,118	123,232
Total realized gains	2,821,055	898,163
Realized losses:		

Fixed securities	(508,299)	(2,164,790)
Equity securities	(81,422)	(103,334)
Total realized losses	(589,721)	(2,268,124)
Net realized gains (losses) on investments	$ 2,231,334	$ (1,369,961)

LOSSES AND LAE.

Loss and loss adjustment expenses increased by $11.5 million, or 72.1%, to $27.5 million for the year ended December 31, 2003, as compared to $16.0 million as of December 31, 2002. The increase is predominantly due to the increase in net premiums earned. The Company's loss ratio, as determined in accordance with GAAP, for the year ended December 31, 2003 was 60.8% compared with 54.4% for the same period in 2002. The table below reflects the loss ratios by product line.

	For the year ending December 31,	
	2003	2002
Automobile	79.51%	70.55%
Home owners	21.30%	21.64%
Commercial liability	18.50%	0.00%
Mobile home owners	28.74%	33.37%
All Product Lines	61.30%	54.39%

Losses and loss adjustment expenses, the Company's most significant expense, represent actual payments made and changes in estimated future payments to be made to or on behalf of its policyholders, including expenses required to settle claims and losses. Management revises its estimates based on the results of its analysis of estimated future payments to be made. This process assumes that past experience, adjusted for the effects of current developments and anticipated trends, is an appropriate basis for predicting future events. The Company attributes the overall increase in the loss ratio primarily to its liability lines of insurance associated with automobile claims and the related estimates of the costs necessary to settle the claims. The estimated cost to close all claim files, for accidents that occurred in years other than the accidents that occurred in the current year ended December 31, 2003 and net of reinsurance recoveries, has increased by a total of $1.2 million over the ultimate estimates made as of December 31, 2002, primarily due to a decrease of claim frequency and claim severity and periodic estimates made by management of the ultimate costs required to settle all claims, both reported and not yet reported.

SALARIES AND WAGES.

Salaries and wages increased $0.8 million, or 18.9%, to $5.4 million for the year ended December 31, 2003, as compared to $4.6 million for the year ended December 31, 2002. Management believes that the increase in salaries and wages is consistent with retaining quality management and increased premium production.

POLICY ACQUISITION COSTS, NET OF AMORTIZATION.

Policy acquisition costs, net of amortization, increased by $1.2 million, or 58.6%, to a credit of $0.9 million for the year ended December 31, 2003, as compared to a credit of $2.1 million as of December 31, 2002. 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.

During the year ended December 31, 2003, the difference between the ceded commissions earned of $6.7 million and amortized costs of $5.8 million resulted in a credit to earnings of $0.9 million. The $1.2 million increase in policy acquisition costs, net of amortization, in the 2003 period as compared to the 2002 period is attributable to the increase in ceded commissions earned during the year ended December 31, 2003 totaling $1.0 million, netted against amortized costs of $2.2 million during the same period.

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

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of capital in 2004 were revenues generated from operations, including our investment portfolios, issuance of debt securities, sale of certain assets related to our non-standard automobile agency insurance business in Florida, and borrowings under our Revolving Loan Agreement (the "Revolving Agreement"), as described below. Because we are a holding company, we are largely dependent upon fees from our subsidiaries for cash flow.

For the years ended December 31, 2004 and 2003, operations generated net operating cash flow of $18.6 million and $12.3 million, respectively. During the year ended December 31, 2004, gross cash flow from operations generated approximately $62.3 million, due to an increase in unpaid loss and loss adjustment expenses totaling $22.0 million, increased unearned premiums liability totaling $16.0 million, increased prepaid reinsurance premiums totaling $2.9 million and increased bank overdrafts totaling $14.1 million, all in conjunction with a net loss of $10.9 million.

Operations for the year ended December 31, 2004 used $32.9 million of gross cash flow primarily for a $14.4 million increase to reinsurance recoverable, net and a $7.1 million increase income taxes recoverable, and $5.2 million gain on sale of agency operations. Additionally, $5.2 million was used to pay agent commissions where the underlying policy term is unexpired as of December 31, 2004.

Net operating cash flow is currently expected to be positive in both the short-term and the reasonably foreseeable future.

For the year ended December 31, 2003, operations generated a cash flow of $12.3 million as compared to $14.5 million in 2002. Cash flow provided by financing activities was $12.2 million in 2003, as we generated $6.9 million through exercised stock options and $7.5 million through the sale of our July 2003 Notes.

In addition, our investment portfolio is highly liquid as it consists almost entirely of readily marketable securities. Cash flow used in net investing activities was $30.9 million for the year ended December 31, 2004, as we invested the cash flow from operating and financing activities. While in a period in which written premiums are increasing, it is reasonably expected that cash from premiums will be used for investing activities. In the future, we expect a continued cash flow deficit from investing activities, as we invest cash from operations.

Net cash generated from financing activities was $11.7 million for the year ended December 31, 2004. The source of cash from financing activities is primarily reflected by the receipt of $12.5 million from the issuance of additional 6% Senior Subordinated Notes and proceeds from exercised stock options totaling $3.0 million, offset by $1.9 million paid in dividends and $2.0 million used to reduce revolving credit outstanding.

The 2003 Warrants issued to the purchasers of the July 2003 Notes and to the placement agent in the offering, J. Giordano Securities Group ("J. Giordano"), each entitle the holder to purchase 3/4 of one share of our Common Stock at an exercise price of $12.7435 per whole share (as adjusted for the Company's three-for-two stock split) until July 31, 2006. The total number of shares issuable upon exercise of 2003 Warrants issued to the purchasers of the July 2003 Notes and to J. Giordano totaled 408,050. GAAP requires that detachable warrants be valued separately from debt and included in paid-in capital. Based on the terms of the purchase agreement with the investors in the private placement, management believes that the July 2003 Warrants had zero value at the date of issuance.

On September 30, 2004, we completed a private placement of the September 2004 Notes. These notes were offered and sold to accredited investors as units consisting of one September 2004 Note with a principal amount of $1,000 and warrants to purchase shares of our Common Stock (the "2004 Warrants"), the terms of which are similar to our July 2003 Notes and 2003 Warrants, except as described below. We sold an aggregate of $12.5 million of units in this placement, which resulted in proceeds (net of placement agent fees of $700,000 and offering expenses of $32,500) to us of $11,767,500.

The September 2004 Notes pay interest at the annual rate of 6%, mature on September 30, 2007, and rank pari passu in terms of payment and priority to the July 2003 Notes. Quarterly payments of principal and interest due on the September 2004 Notes, like the July 2003 Notes, may be made in cash or, at our option, in shares of our Common Stock. If paid in shares of Common Stock, the number of shares to be issued shall be determined by dividing the payment due by 95% of the weighted-average volume price for the Common Stock on Nasdaq as reported by Bloomberg for the 20 consecutive trading days preceding the payment date.

The 2004 Warrants issued to the purchasers of the September 2004 Notes and to the placement agent in the offering, J. Giordano, each entitle the holder to purchase one share of our Common Stock at an exercise price of $12.75 per share and will be exercisable until September 30, 2007. The number of shares issuable upon exercise of the 2004 Warrants issued to purchasers equaled $12.5 million divided by the exercise price of the warrants, and totaled 980,392. The number of shares issuable upon exercise of the 2004 Warrants issued to J. Giordano equaled $500,000 divided by the exercise price of the warrants, and totaled 39,216. GAAP requires that detachable warrants be valued separately from debt and included in paid-in capital. Based on the terms of the purchase agreement with the investors in the private placement, management believes that the September 2004 Warrants had zero value at the date of issuance. The terms of the 2004 Warrants provide for adjustment of the exercise price and the number of shares issuable thereunder upon the occurrence of certain events typical for private offerings of this type.

Federated Premium's operations are funded by the Revolving Agreement with FlatIron Funding Company LLC ("FlatIron"). The Revolving Agreement is structured as a sale of contracts receivable under a sale and assignment agreement with WPAC (a wholly-owned subsidiary of FlatIron), which gives WPAC the right to sell or assign these contracts receivable. Federated Premium, which services these contracts, has recorded transactions under the Revolving Agreement as secured borrowings. During September 2004, we negotiated a new revolving loan agreement in which the maximum credit commitment available to us was reduced at our request to $2.0 million with built-in options to incrementally increase the maximum credit commitment up $4.0 million over the next three years. We believe that this available credit is sufficient based on our current operations.

The Revolving Agreement, which was amended and revised in September 2001, allowed for a maximum credit commitment of $7.0 million plus an initial additional amount of $700,000 for the transition from September 30, 2001 when the previous agreement expired. The line declined by $100,000 each month beginning November 1, 2001. In September 2002 the line was amended and revised allowing for a maximum credit commitment of $4.0 million.

The amount of WPAC's advances are subject to availability under a borrowing base calculation, with maximum advances outstanding not to exceed the maximum credit commitment. The annual interest rate on advances under the Revolving Agreement is the prime rate plus additional interest varying from 1.25% to 3.25% based on the prior month's ratio of contracts receivable related to insurance companies with an A. M. Best rating of B or lower, to total contracts receivable. As of December 31, 2004, our interest rate was 7.00% as compared to our interest rate as of December 31, 2003 of 5.75%

The Revolving Agreement contains various operating and financial covenants, with which we were in compliance at December 31, 2004 and December 31, 2003. Outstanding borrowings under the Revolving Agreement as of December 31, 2004 and December 31, 2003 were $2.1 million and $4.1 million, respectively. Outstanding borrowings in excess of the $2.0 million commitment totaled $148,542 as of December 31, 2004. The excess amount, permissible by reason of a compensating cash balance of $156,070 for December 31, 2004, was held for the benefit of WPAC and is included in other assets. Outstanding borrowings in excess of the $4.0 million commitment totaled $98,786 as of December 31, 2003. The excess amount, permissible by reason of a compensating cash balance of $200,430 for December 31, 2003, was held for the benefit of FPF and is included in other assets. Interest expense on this revolving credit line for the years ended December 31, 2004, 2003 and 2002 totaled approximately $178,000, $203,000 and $342,000, respectively.

The annual interest rate on advances under the Revolving Agreement is the prime rate plus additional interest varying from 1.25% to 3.25% based on the prior month's ratio of contracts receivable related to insurance companies with an A. M. Best rating of B or worse to total contracts receivable. The effective interest rate on this line of credit, based on our average outstanding borrowings under the Revolving Agreement, was 5.71%, 4.83% and 6.23% for the years ended December 31, 2004, 2003 and 2002, respectively.

In September 2002, FlatIron reduced the maximum credit commitment under the Revolving Agreement due to the A.M. Best ratings of third party insurance carriers with which we were financing policies at the time. Simultaneously, however, we ceased financing policies underwritten by third party insurance carriers altogether and began financing only those policies underwritten by our insurance carriers (in 2003 we began again to finance policies from a small number of independent agents whose customer base and operational history meet our strict criteria for credit worthiness). Additionally, in 2002, we implemented a direct bill program for policies underwritten by our carriers. These changes markedly decreased credit risks and made our reliance on the higher credit commitment previously offered by FlatIron unnecessary.

As an alternative to premium finance we offer direct billing where 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, 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 our credit facility, but remain able to charge and collect interest from the policyholder.

We believe that our current capital resources, including the net proceeds from the sale of our agency operations, the Express Tax sale and the issuance of our Notes described above, together with cash flow from operations, will be sufficient to meet currently anticipated working capital requirements. There can be no assurances, however, that such will be the case.

At December 31, 2004 and 2003, 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 loss 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 which result in prolonged and increasing levels of inflation could cause increases in the dollar amount of incurred loss and LAE and thereby materially adversely affect future liability requirements.

SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

	Year Ended Decemb		
	First Quarter	Second Quarter	Q
Continuing Operations:			
Revenue:			
Net premiums earned	$ 13,007,676	$ 16,929,178	$ 2
Other revenue	2,463,357	2,436,982	
Total revenue	15,471,033	19,366,160	2
Expenses:			
Losses and loss adjustment expenses	6,474,833	7,618,159	4
Other expenses	4,818,353	5,899,996	1
Total expenses	11,293,186	13,518,155	5
Income (loss) from continuing operations before provision (benefit) for income tax expense	4,177,847	5,848,005	(2
Provision (benefit for income tax expense	1,546,817	2,110,216	(
Net income (loss) from continuing operations	2,631,030	3,737,789	(1
Discontinued Operations:			
Revenue:			
Other revenue	2,101,268	1,207,108	
Total revenue	2,101,268	1,207,108	
Expenses:			
Other expenses	1,636,046	1,305,692	
Total expenses	1,636,046	1,305,692	
Gain on sale of discontinued operations	--	--	
Income (loss) from discontinued operations before provision (benefit) for income tax expense	465,222	(98,584)	
Provision (benefit) for income tax expense	172,245	(35,573)	
Net income (loss) from discontinued operations	292,977	(63,011)	
Income (loss) before provision for income tax expense	4,643,069	5,749,421	(2
Provision for income tax expense	1,719,062	2,074,643	(
Net income (loss)	$ 2,924,007	$ 3,674,778	$(1
Basic net income (loss) per share from continuing operations	$ 0.47	$ 0.65	$
Basic net income (loss) per share from discontinued operations	$ 0.05	$ (0.01)	$
Basic net income (loss) per share	$ 0.52	$ 0.63	$

Fully diluted net income (loss) per share from continuing operations	$ 0.43	$ 0.61	$
Fully diluted net income (loss) per share from discontinued operations	$ 0.05	$ (0.01)	$
Fully diluted net income (loss) per share	$ 0.48	$ 0.60	$

	Year Ended Decemb		
	First Quarter	Second Quarter	Q
Continuing Operations:			
Revenue:			
Net premiums earned	$ 10,456,944	$ 10,949,001	$ 1
Other revenue	2,632,346	3,361,987	
Total revenue	13,089,290	14,310,988	1
Expenses:			
Losses and loss adjustment expenses	6,787,709	7,493,747	
Other expenses	3,025,855	2,958,918	
Total expenses	9,813,564	10,452,665	1
Income from continuing operations before provision for income tax expense	3,275,726	3,858,323	
Provision for income tax expense	1,179,257	1,268,215	
Net income (loss) from continuing operations	2,096,469	2,590,108	
Discontinued Operations:			
Revenue:			
Other revenue	1,772,720	633,791	
Total revenue	1,772,720	633,791	
Expenses:			
Other expenses	1,441,577	1,343,118	
Total expenses	1,441,577	1,343,118	

Income (loss) from discontinued operations before provision (benefit) for income tax expense	331,143	(709,327)	
Provision (benefit) for income tax expense	119,211	(233,153)	
Net income (loss) from discontinued operations	211,932	(476,174)	
Income before provision for income tax expense	3,606,869	3,148,996	
Provision for income tax expense	1,298,468	1,035,062	
Net income	$ 2,308,401	$ 2,113,934	$
Basic net income (loss) per share from continuing operations	$ 0.47	$ 0.56	$
Basic net income (loss) per share from discontinued operations	$ 0.04	$ (0.10)	$
Basic net income (loss) per share	$ 0.51	$ 0.46	$
Fully diluted net income (loss) per share from continuing operations	$ 0.46	$ 0.54	$
Fully diluted net income (loss) per share from discontinued operations	$ 0.04	$ (0.10)	$
Fully diluted net income (loss) per share	$ 0.50	$ 0.44	$

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE 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 fixed maturity 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 or the Investment Committee and is reviewed on a regular basis. Pursuant to this investment policy, as of December 31, 2004, approximately 82.6% of investments were in fixed income securities and short-term investments, which are considered to be available for sale, based upon our intent at the time of purchase. Fixed maturities are considered available for sale and are marked to market. We may in the future also consider fixed maturities to be held to maturity and carried at amortized cost. We do not use any material swaps, options, futures or forward contracts to hedge or enhance our investment portfolio.

The investment portfolio is managed by the Investment Committee consisting of our President, independent directors and our affiliated director in accordance with guidelines established by the Florida Office of Insurance Regulation.

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

	Years Ended December 31,		
	2004	2003	2002
	(Dollars in Thousands)		
Interest on fixed maturities	$ 2,437	$ 1,463	$ 1,190
Dividends on equity securities	165	109	18
Interest on short-term securities	23	27	59
Other	555	118	17
Total investment income	3,180	1,717	1,284
Investment expense	(8)	(93)	(30)
Net investment income	$ 3,172	$ 1,624	$ 1,254
Net realized gain (loss)	$ 689	$ 2,231	$(1,370)

The following table summarizes, by type, our investments as of December 31, 2004 and 2003.

	December 31, 2004		December 31
	Carrying Amount	Percent of Total	Carrying Amount
	(Dollars in Thousands)		(Dollars in Thousands)
Fixed maturities, at market:			
U.S. government agencies and authorities	$54,114	64.13%	$25,544
Obligations of states and political subdivisions	9,502	11.26%	7,634
Corporate securities	5,971	7.08%	10,311
Total fixed maturities	69,587	82.47%	43,489
Equity securities, at market	14,795	17.53%	3,663
Mortgage notes receivable	--	0.00%	138
Total investments	$84,382	100.00%	$47,290

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21st Century Holding Company

Fixed maturities are carried on the balance sheet at market. At December 31, 2004 and 2003, fixed maturities had the following quality ratings (by Moody's Investors Service, Inc. ("Moody's") and for securities not assigned a rating by Moody's, by Standard and Poor's Corporation)

	December 31, 2004		December 31, 2003	
	Carrying Amount (Dollars in Thousands)	Percent of Total	Carrying Amount (Dollars in Thousands)	Percent of Total
AAA	$62,487	89.80%	$31,485	72.40%
AA	425	0.61%	226	0.52%
A	2,532	3.64%	7,135	16.41%
BBB	3,840	5.52%	3,925	9.03%
BB++	303	0.43%	300	0.69%
Not rated	--	0.00%	419	0.95%
	$69,587	100.00%	$43,490	100.00%

The following table summarizes, by maturity, the fixed maturities as of December 31, 2004 and 2003.

	December 31, 2004		December 31, 2003	
	Carrying Amount (Dollars in Thousands)	Percent of Total	Carrying Amount (Dollars in Thousands)	Percent of Total
Matures In:				
One year or less	$ 390	0.56%	$ 4,038	9.29%
One year to five years	6,892	9.90%	6,078	13.97%
Five years to 10 years	50,263	72.24%	22,373	51.44%
More than 10 years	12,042	17.30%	11,001	25.30%
Total fixed maturities	$69,587	100.00%	$43,490	100.00%

At December 31, 2004, the weighted average maturity of the fixed maturities portfolio was approximately 9 years.

The following table provides information about the financial instruments as of December 31, 2004 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:

	2005	2006	2007	2008
			(Dollars in Thousand	
Principal amount by expected maturity:				
U.S. government agencies and authorities	$ 2,000	$ --	$ --	$
Obligations of states and political subdivisions	--	350	950	1,
Corporate securities	907	500	--	2,

Collateralized mortgage obligations	--	--	--	
Equity securities, at market	--	--	--	
Mortgage notes receivable	--	--	--	
All investments	$ 2,907	$ 850	$ 950	$ 3,
Weighted average interest rate by expected maturity:				
U.S. government agencies and authorities	4.00%	0.00%	0.00%	0
Obligations of states and political subdivisions	0.00%	5.75%	4.17%	4
Corporate securities	7.25%	4.00%	0.00%	6
Collateralized mortgage obligations	0.00%	0.00%	0.00%	0
Equity securities, at market	0.00%	0.00%	0.00%	0
Mortgage notes receivable	0.00%	0.00%	0.00%	0
All investments	5.01%	4.72%	4.17%	5

	Thereafter	Total	Carrying Amount
	(Dollars in Thousands)		
Principal amount by expected maturity:			
U.S. government agencies and authorities	$ 49,200	$ 53,200	$54,114
Obligations of states and political subdivisions	5,375	9,200	9,502
Corporate securities	2,000	5,857	5,971
Collateralized mortgage obligations	--	--	--
Equity securities, at market	--	--	14,795
Mortgage notes receivable	--	--	--
All investments	$ 56,575	$ 68,257	$84,382
Weighted average interest rate by expected maturity:			
U.S. government agencies and authorities	4.75%	4.70%	
Obligations of states and political subdivisions	4.13%	4.31%	
Corporate securities	3.38%	5.22%	
Collateralized mortgage obligations	0.00%	0.00%	
Equity securities, at market	0.00%	0.00%	
Mortgage notes receivable	0.00%	0.00%	
All investments	4.65%	4.69%	

21st Century Holding Company

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

PAGE

21st Century Holding Company

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
21st Century Holding Company

We have audited the accompanying consolidated balance sheets of 21st Century Holding Company and Subsidiaries (the "Company"), a Florida corporation, as of December 31, 2004 and 2003, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of 21st Century Holding Company and Subsidiaries at December 31, 2004 and 2003 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2004 in conformity with U.S. generally accepted accounting principles.

De Meo, Young, McGrath, CPA

Boca Raton, Florida

March 31, 2005

21st Century Holding Company and Subsidiaries
CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2004 AND 2003

	December 31, 2004	Dece
ASSETS		
Investments		
Fixed maturities, available for sale, at fair value	$ 69,587,030	$
Equity securities	14,795,143	
Mortgage loans	--	
Total investments	84,382,173	
Cash and cash equivalents	6,127,706	
Receivable for investments sold	--	
Finance contracts, net of allowance for credit losses of $475,788 in 2004 and $562,558 in 2003	8,289,356	
Prepaid reinsurance premiums	5,510,379	
Premiums receivable, net of allowance for credit losses of $541,851 and $123,000, respectively	6,024,913	
Reinsurance recoverable, net	25,488,956	
Deferred policy acquisition costs	6,957,168	
Income taxes recoverable	7,915,424	
Deferred income taxes	3,656,076	
Property, plant and equipment, net	4,272,733	
Goodwill, net	153,546	
Other assets	4,822,942	
Total assets	$ 163,601,372	$
LIABILITIES AND SHAREHOLDERS' EQUITY		
Unpaid losses and loss adjustment expenses	$ 46,570,679	$
Unearned premiums	50,152,711	
Premiums deposits	1,871,683	
Revolving credit outstanding	2,148,542	
Bank overdraft	14,832,698	
Subordinated debt	16,875,000	
Deferred income from sale of agency operations	2,500,000	
Accounts payable and accrued expenses	3,673,324	
Total liabilities	138,624,637	
Commitments and contingencies		
Shareholders' equity:		
Common stock, $0.01 par value Authorized 37,500,000 shares; issued 6,744,791 and 6,133,386 shares, respectively; Outstanding 6,048,842 and 5,437,587, respectively	67,448	
Additional paid-in capital	26,310,147	

Accumulated other comprehensive income (deficit)	(504,972)	
Retained earnings	883,757	
Treasury stock, 696,849 shares and 695,799 shares, at cost, respectively	(1,779,645)	
Total shareholders' equity	24,976,735	
Total liabilities and shareholders' equity	$ 163,601,372	$

See accompanying notes to consolidated financial statements.

21st Century Holding Company and Subsidiaries
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

	2004	
Revenue:		
Gross premiums written	$ 100,662,025	$
Gross premiums ceded	(15,485,917)	
Net premiums written	85,176,108	
Increase (decrease) in prepaid reinsurance premiums	(2,904,716)	
Decrease (increase) in unearned premiums	(16,030,048)	
Net change in prepaid reinsurance premiums and unearned premiums	(18,934,764)	
Net premiums earned	66,241,344	
Finance revenue	3,667,837	
Managing general agent fees	2,039,783	
Net investment income	3,171,620	
Net realized investment gains	688,676	
Other income	762,164	
Total revenue	76,571,424	
Expenses:		
Loss and loss adjustment expenses	74,992,781	
Operating and underwriting expenses	8,139,812	
Salaries and wages	6,134,168	
Interest expense	1,087,494	
Policy acquisition costs, net of amortization	8,422,808	

Total expenses	98,777,063	
Income (loss) from continuing operations before provision (benefit) for income tax expense	(22,205,639)	
Provision (benefit) for income tax expense	(8,600,911)	
Net income (loss) from continuing operations	(13,604,728)	
Discontinued operations:		
Income (loss) from discontinued operations (including gain on disposal of $5,384,050 for 2004)	4,483,577	
Provision (benefit) for income tax expense	1,736,624	
Income (loss) on discontinued operations	2,746,953	
Net income (loss)	$ (10,857,775)	$
Basic net income (loss) per share from continuing operations	$ (2.34)	$
Basic net income (loss) per share from discontinued operations	$ 0.47	$
Basic net income (loss) per share	$ (1.86)	$
Fully diluted net income (loss) per share from continuing operations	$ (2.34)	$
Fully diluted net income (loss) per share from discontinued operations	$ 0.47	$
Fully diluted net income (loss) per share	$ (1.86)	$
Weighted average number of common shares outstanding	5,847,102	
Weighted average number of common shares outstanding (assuming dilution)	5,847,102	
Dividends declared per share	$ 0.32	$

See accompanying notes to consolidated financial statements.

21st Century Holding Company and Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
AND COMPREHENSIVE INCOME (LOSS)
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

	Comprehensive Income	Common Stock	Additional Paid-in Capital	C
Balance as of December 31, 2001		$ 51,161	$ 12,816,092	($
Net Income	$ 4,570,201			
Cash Dividends				
Acqusition of common shares				
Stock options exercised		15	22,392	
Net unrealized change in investments, net of tax effect of $4,613	(8,954)			
Comprehensive income	$ 4,561,247			
Balance as of December 31, 2002		$ 51,176	$ 12,838,484	$
Net Income	$ 8,364,876			
Cash Dividends				
Acqusition of common shares				
Stock options exercised		9,539	6,859,107	
Stock issued in lieu of cash payment for principal and interest associated with our notes		618	736,882	
Net unrealized change in investments, net of tax effect of $196,012	(97,790)			
Comprehensive income	$ 8,267,086			
Balance as of December 31, 2003		$ 61,333	$ 20,434,473	$
Net Loss	($ 10,857,775)			
Cash Dividends				
Acqusition of common shares				
Stock options exercised		3,729	2,774,716	
Warrants exercised		117	224,869	
Stock issued in lieu of cash payment for principal and interest associated with our notes		2,269	2,853,981	
Net unrealized change in investments, net of tax effect of $304,667	(180,091)			
Comprehensive loss	($ 11,037,866)			
Balance as of December 31, 2004		$ 67,448	$ 26,288,039	$

Total

	Treasury Stock	Shareholder' Equity
Balance as of December 31, 2001	($ 840,286)	$ 14,209,131
Net Income		4,570,201
Cash Dividends		(449,475)
Acqusition of common shares	(253,446)	(253,446)
Stock options exercised	7,800	30,207
Net unrealized change in investments, net of tax effect of $4,613		(8,954)
Comprehensive income		--
Balance as of December 31, 2002	$ (1,085,932)	$ 18,097,664
Net Loss		8,364,876
Cash Dividends		(1,242,678)
Acqusition of common shares	(681,842)	(681,842)
Stock options exercised		6,868,646
Stock issued in lieu of cash payment for principal and interest associated with our notes		737,500
Net unrealized change in investments, net of tax effect of $196,012		(97,790)
Comprehensive income		--
Balance as of December 31, 2003	$ (1,767,774)	$ 32,046,376
Net Loss		(10,857,775)
Cash Dividends		(1,879,585)
Acqusition of common shares	(11,871)	(11,871)
Stock options exercised		2,778,445
Warrants exercised		224,986
Stock issued in lieu of cash payment for principal and interest associated with our notes		2,856,250
Net unrealized change in investments, net of tax effect of $304,667		(180,091)
Comprehensive income		--
Balance as of December 31 2004	$ (1,779,645)	$ 24,976,735

See accompanying notes to consolidated financial statements.

21st Century Holding Company and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

	For the year en	
	2004	
Cash flow from operating activities:		
Net income (loss)	$ (10,857,775)	$
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization of investment premium, net	(190,777)	
Depreciation and amortization of property plant and equipment, net	490,048	
Deferred income tax expense	(625,893)	
Net realized investment gains (loss)	743,772	(
Common Stock issued for interest on Notes	356,250	
Provision for credit losses, net	646,166	
Provision for uncollectible premiums receivable	311,073	
Gain on sale of agency operations	(5,299,274)	
Other	--	
Changes in operating assets and liabilities:		
Premiums receivable	992,270	
Prepaid reinsurance premiums	2,904,716	
Due from reinsurers, net	(14,435,209)	(
Income taxes recoverable	(7,090,637)	
Policy acquisition costs, net of amortization	(5,217,483)	(
Goodwill	--	
Finance contracts receivable	956,120	(
Other assets	44,597	
Unpaid losses and loss adjustment expenses	22,000,481	
Unearned premiums	16,030,048	
Premium deposits	1,249,906	
Income taxes payable	--	(
Bank overdraft	14,832,698	
Accounts payable and accrued expenses	(736,699)	
Net cash provided by operating activities	18,577,796	1
Cash flow (used in) provided by investing activities:		
Proceeds from sale of investment securities available for sale	81,245,978	16
Purchases of investment securities available for sale	(119,153,291)	(18
Receivable for investments sold	2,118,595	(
Collection of mortgage loans	137,571	
Purchases of property and equipment	(719,332)	(
Proceeds from sale of agency operations	5,488,489	
Proceeds from sale of assets	--	
Net cash used in investing activities	(30,881,990)	(2
Cash flow (used in) provided by financing activities:		
Subordinated debt	12,500,000	
Exercised stock options	2,778,444	
Exercised warrants	224,987	
Dividends paid	(1,879,585)	(
Purchases of treasury stock	(11,871)	
Revolving credit outstanding	(1,950,244)	
Net cash provided by financing activities	11,661,731	1
Net (decrease) increase in cash and cash equivalents	(642,463)	
Cash and cash equivalents at beginning of period	6,770,169	

Cash and cash equivalents at end of period	$ 6,127,706	$

See accompanying notes to consolidated financial statements.

21st Century Holding Company and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

	For the year 2004	
(Continued)		
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 188,118	$
Income taxes	$ 733,748	$ 4
Non-cash investing and finance activities:		
Accrued dividends payable	$ 442,183	$
Retirement of subordinated debt by Common Stock issuance	$ 3,125,000	$
Stock issued to employees	$ --	$
Notes reveivable, net of deferred gains, received for sale of agencies	$ 187,402	$

See accompanying notes to consolidated financial statements

21ST CENTURY HOLDING COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2004, 2003, 2002

(1) ORGANIZATION AND BUSINESS

The accompanying consolidated financial statements include the accounts of 21st Century Holding Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

On September 7, 2004, we completed a three-for-two stock split in the form of a stock dividend, whereby shareholders received three shares of common stock for every two shares of our common stock held on the record date. Just prior to the three-for-two stock split, we had approximately 3,957,000 shares outstanding, and following the stock split, we had approximately 5,936,000 shares outstanding.

We are an insurance holding company, which, through our subsidiaries and our contractual relationships with our independent agents, control substantially all aspects of the insurance underwriting, distribution and claims process. We underwrite personal automobile insurance, general liability insurance, homeowners' insurance and mobile home property and casualty insurance in Florida, Georgia and Louisiana through our wholly owned subsidiaries, Federated

National Insurance Company ("Federated National") and American Vehicle Insurance Company ("American Vehicle"). American Vehicle has recently been authorized to write commercial general liability policies in Kentucky and expects to begin writing policies in that state in the near future. American Vehicle is a fully admitted insurance carrier in Florida, Louisiana and Texas and is admitted as a surplus lines carrier in Georgia and Kentucky.

During the year ended December 31, 2004, 24.1%, 62.0%, 1.5% and 12.4% of the policies we underwrote were for personal automobile insurance, homeowners' property and casualty insurance, mobile home property and casualty insurance, and commercial general liability, respectively. During the year ended December 31, 2003, 67.5%, 23.0%, 2.4% and 7.1% of the policies we underwrote were for personal automobile insurance, homeowners' property and casualty insurance, mobile home property and casualty insurance, and commercial general liability, respectively. We internally process claims made by our own and third party 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").

During 2004, we marketed and distributed our own and third-party insurers' products and our other services primarily in Central and South Florida, through a network of 24 agencies owned by Federated Agency Group, Inc. ("Federated Agency Group"), a wholly owned subsidiary, 42 franchised agencies, approximately 1,500 independent agents and a select number of general agents. Our independent agents and general agents are primarily responsible for the distribution of our homeowner insurance and commercial general liability products. Through our wholly owned subsidiary, FedUSA, Inc. ("FedUSA"), we franchise agencies under the FedUSA name. As of December 31, 2004, franchises were granted for 48 FedUSA agencies, of which 42 were operating and 6 were pending.

On December 31, 2004, we sold most of the non-current assets and the deferred policy acquisition liability related to our network of 24 Company-owned agencies, 48 franchised agencies located in Florida including our franchise operations to Fed USA Retail, Inc. and Fed USA Franchising, Inc. We retained ownership of the current assets and liabilities. For further discussion of this transaction see footnote 24, Discontinued Operations.

The Company-owned agencies were located in Miami-Dade, Broward, Palm Beach, Martin, Orange, Osceola, Volusia and Seminole Counties, Florida. The franchised agencies are located in Miami-Dade, Broward, Palm Beach, Martin, St. Lucie, Orange, Lee and Collier Counties, Florida. The independent agents are located throughout Florida.

Assurance MGA, a wholly owned subsidiary, acts as Federated National's and American Vehicle's exclusive managing general agent. Assurance MGA currently provides all underwriting policy administration, marketing, accounting and financial services to Federated National, American Vehicle and our agencies, and participates in the negotiation of reinsurance contracts. Assurance MGA generates revenue through policy fee income and other administrative fees from the marketing of companies' products through the Company's distribution network. Assurance MGA plans to establish relationships with additional carriers and add additional insurance products in the future.

We also offered other services at our Company-owned and franchised agencies, including tax return preparation and electronic filing and the issuance and renewal of license tags. In August 1999, we acquired an 80% interest in Express Tax Service, Inc ("Express Tax"). Express Tax licenses tax return preparation software to business locations throughout the United States and also earns fees on all electronically filed returns. Express Tax licenses its software to the Company's agencies. On January 13, 2005, with an effective date of January 1, 2005, we sold our 80% interest in Express Tax Service, Inc.

21ST CENTURY HOLDING COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2004, 2003, 2002

(along with its wholly owned subsidiary, EXPRESSTAX Franchise Corporation) to Robert J. Kluba, the president of Express Tax and the holder of the 20% minority interest in Express Tax, and Robert H. Taylor. In exchange for our shares, we received a net cash payment of $311,351, which reflected a purchase price of $660,000 less $348,649. in intercompany receivables we owed to Express Tax. In addition, we received a payment of $1,200,000 in exchange for our agreement not to compete with the current businesses of Express Tax for five years after the sale. For further discussion see our Subsequent Events section.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES

(A) CASH AND CASH EQUIVALENTS

We consider all short-term highly liquid investments with original maturities of three months or less to be cash equivalents.

(B) INVESTMENTS

Our investment securities have been classified as available-for-sale because all of the securities are available to be sold in response to our liquidity needs, changes in market interest rates and asset-liability management strategies, among other reasons. Investments available-for-sale are stated at fair value on the balance sheet. Unrealized gains and losses are excluded from earnings and are reported as a component of other comprehensive income within shareholders' equity, net of related deferred income taxes.

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 fixed maturity 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.

(C) PREMIUM REVENUE

Premium revenue on property and casualty insurance is earned on a pro rata basis over the life of the policies. Unearned premiums represent the portion of the premium related to the unexpired policy term.

(D) DEFERRED ACQUISITION COSTS

Deferred acquisition costs represent primarily commissions paid to outside agents at the time of policy issuance (to the extent they are recoverable from future premium income) net of ceded premium commission earned from reinsurers, salaries and premium taxes net of policy fees, and are amortized over the life of the related policy in relation to the amount of premiums earned. The method followed in computing deferred acquisition costs limits the amount of such deferred costs to their estimated realizable value, which gives effect to the premium to be earned, related investment income, unpaid losses and loss adjustment expenses and certain other costs expected to be incurred as the premium is earned. There is no indication that these costs will not be fully recoverable in the near term.

An analysis of deferred acquisition costs follows:

	Year Ended December 31,		
	2004	2003	2002
Balance, beginning of year	$ 1,739,685	$ 7,721	$ 11,952
Acquisition costs deferred	13,640,291	877,685	(2,068,545)
Amortization expense during year	(8,422,808)	854,279	2,064,314
Balance, end of year	$ 6,957,168	$ 1,739,685	$ 7,721

(E) PREMIUM DEPOSITS

Premium deposits represent premiums received on policies not yet written. We take approximately 30 working days to issue the policy from the date the cash and policy application are received.

(F) UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

Unpaid losses and loss adjustment expenses are determined by establishing liabilities in amounts estimated to cover incurred losses and loss adjustment expenses. Such liabilities are determined based upon our assessment of claims pending and the development of prior years' loss liability. These amounts include liabilities based upon individual case estimates for reported losses and loss adjustment expenses and estimates of such amounts that are incurred but not reported. Changes in the estimated liability are charged or credited to operations as the estimates are revised. Unpaid losses and loss adjustment expenses are reported net of estimates for salvage and subrogation recoveries, which totaled approximately $889,000, $859,000 and $550,000, net of reinsurance, at December 31, 2004, 2003 and 2002, respectively.

The estimates of unpaid losses and loss adjustment expenses are subject to the effect of trends in claims severity and frequency and are continually reviewed. As part of the process, we review historical data and consider various factors, including known and anticipated legal developments, changes in social attitudes, inflation and economic conditions. As experience develops and other data becomes available, these estimates are revised, as required, resulting in increases or decreases to the existing unpaid losses and loss adjustment expenses. Adjustments are reflected in results of operations in the period in which they are made and the liabilities may deviate substantially from prior estimates.

There can be no assurance that our unpaid losses and loss adjustment expenses will be adequate to cover actual losses. If our unpaid losses and loss adjustment expenses prove to be inadequate, we will be required to increase the liability with a corresponding reduction in our net income in the period in which the deficiency is identified. Future loss experience substantially in excess of the established unpaid losses and loss adjustment expenses could have a material adverse effect on our business, results of operations and financial condition.

We do not discount unpaid losses and loss adjustment expenses for financial statement purposes.

(G) COMMISSION INCOME

Commission income consists of fees earned by the Company-owned agencies placing business with third party insurers and third party premium finance companies. Commission income is earned on a pro rata basis over the life of the policies. Unearned commissions represent the portion of the commissions related to unexpired policy terms. During 2002 Assurance MGA completed its program for underwriting insurance for an unaffiliated insurance company.

(H) FINANCE REVENUE

Interest and service income, resulting from the financing of insurance premiums, is recognized using a method that approximates the effective interest method. Late charges are recognized as income when chargeable.

(I) CREDIT LOSSES

Provisions for credit losses are provided in amounts sufficient to maintain the allowance for credit losses at a level considered adequate to cover anticipated losses. Generally, accounts that are over 90 days old are written off to the allowance for credit losses. We have been increasing our reliance on the direct billing our policyholders for their insurance premiums. Direct billing is when the insurance company accepts from the insured, as a receivable, a promise to pay the premium, as opposed to requiring payment of the full amount of the policy, either directly from the insured or from a premium finance company. We believe that the direct billing program does not increase our risk because the insurance policy, which serves as collateral, is managed by our computer system. Underwriting criteria are designed with down payment requirements and monthly payments that create policyholder equity, also called unearned premium, in the insurance policy. The equity in the policy is collateral for the extension of credit to the insured. The increase in the allowance for credit losses can be primarily attributed to homeowner and mobile homeowner policyholders and a cancellation moratorium in effect for non-payment of insurance premiums.

The activity in the allowance for credit losses for premiums receivable was as follows:

	Year Ended December 31,		
	2004	2003	2002
Allowance for credit losses at beginning of year	$ 123,000	$ 201,000	$ 235,000
Additions charged to bad debt expense	462,365	11,259	34,710

Write-downs charged against the allowance	(43,514)	(89,259)	(68,710)
Allowance for credit losses at end of year	$ 541,851	$ 123,000	$ 201,000

See Note 4 for the activity in the allowance for credit losses for finance contracts.

(J) MANAGING GENERAL AGENT FEES

If substantially all the costs associated with the MGA contracts which do not involve affiliated insurers are incurred during the underwriting process, then the MGA fees and the related acquisition costs are recognized at the time the policy is underwritten, net of estimated cancellations. If the MGA contract requires significant involvement subsequent to the completion of the underwriting process, then the MGA fees and related acquisition costs are not deferred and recognized over the life of the policy.

(K) POLICY FEES

Policy fees represent a $25 non-refundable application fee for insurance coverage, which are intended to reimburse us for the costs incurred to underwrite the policy. The fees and related costs are recognized when the policy is underwritten. These fees are netted against underwriting costs and are included as a component of deferred acquisition costs.

(L) REINSURANCE

We recognize the income and expense on reinsurance contracts principally on a pro-rata basis over the life of the policies covered under the reinsurance agreements. We are reinsured under separate reinsurance agreements for the different lines of business underwritten. Reinsurance contracts do not relieve us from our obligations to policyholders. We continually monitor our reinsurers to minimize our exposure to significant losses from reinsurer insolvencies. We only cede risks to reinsurers whom we believe to be financially sound. At December 31, 2004, all reinsurance recoverables are considered collectible.

(M) INCOME TAXES

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss and tax-credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(N) CONTINGENT REINSURANCE COMMISSION

Our reinsurance contracts provide ceding commissions for premiums written which are subject to adjustment. The amount of ceding commissions is determined by the loss experience for the reinsurance agreement term. The reinsurer provides commissions on a sliding scale with maximum and minimum achievable levels. The reinsurer provides us with the provisional commissions. We have recognized the commissions based on the current loss experience for the policy year premiums. This results in establishing a liability for the excess of provisional commissions retained compared to amounts recognized, which is subject to variation until the ultimate loss experience is determinable. There were no contingent ceding commissions recognized for the year ended December 31, 2003 due to the provisions contained in the reinsurance contract allowing for a flat rate commission schedule. For the year ended December 31, 2002 there was $369,000 of contingent ceding commissions recognized.

(O) CONCENTRATION OF CREDIT RISK

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, finance contracts, consumer loans and pay advances receivable. 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, consumer loans and pay advances receivable. 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.

(P) ACCOUNTING CHANGES

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123, Share-Based Payments (revised 2004) ("SFAS No. 123R"). This statement eliminates the option to apply the intrinsic value measurement provisions of APB No. 25 to stock compensation awards issued to employees. Rather, SFAS No. 123R requires companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award - the requisite service period (usually the vesting period). SFAS No. 123R will also require companies to measure the cost of employee services received in exchange for employee stock purchase plan awards. SFAS No. 123R will be effective for 21st Century's fiscal quarter beginning July 1, 2005. We have not yet determined the effect on us of the adoption of SFAS No. 123R.

In January 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 46, Consolidation of Variable Interest Entities ("FIN 46"), which requires the consolidation of certain entities considered to be variable interest entities ("VIEs"). An entity is considered to be a VIE when it has equity investors who lack the characteristics of having a controlling financial interest, or its capital is insufficient to permit it to finance its activities without additional subordinated financial support. Consolidation of a VIE by an investor is required when it is determined that the investor will absorb a majority of the VIE's expected losses if they occur, receive a majority of the entity's expected residual returns if they occur, or both. The adoption of Interpretation No. 46 did not have any impact on our Consolidated Financial Statements.

In May 2003, the FASB issued Statement of Financial Accounting Standard Number 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity and it requires that an issuer classify a financial instrument that is within its scope as a liability because the financial instrument embodies an obligation of the issuer. This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective in the first interim period beginning after June 15, 2003. On July 31, 2003 , we completed a private placement of our 6% Senior Subordinated Notes (the "July 2003 Notes"), and on September 30, 2004 , we completed another private placement of our 6% Senior Subordinated Notes (the "September 2004 Notes"), both of which were offered and sold to accredited investors as units consisting of one Note with a principal amount of $1,000 and warrants (the "Warrants") to purchase shares of our Common Stock. These Notes which fall within the definition of financial instruments as described in Financial Accounting Standard Number 150 are presented as a liability in conformity with Statement of Financial Accounting Standard Number 150. As such, the adoption of this Statement did not have any impact on our Consolidated Financial Statements.

(Q) USE OF ESTIMATES

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported financial statement balances as well as the disclosure of contingent assets and liabilities. Actual results could differ materially from those estimates used.

Similar to other property and casualty insurers, our liability for unpaid losses and LAE, although supported by actuarial projections and other data, is ultimately based on management's reasoned expectations of future events. Although considerable variability is inherent in these estimates, we believe that this liability is adequate. Estimates are reviewed regularly and adjusted as necessary. Such adjustments are reflected in current operations. In addition, the realization of our deferred income tax assets is dependent on generating sufficient future taxable income. It is reasonably possible that the expectations associated with these accounts could change in the near term and that the effect of such changes could be material to the Consolidated Financial Statements.

(R) NATURE OF OPERATIONS

The following is a description of the most significant risks facing us and how we mitigate those risks:

(I) LEGAL/REGULATORY RISKS--the risk that changes in the regulatory environment in which an insurer operates will create additional expenses not anticipated by the insurer in pricing its products. That is, regulatory initiatives designed to reduce insurer profits, restrict underwriting practices and risk classifications, mandate rate reductions and refunds, and new legal theories or insurance company insolvencies through guaranty fund assessments may create costs for the insurer beyond those recorded in the financial statements. We attempt to mitigate this risk by monitoring proposed regulatory legislation and by assessing the impact of new laws. As we write business only in the states of Florida, Louisiana, Texas, Alabama and Georgia, we are more exposed to this risk than some of our more geographically balanced competitors.

As a result of the hurricanes striking Florida in August and September 2004, we are not in compliance with certain regulatory requirements. To retain our certificates of authority, Florida insurance laws and regulations require that our insurance company subsidiaries, Federated National and American Vehicle, maintain capital surplus equal to the greater of 10% of its liabilities or the 2004 statutory minimum capital and surplus requirement of $4.00 million as defined in the Florida Insurance Code. As of December 31, 2004, Federated National was not in compliance with its requirement to maintain minimum capital surplus primarily based on the incurred losses associated with the four hurricanes that occurred in August and September 2004. Under the provisions afforded Federated National according to Statement of Statutory Accounting Principles No 72 titled "Surplus and Quasi-reorganizations," compliance with this provision was restored by way of a surplus infusion from 21st Century. American Vehicle remains in compliance with statutory minimum capital and surplus requirement. The insurance companies are also required to adhere to prescribed premium-to-capital surplus ratios. As of December 31, 2004, Federated National did not comply with the prescribed premium-to-capital surplus ratio, primarily based on the incurred losses associated with the four hurricanes that occurred in August and September 2004. Under the provisions afforded Federated National according to Statement of Statutory Accounting Principles No. 72, compliance with this provision was also restored. American Vehicle remains in compliance with statutory premium-to-capital surplus ratios.

(II) CREDIT RISK--the risk that issuers of securities owned by us will default or that other parties, including reinsurers to whom business is ceded, which owe us money, will not pay. We attempt to minimize this risk by adhering to a conservative investment strategy, maintaining reinsurance agreements with financially sound reinsurers, and by providing for any amounts deemed uncollectible.

(III) INTEREST RATE RISK--the risk that interest rates will change and cause a decrease in the value of an insurer's investments. To the extent that liabilities come due more quickly than assets mature, an insurer might have to sell assets prior to maturity and potentially recognize a gain or a loss.

(IV) CATASTOPHIC EVENT RISK--the risk associated with writing insurance policies covering automobile owners, home owners, and business owners for losses that result from catastrophes, including hurricanes, tropical storms, tornadoes or other weather related events. We mitigate our risk of catastrophic events through the use of reinsurance, forecast modeling techniques and the monitoring of concentrations of risk, all designed to protect the statutory surplus of the insurance companies.

(S) FAIR VALUE

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 December 31, 2004 and 2003. Changes in interest rates subsequent to December 31, 2004 may affect the fair value of our investments. Refer to Note 3(a) for details.

The carrying amounts for the following financial instrument categories approximate their fair values at December 31, 2004 and 2003 because of their short-term nature: cash and cash equivalents, premiums receivable, finance contracts, due from reinsurers, drafts payable to insurance companies, revolving credit outstanding, bank overdraft, accounts payable, accrued expenses and subordinated debt.

(T) GOODWILL

In July 2001, the FASB issued SFAS 141 "Business Combinations," effective for all business combinations initiated after June 30, 2001, and SFAS 142 "Accounting for Goodwill and Other Intangible Assets," effective for fiscal years beginning after December 15, 2001. SFAS 141 requires the purchase method of accounting be used for all business combinations. Goodwill and indefinite-lived intangible assets will remain on the balance sheet and not be amortized. Intangible assets with a definite life will continue to be amortized over their estimated useful lives. SFAS 142 establishes a new method of testing goodwill for impairment. On an annual basis, and when there is reason to suspect that their values may have been diminished or impaired, these assets must be tested for impairment. The amount of goodwill determined to be impaired will be expensed to current operations. Prior to the adoption of SFAS 141 and 142, goodwill was amortized on a straight-line basis for financial statement purposes over periods ranging from 10 to 20 years. Effective December 31, 2004 we sold our interest in the assets associated with approximately $1,586,000 of goodwill. The remaining goodwill as of Decemeber 31, 2004 was sold on January 1, 2005. According to these transactions it was determined that goodwill was not impaired as of December 31, 2004. There was no amortization of goodwill recorded in 2004 and 2003.

Goodwill is stated separately on the balance sheet and totaled $ 153,546 and $1,739,715 at December 31, 2004 and 2003, respectively, net of $61,419 and $1,726,530 of accumulated amortization as of December 31, 2004 and 2003, respectively. Our remaining goodwill relates to our Express Tax Service and EXPRESSTAX franchise subsidiaries which are included in our other segment. The impairment computation for 2004 and 2003 indicated there was no impairment of goodwill as of December 31, 2004 and 2003. Based upon this valuation analysis, goodwill does not appear to be impaired as of December 31, 2004 and 2003.

(U) STOCK OPTION PLANS

We account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees". Compensation cost for stock options, if any, is measured as the excess of the quoted market price of our stock at the date of grant over the amount an employee must pay to acquire the stock.

The FASB Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (FAS 123) establishes financial accounting and reporting standards for stock-based compensation plans. As permitted by FAS 123, we use the accounting method prescribed by Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" (APB 25) to account for our stock-based compensation plans. Companies using APB 25 are required to make pro forma footnote disclosures of net income and earnings per share as if the fair value method of accounting, as defined in FAS 123, had been applied. See Note 2(e) "Accounting Changes" and Note 16 "Stock Compensation Plans" for more information.

As of December 31, 2002 we adopted the FASB Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure" (FAS 148). FAS 148 amends FAS 123 to provide alternative methods of transition to FAS 123's fair value method of accounting for stock-based compensation. FAS 148 also amends the disclosure provisions of FAS 123 to require disclosure in the Summary of Significant Accounting Policies footnote the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share.

We continue to account for stock-based compensation using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, under which no compensation cost for stock options is recognized for stock option awards granted to employees at or above fair market value. Had compensation expense for our stock compensation plan been determined based upon fair values at the grant dates for awards under the plan in accordance with SFAS No. 123, our net income (loss) and net income (loss) per share would have been reduced (increased) to the pro forma amounts indicated below. Additional stock option awards are anticipated in future years.

	For the year ended December 31,		
	2004	2003	2002
Net Income (loss) as reported	$ (10,857,776)	$ 8,364,876	$ 4,570,201
Compensation, net of tax effect	7,277,028	4,783,080	1,750,528
Pro forma net income (loss)	$ (18,134,804)	$ 3,581,796	$ 2,819,673
Net income (loss) per share			
As reported - Basic	$ (1.86)	$ 1.76	$ 1.01
As reported - Diluted	$ (1.86)	$ 1.67	$ 1.01
Pro forma - Basic	$ (3.10)	$ 0.75	$ 0.63
Pro forma - Diluted	$ (3.10)	$ 0.71	$ 0.63

(V) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation on property, plant and equipment is calculated on a straight-line basis over the following estimated useful lives: building and improvements - 30 years and furniture and fixtures - 7 years. We capitalize betterments and any other expenditure in excess of $500 if the asset is expected to have a useful life greater than one year. The carrying value of property, plant and equipment is periodically reviewed based on the expected future undiscounted operating cash flows of the related item. Based upon our most recent analysis, we believe that no impairment of property, plant and equipment exists at December 31, 2004.

(W) RECLASSIFICATIONS

Certain 2003 financial statement amounts have been reclassified to conform with the 2004 presentations.

(3) INVESTMENTS

(A) FIXED MATURITIES AND EQUITY SECURITIES

The following table shows the realized gains (losses) for fixed and equity securities for the years ended December 31, 2004 and 2003:

	Year Ended December 31,			
	Gains (Losses) 2004	Fair Value at Sale	Gains (Losses) 2003	Fair Va at Sa
Fixed income securities	$ 62,513	$ 6,418,287	$ 1,590,936	$102,966
Equity securities	894,883	16,751,595	1,230,118	38,847
Total realized gains	957,396	23,169,882	2,821,054	141,813
Fixed income securities	(42,911)	38,133,986	(508,299)	17,213
Equity securities	(225,809)	16,997,269	(81,422)	7,555
Total realized losses	(268,720)	55,131,255	(589,721)	24,769
Net realized gains on investments	$ 688,676	$ 78,301,137	$ 2,231,333	$166,583

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A summary of the amortized cost, estimated fair value, gross unrealized gains and losses of fixed maturities and equity securities at December 31, 2004 and 2003 is as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Es Fa
December 31, 2004				
Fixed Maturities:				
U.S. government obligations	$54,695,914	$ 154,809	$ 737,119	$54
Obligations of states and political subdivisions	9,506,161	63,179	67,681	9
Corporate securities	5,895,310	101,684	25,227	5
	$70,097,385	$ 319,672	$ 830,027	$69
Equity securities - preferred stocks	$ 2,000,000	$ --	$ --	$ 2
common stocks	13,107,553	147,287	459,697	12
	$15,107,553	$ 147,287	$ 459,697	$14
December 31, 2003				
Fixed Maturities:				
U.S. government obligations	$26,337,724	$ 63,038	$ 856,651	$25
Obligations of states and political subdivisions	7,639,293	60,501	65,342	7
Corporate securities	10,041,640	298,631	29,236	10
	$44,018,657	$ 422,170	$ 951,229	$43
Equity securities - preferred stocks	$ 250,000	$ 400	$ --	$
common stocks	3,409,697	5,000	1,846	3
	$ 3,659,697	$ 5,400	$ 1,846	$ 3

Below is a summary of fixed maturities at December 31, 2004 and 2003 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.

	December 31, 2004		December 31, 2003	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 386,076	$ 389,648	$ 3,823,434	$ 4,039,356
Due after one year through five years	6,876,095	6,892,451	5,975,696	6,077,534
Due after five years through ten years	50,509,441	50,263,305	22,835,339	22,372,081
Due after ten years	12,325,772	12,041,626	11,384,188	11,000,627

	$70,097,384	$69,587,030	$44,018,657	$43,489,598

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United States Treasury Notes with a book value of $1,000,000, each, and maturing in 2012 were on deposit with the Florida Office of Insurance Regulation as of December 31, 2004, as required by law for both Federated National and American Vehicle.

A summary of the sources of net investment income follows:

	Years Ended December 31,	
	2004	2003
Fixed maturities	$ 2,436,845	$ 1,462,919
Equity securities	691,192	108,983
Cash and cash equivalents	49,178	26,676
Other	3,065	118,057
Total investment income	3,180,280	1,716,635
Less investment expenses	(8,660)	(92,419)
Net investment income	$ 3,171,620	$ 1,624,216

Proceeds from sales of fixed maturities and equity securities for the years ended December 31, 2004, 2003 and 2002 were approximately $81.2 million, $168.0 million and $41.3 million, respectively.

A summary of realized investment gains (losses) and (increases) in net unrealized losses follows:

	Years Ended December 31,	
	2004	2003
Net realized gains (losses):		
Fixed maturities	$ 19,602	$ 1,082,637
Equity securities	669,074	1,148,696
Total	$ 688,676	$ 2,231,333

*Includes a $2,000,000 impairment loss

Net unrealized losses:		
Fixed maturities	$ 18,701	$ (321,514)

Equity securities	(315,964)	27,712
Total	$ (297,263)	$ (293,802)

(B) MORTGAGE LOANS

	Years Ended December 31, 2004	2003
Mortgage receivable beginning of year	$ 137,571	$ 145,043
New mortgages	--	--
Principal payments received	(137,571)	(7,472)
Mortgage receivable end of year	$ --	$ 137,571

A portion of these amounts represents outstanding balances from related party transactions. Refer to Note 13 for details.

(4) FINANCE CONTRACTS RECEIVABLE

Below is a summary of the components of the finance contracts receivable balance:

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	Years Ended December 31, 2004	2003
Finance contracts receivable	$ 9,218,631	$ 10,990,446
Less:		
Unearned income	(453,487)	(536,246)
Allowance for credit losses	(475,788)	(562,558)
Finance contracts, net of allowance for credit losses	$ 8,289,356	$ 9,891,642

The activity in the allowance for credit losses was as follows:

	Years Ended December 31, 2004	2003
Allowance for credit losses at beginning of year	$ 562,558	$ 404,356
Additions charged to bad debt expense	559,396	819,868
Write-offs charged against the allowance	(646,166)	(661,666)
Allowance for credit losses at end of year	$ 475,788	$ 562,558

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As of December 31, 2004, approximately $2.6 million, or 28.8%, of the gross premium finance receivables (before the allowances for credit losses and unearned premium finance charges) that represent policies from an unrelated insurer. This unrelated insurance company currently is rated "B-" (Fair) by A.M. Best.

As security, Federated Premium retains a contractual right, if a premium installment is not paid when due, to cancel the insurance policy and to receive the unearned premium from the insurer.

(5) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	Years Ended December 31,	
	2004	2003
Land	$ 625,000	$ 632,144
Building and improvements	3,114,300	2,823,400
Furniture and fixtures	2,562,971	2,385,083
Property, plant and equipment, gross	6,302,271	5,840,627
Accumulated depreciation	(2,029,538)	(1,686,984)
Property, plant and equipment, net	$ 4,272,733	$ 4,153,643

Depreciation of property, plant, and equipment was $490,697, $437,356 and $376,516 during 2004, 2003 and 2002, respectively.

(6) REINSURANCE

We reinsure (cede) a portion of written premiums on a quota-share basis to nonaffiliated insurance companies in order to limit our loss exposure. We also maintain coverages to limit losses from large exposures, which we believe are adequate for current volume. To the extent that reinsuring companies are unable to meet their obligations assumed under the reinsurance agreements, we remain primarily liable to our policyholders.

The impact of reinsurance on the financial statements is as follows:

	Years Ended December 31,		
	2004	2003	20
Premium written:			
Direct	$ 100,662,025	$ 72,991,434	$ 63,
Ceded	(15,485,917)	(22,090,644)	(25,

	$ 85,176,108	$ 50,900,790	$ 37,
Premiums earned:			
Direct	$ 84,631,511	$ 67,803,257	$ 48,
Ceded	(18,390,167)	(25,518,462)	(19,
	$ 66,241,344	$ 42,284,795	$ 29,
Losses and loss adjustment expenses incurred:			
Direct	$ 138,605,465	$ 46,035,627	$ 29,
Ceded	(63,612,684)	(18,526,648)	(13,
	$ 74,992,781	$ 27,508,979	$ 15,

	As of December 31,	
	2004	2003
Unpaid losses and loss adjustment expenses, net:		
Direct	$ 46,570,679	$ 24,570,198
Ceded	(9,414,794)	(9,761,353)
	$ 37,155,885	$ 14,808,845
Unearned premiums:		
Direct	$ 50,152,711	$ 34,122,663
Ceded	(5,510,379)	(7,823,374)
	$ 44,642,332	$ 26,299,289

We earned approximately $1.5 million, $6.7 million and $6.8 million in commissions on premiums ceded during the years ended December 31, 2004, 2003 and 2002, respectively. Had all of our reinsurance agreements been cancelled at December 31, 2004 we would have returned no reinsurance commissions to our reinsurers and in turn, our reinsurers would have nothing to return to us from unearned premiums. Had all of our reinsurance agreements been canceled at December 31, 2003, we would have returned a total of approximately $2.5 million in reinsurance commissions to our reinsurers; in turn, our reinsurers would have returned approximately $7.8 million in unearned premiums to us.

At December 31, 2004 and 2003, the Company had an unsecured aggregate recoverable for paid and unpaid losses and loss adjustment expenses and unearned premiums with the following reinsurers:

	As of December
	2004
Transatlantic Reinsurance Company (A+ A.M. Best Rated):	
Unearned premiums	$ 2,559
Reinsurance recoverable on paid losses and loss adjustment expenses	1,661,751
Unpaid losses and loss adjustment expenses	2,507,403
	$ 4,171,713
Amounts due from reinsurers consisted of amounts related to:	
Unpaid losses and loss adjustment expenses	$ 2,507,403
Reinsurance recoverable on paid losses and loss adjustment expenses	1,661,751
Reinsurance receivable (payable)	11,301
	$ 4,180,455

(7) UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES ("LAE")

The liability for unpaid losses and loss adjustment expenses is determined on an individual-case basis for all incidents reported. The liability also includes amounts for unallocated expenses, anticipated future claim development and IBNR.

Activity in the liability for unpaid losses and loss adjustment expenses is summarized as follows:

	For the years ended December 31,		
	2004	2003	2002
Balance at January 1:	$ 24,570,198	$ 16,983,756	$ 11,005,337
Less reinsurance recoverables	(9,761,354)	(7,847,421)	(4,798,556)
Net balance at January 1	$ 14,808,844	$ 9,136,335	$ 6,206,781
Incurred related to:			
Current year	$ 76,423,059	$ 26,274,932	$ 15,896,251
Prior years	(1,430,278)	1,234,047	90,874
Total incurred	$ 74,992,781	$ 27,508,979	$ 15,987,125
Paid related to:			
Current year	$ 42,304,178	$ 14,205,212	$ 8,149,079
Prior years	10,341,563	7,631,258	4,908,492
Total paid	$ 52,645,741	$ 21,836,470	$ 13,057,571

Net balance at year-end	$ 37,155,884	$ 14,808,844	$ 9,136,335
Plus reinsurance recoverables	9,414,795	9,761,354	7,847,421
Balance at year-end	$ 46,570,679	$ 24,570,198	$ 16,983,756

Based upon consultations with our independent actuarial consultants and their statement of opinion on losses and loss adjustment expenses, we believe that the liability for unpaid losses and loss adjustment expenses is adequate to cover all claims and related expenses which may arise from incidents reported.

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As a result of our review of our liability for losses and LAE, which includes a re-evaluation of the adequacy of reserve levels for prior year's claims, we decreased the liability for loss and LAE for claims occurring in prior years by $1,430,278 for the year ended December 31, 2004 and increased the liability for loss and LAE for claims occurring in prior years by $1,234,047 and $90,874 for the year ended December 31, 2003 and 2002, respectively. The adjustments in the liability were primarily attributable to loss development with respect to our personal automobile insurance program. There can be no assurance concerning future adjustments of reserves, positive or negative, for claims through December 31, 2004.

(8) REVOLVING CREDIT OUTSTANDING

Federated Premium's operations are funded by a revolving loan agreement ("Revolving Agreement") with FlatIron Funding Company LLC ("FlatIron"). The Revolving Agreement is structured as a sale of contracts receivable under a sale and assignment agreement with WPAC, a wholly-owned subsidiary of FlatIron, which gives WPAC the right to sell or assign these contracts receivable. Federated Premium, which services these contracts, has recorded transactions under the Revolving Agreement as secured borrowings.

During September 2004, we negotiated a new revolving loan agreement in which the maximum credit commitment available to us was reduced at our request to $2.0 million with built-in options to incrementally increase the maximum credit commitment up to $4.0 million over the next three years. We believe that this available credit is sufficient based on our current operations. Our lender, however, could decide to reduce our available credit based on a number of factors, including the A.M. Best ratings of Federated National and American Vehicle. If the A.M. Best rating of Federated National falls below a "C," or if the financial condition of American Vehicle, as determined by our lender in its sole discretion suffers a material adverse change, then under the terms of the Revolving Agreement, policies written by that subsidiary will no longer be eligible collateral, causing our available credit to be reduced. If that occurs and we are not able to obtain working capital from other sources, then we would have to restrict our growth and, possibly, our operations. As of December 31, 2004, under the terms of our agreement with FlatIron, only American Vehicle policies are eligible for collateral and beginning in March 2005, our Lender agreed to permit policies written by Federated National to be eligible for collateral up to $165,000.

The amount of WPAC's advances are subject to availability under a borrowing base calculation, with maximum advances outstanding not to exceed the maximum credit commitment. The annual interest rate on advances under the Revolving Agreement is the prime rate plus additional interest varying from 1.25% to 3.25% based on the prior month's ratio of contracts receivable related to insurance companies with an A. M. Best rating of B or lower, to total contracts receivable. As of December 31, 2004, our interest rate was 7.00% as compared to our interest rate as of December 31, 2003 of 5.75%

The Revolving Agreement contains various operating and financial covenants, with which we were in compliance at December 31, 2004 and December 31, 2003. Outstanding borrowings under the Revolving Agreement as of December 31, 2004 and December 31, 2003 were $2.1 million and $4.1 million, respectively. Outstanding borrowings in excess of the $2.0 million commitment totaled $148,542 as of December 31, 2004. The excess amount, permissible by reason of a compensating cash balance of $156,070 for December 31, 2004, was held for the benefit of FPF and is included in other assets. Outstanding borrowings in excess of the $4.0 million commitment totaled $98,786 as of December 31, 2003. The excess amount, permissible by reason of a compensating cash balance of $200,430 for December 31, 2003, was held for the benefit of FPF and is included in other assets. Interest expense on this revolving credit line for the years ended December 31, 2004, 2003 and 2002 totaled approximately $178,000, $203,000 and $342,000, respectively.

The annual interest rate on advances under the Revolving Agreement is the prime rate plus additional interest varying from 1.25% to 3.25% based on the prior month's ratio of contracts receivable related to insurance companies with an A. M. Best rating of B or worse to total contracts receivable. The effective interest rate on this line of credit, based on our average outstanding borrowings under the Revolving Agreement, was 5.71%, 4.83% and 6.23% for the years ended December 31, 2004, 2003 and 2002, respectively.

In September 2002, Flatiron reduced the maximum credit commitment under the Revolving Agreement due to the A.M. Best ratings of third party insurance carriers with which we were financing policies at the time. Simultaneously, however, we ceased financing policies underwritten by third party insurance carriers altogether and began financing only those policies underwritten by our insurance carriers (in 2003 we began again to finance policies from a small number of independent agents whose customer base and operational history meet our strict criteria for credit worthiness). Additionally, we implemented a direct billing program for policies underwritten by our carriers. These changes markedly decreased credit risks and made our reliance on the higher credit commitment previously offered by FlatIron unnecessary.

Direct billing is where 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, either directly from the insured or from a premium finance company. The amount of WPAC's advance is subject to availability under a borrowing base calculation, with maximum advances outstanding not to exceed the maximum credit commitment.

(9) INCOME TAXES

A summary of the provision for income tax expense (benefit) is as follows:

	Year Ended December 31,		
	2004	2003	2
Federal:			
Current	$(6,656,755)	$ 3,404,982	$ 3,3
Deferred	778,573	(39,283)	(4
Provision (benefit) for Federal income tax expense	(5,878,182)	3,365,699	2,8
State:			
Current	--	563,375	5
Deferred	(986,105)	(6,725)	(
Provision (benefit) for state income tax expense	(986,105)	556,650	4
Provision (benefit) for income tax expense	$(6,864,287)	$ 3,922,349	$ 3,3

The actual income tax expense (benefit) differs from the "expected" income tax expense (benefit) (computed by applying the combined applicable effective federal and state tax rates to income (loss) before provision for income tax expense (benefit)) as follows:

	Year Ended December 31,		
	2004	2003	2
Computed expected tax (benefit), at federal rate	$(6,025,502)	$ 4,177,657	$ 2,4
State tax, net of federal deduction benefit	(650,829)	556,650	4
Tax-exempt interest	(124,125)	(122,275)	(
Amortization of goodwill	--	53,536	
Dividend received deduction	(135,847)	(42,612)	
Capital loss carryforward	--	(371,847)	
Disposition of financially impaired bond	--	(340,000)	
Valuation allowance for capital loss carry forward	--	--	2
Interest expense not requiring cash	176,375	--	
Other, net	(104,359)	11,240	2
Income tax expense (benefit), as reported	$(6,864,287)	$ 3,922,349	$ 3,3

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of our net deferred tax asset are as follows:

	Year Ended December 31, 2004	2003
Deferred tax assets:		
Unpaid losses and loss adjustment expenses	$ 1,369,078	$ 501,190
Unearned premiums	3,340,012	1,979,284
Unrealized loss on investment securities	304,667	196,012
Allowance for credit losses	367,232	257,975
Unearned commissions	183,486	189,222
Accrued class action settlement	225,780	225,780
Deferred commissions	56,445	75,260
Goodwill	52,130	131,063
Unearned adjusting income	9,462	20,456
Capital loss carryforward - Impairment loss	376,300	376,300
Total deferred tax assets	6,284,592	3,952,542
Deferred tax liabilities:		
Prepaid Florida Hurricane Catastrophic Fund	--	(222,664)
Deferred acquisition costs, net	(2,624,702)	(661,262)
Depreciation	(3,814)	(38,433)
Total deferred tax liabilities	(2,628,516)	(922,359)
Net deferred tax asset	$ 3,656,076	$ 3,030,183

In assessing the net realizable value of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. At December 31, 2004 and 2003, based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences.

YEARS ENDED DECEMBER 31, 2004, 2003, 2002

(10) REGULATORY REQUIREMENTS AND RESTRICTIONS

To retain our certificate of authority, the Florida Insurance Code (the "Code") requires Federated National and American Vehicle to maintain capital and surplus equal to the greater of 10 percent of their liabilities or a statutory minimum capital and surplus as defined in the Code. In 2004, 2003 and 2002, Federated National and American Vehicle were required to have capital surplus of $4.0 million, $3.60 million and $3.25 million, each, respectively. At December 31, 2004, 2003 and 2002, Federated National's statutory capital surplus was $7.6 million, $16.7 million and $9.2 million, respectively. At December 31, 2004, 2003 and 2002, American Vehicle had statutory capital surplus of $17.1 million, $10.7 million and $4.0 million, respectively. Further, the companies were also required to adhere to a prescribed net premium-to-surplus ratio.

As of December 31, 2004, Federated National was not in compliance with its requirement to maintain minimum capital surplus primarily based on the incurred losses associated with the four hurricanes that occurred in August and September 2004. Under the provisions afforded Federated National according to Statement of Statutory Accounting Principles No 72 titled "Surplus and Quasi-reorganizations," compliance with this provision was restored. American Vehicle remains in compliance with statutory minimum capital and surplus requirement. The insurance companies are also required to adhere to prescribed premium-to-capital surplus ratios. As of December 31, 2004, Federated National did not comply with the prescribed premium-to-capital surplus ratio, primarily based on the incurred losses associated with the four hurricanes that occurred in August and September 2004. Under the provisions afforded Federated National according to Statement of Statutory Accounting Principles No 72, compliance with this provision was also restored. American Vehicle remains in compliance with statutory premium-to-capital surplus ratios.

As of December 31, 2004, to meet regulatory requirements, we had bonds with a carrying value of approximately $2,049,000 pledged to the Insurance Commissioner of the State of Florida.

Under Florida law, a domestic insurer may not pay any dividend or distribute cash or other property to its shareholders except out of that part of its available and accumulated capital surplus funds which is derived from realized net operating profits on its business and net realized capital gains. A Florida domestic insurer may not make dividend payments or distributions to shareholders without prior approval of the Florida Office of Insurance Regulation if the dividend or distribution would exceed the larger of (i) the lesser of (a) 10 percent of capital surplus (b) net income, not including realized capital gains, plus a two-year carryforward, (ii) 10 percent of capital surplus with dividends payable constrained to unassigned funds minus 25 percent of unrealized capital gains or (iii) the lesser of (a) 10 percent of capital surplus or (b) net investment income plus a three-year carryforward with dividends payable constrained to unassigned funds minus 25 percent of unrealized capital gains. Alternatively, a Florida domestic insurer may pay a dividend or distribution without the prior written approval of the Florida Office of Insurance Regulation (i) if the dividend is equal to or less than the greater of (a) 10 percent of the insurer's capital surplus as regards policyholders derived from realized net operating profits on its business and net realized capital gains or (b) the insurer's entire net operating profits and realized net capital gains derived during the immediate preceding calendar year, (ii) the insurer will have policyholder capital surplus equal to or exceeding 115 percent of the minimum required statutory capital surplus after the dividend or distribution, (iii) the insurer files a notice of the dividend or distribution with the Florida Office of Insurance Regulation at least ten business days prior to the dividend payment or distribution and (iv) the notice includes a certification by an officer of the insurer attesting that, after the payment of the dividend or distribution, the insurer will have at least 115 percent of required statutory capital surplus as to policyholders. Except as provided above, a Florida domiciled insurer may only pay a dividend or make a distribution (i) subject to prior approval by the Florida Office of Insurance Regulation or (ii) 30 days after the Florida Office of Insurance Regulation has received notice of such dividend or distribution and has not disapproved it within such time. No dividends were declared or paid in 2004, 2003 or 2002. Under these laws, neither Federated National nor American Vehicle would be permitted to pay dividends to 21st Century in 2004.

In order to enhance the regulation of insurer solvency, the NAIC established risk-based capital requirements for insurance companies that are designed to assess capital adequacy and to raise the level of protection that statutory surplus provides for policy holders. These requirements measure three major areas of risk facing property and casualty insurers: (i) underwriting risks, which encompass the risk of adverse loss developments and inadequate pricing; (ii) declines in asset values arising from credit risk; and (iii) other business risks from investments. Insurers having less statutory surplus than required will be subject to varying degrees of regulatory action, depending on the level of capital inadequacy. Based upon the 2004 statutory financial statements for American Vehicle, statutory surplus exceeded all regulatory action levels established by the NAIC. Based upon the 2004 statutory financial statements for Federated National, statutory surplus did not exceed regulatory action levels established by the NAIC. Federated National's results required us to submit a plan containing corrective actions. Federated has submitted its plan

for corrective action and is currently in discussions with the Florida Office of Insurance Regulation regarding the merits of the action plan points. The regulatory action level permits the insurance regulators to perform an examination or other analysis and issue a corrective order. Federated National is scheduled to have its statutorily required triennial examination during 2005 for the three years ended December 31, 2004 to be performed by the Florida Office of Insurance Regulation. We may be subject of additional targeted examinations or analysis. These examinations or analysis may result in one or more corrective orders being issued by the Florida Office of Insurance Regulation.

The Florida Office of Insurance Regulation, which follows these requirements, could require Federated National or American Vehicle to cease operations in the event they fail to maintain the required statutory capital.

Based on Risk Based Capital requirements, the extent of regulatory intervention and action increases as the ratio of an insurer's statutory surplus to its Authorized Control Level ("ACL"), as calculated under the NAIC's requirements, decreases. The first action level, the Company Action Level, requires an insurer to submit a plan of corrective actions to the insurance regulators if statutory surplus falls below 200.0% of the ACL amount. The second action level, the Regulatory Action Level, requires an insurer to submit a plan containing corrective actions and permits the insurance regulators to perform an examination or other analysis and issue a corrective order if statutory surplus falls below 150.0% of the ACL amount. The Authorized Control Level, the third action level, allows the regulators to rehabilitate or liquidate an insurer in addition to the aforementioned actions if statutory surplus falls below the ACL amount. The fourth action level is the Mandatory Control Level, which requires the regulators to rehabilitate or liquidate the insurer if statutory surplus falls below 70.0% of the ACL amount. Federated National's ratio of statutory surplus to its ACL was 125.5%, 434.2% and 274.2% at December 31, 2004, 2003 and 2002, respectively. American Vehicle's ratio of statutory surplus to its ACL was 545.1%, 585.2% and 401.6% at December 31, 2004, 2003 and 2002, respectively.

The NAIC has also developed Insurance Regulatory Information Systems ("IRIS") ratios to assist state insurance Department of Financial Services in identifying companies which may be developing performance or solvency problems, as signaled by significant changes in the companies' operations. Such changes may not necessarily result from any problems with an insurance company, but may merely indicate changes in certain ratios outside the ranges defined as normal by the NAIC. When an insurance company has four or more ratios falling outside "usual ranges," state regulators may investigate to determine the reasons for the variance and whether corrective action is warranted.

As of December 31, 2004, Federated National was outside NAIC's usual ranges with respect to its IRIS tests on seven out of twelve ratios. With the exception of two of these test results, all of test results can be attributed to the significant degradation of Policyholders' Surplus stemming from the losses incurred relative to its homeowner s' line of business as a result of the four hurricanes that affected Florida in August and September of 2004. Change in Net Writings and Two-Year Reserve Development to Policyholders' Surplus was the results of test ratios that do not employ Policyholders' Surplus.

As of December 31, 2003, Federated National was outside NAIC's usual ranges with respect to its IRIS tests on five out of twelve ratios. The first ratio relates to a larger than expected change in net writings, the second ratio relates to higher surplus growth that stemmed from the Parent company's capital contributions totaling $3.9 million during the year and the third ratio relates to an investment yield that was less than expected. The fourth and fifth ratios involved the one and two year reserve development to policyholder surplus ratios that were in excess of the "usual ranges" and relate to modest, but adverse, development which incurred in 2003 relating to 2002 and 2001 loss reserves.

As of December 31, 2004, American Vehicle was outside NAIC's usual ranges for three out of twelve ratios. The first ratio relates to a larger than anticipated change in net writings, the second ratio relates to higher surplus growth that stemmed from the Parent company's capital contributions totaling $4.3 million during the year and the third ratio relates to an investment yield that was slightly less than expected.

As of December 31, 2003, American Vehicle was outside NAIC's usual ranges for three out of twelve ratios. The first ratio relates to a larger than anticipated change in net writings, the second ratio relates to higher surplus growth that stemmed from the Parent company's capital contributions totaling $5.9 million during the year and the third ratio relates to an investment yield that was slightly less than expected.

We do not currently believe that the Florida Office of Insurance Regulation will take any significant action with respect to Federated National or American Vehicle regarding the IRIS ratios, though there can be no assurance that will be the case.

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The table below reflect the range and test results for both Federated National and American Vehicle for the years ended December 31 2004 and 2003, respectively.

	Unusual Values Equal to or Over	Unusual Values Equal to or Under	Federated Na 2004
Gross Premiums to Ploicyholders' Surplus	900	--	997.0 *
Net Premium to Policyholders' Surplus	300	--	786.7 *
Change in Net Writtings	33	-33	56.2 *
Surplus Aid to Policyholders' Surplus	15	--	0.03
Two-year Overall Operating Ratio	100	--	130.1 *
Investment Yield	10.0	4.5	5.1
Change in Policyholders' Surplus	50	-10	-31.9 *
Liabilities to Liquid Assets	105	--	183.3 *
Gross Agents' Balance to Policyholders' Surplus	40	--	0
One-Year Reserve Development to Policyholders' Surplus	20	--	6.4
Two-Year Reserve Development to Policyholders' Surplus	20	--	22.4 *
Estimated Current Reserve Deficiency to Policyholdes' Surplus	25	--	-200.4

* indicates an unusual value

GAAP differs in some respects from reporting practices prescribed or permitted by the Florida Office of Insurance Regulation. Federated National's statutory capital and surplus was $7.6 million and $16.7 million as of December 31, 2004 and 2003, respectively. Federated National's statutory net income (loss) was ($25.4) million, $2.9 million and ($2.1) million for the years ended December 31, 2004, 2003 and 2002, respectively. Federated National's statutory non-admitted assets were approximately $8.9 million and $504,000 as of December 31, 2004 and 2003, respectively.

American Vehicle's statutory capital and surplus was $17.1 million and $10.7 million as of December 31, 2004 and 2003, respectively. American Vehicle's statutory net income was approximately $2,032,000, $848,000 and $135,000 for the years ended December 31, 2004, 2003 and 2002 respectively. American Vehicle's statutory non-admitted assets were approximately $167,000 and $161,000 as of December 31, 2004 and 2003, respectively.

(11) COMMITMENTS AND CONTINGENCIES

In June 2000, a lawsuit was filed against us, our directors and our executive officers seeking compensatory damages in an undisclosed amount on the basis of allegations that our amended registration statement dated November 4, 1998 was inaccurate and misleading concerning the manner in which we recognized ceded insurance commission income, in violation of Sections 11 and 15 of the Securities Act of 1933 and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. The lawsuit was filed in the United States District Court for the Southern District of New York. The plaintiff class purportedly included purchasers of our common stock between November 5, 1998 and August 13, 1999. The Court granted the plaintiffs class status. Specifically, the plaintiffs alleged that we recognized ceded commission income on a written basis, rather than amortized on a pro rata basis. The plaintiffs allege that this was contrary to the Statement of Financial Accounting Concepts Nos. 1, 2 and 5. We believe, however, that the lawsuit is without merit and we have vigorously defended the action, because we reasonably relied upon outside subject matter experts to make these determinations at the time. We have also since accounted for ceded commission on a pro rata basis and have done so since these matters were brought to our attention in 1998. Nevertheless, we have also continued to actively participate in settlement negotiations with the plaintiffs and have agreed to settle the case. The parties have negotiated the final terms of a Memorandum of Understanding, which was executed by the parties and then approved by the court in late February 2005. We have reserved and charged against forth quarter 2003 earnings $600,000 for the potential settlement and associated costs. During 2004, and through the date of the auditor's report, no adjustment to the original reserve has been deemed necessary.

We are involved in other claims and legal actions arising in the ordinary course of business. 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.

As a direct premium writer in the State of Florida, we are required to participate in certain insurer solvency pools under Florida Statutes 631.57(3)(a). Participation in these pools is based on our written premium by line of business to total premiums written statewide by all insurers. Participation may result in assessments against us. We were assessed $258,000 for the year ended December 31, 2002. There was no assessment made for the years ended December 31, 2004 or 2003.

Federated National and American Vehicle are also required to participate in an insurance apportionment plan under Florida Statutes 627.351 referred to as a Joint Underwriting Association Plan ("JUA Plan"). The "JUA Plan" shall provide for the equitable apportionment of any profits realized, or losses and expenses incurred, among participating insurers. In the event of an underwriting deficit incurred by the "JUA Plan" and the deficit is not recovered through the policyholders in the "JUA Plan", such deficit shall be recovered from the companies participating in the "Plan" in the proportion that the net direct premiums of each such member written during the preceding calendar year bear to the aggregate net direct premiums written in this state by all members of the joint underwriting "JUA Plan".

During the year ended December 31, 2004 Federated National and American Vehicle were assessed $362,121 and $120,009, respectively. These charges are contained in Operating and Underwriting Expenses in the Statement of Operations. Future assessments by this association are undeterminable at this time.

See Note 25, "Subsequent Events," for a discussion on the possibility of an assessment imposed by Florida's state run insurer of last resort, Citizens Property Insurance Corporation.

(12) LEASES

Effective December 31, 2004 we sold our interest in our agency operations which relieved us from our lease obligations. Until then we leased office space under various lease agreements with expiration dates through September 2007. Rental expense associated with operating leases was charged to expense in the period incurred. Rental expenses for 2004, 2003 and 2002 were approximately $840,000, $733,000 and $756,000, respectively, and are included in operating and underwriting expenses in the accompanying consolidated statements of operations.

At December 31, 2004, there are no minimum aggregate rental commitments.

(13) RELATED PARTY TRANSACTIONS

One of our directors is a partner at a law firm that handles the Company's claims litigation. Fees paid to this law firm amounted to approximately $327,000, $219,000 and $266,000 for the years ended December 31, 2004, 2003 and 2002, respectively.

In September 2002, one of our directors, who is also on the Investment Committee, began to oversee an investment account for the Company. The oversight arrangement was subsequently terminated in March of 2003. Fees paid to this director in 2003 and 2002 totaled $7,500 and $1,250, respectively.

(14) NET INCOME (LOSS) PER SHARE

Net income (loss) per share is computed by dividing net income (loss) by the weighted average number of shares of common stock and common stock equivalents outstanding during the periods presented. Options granted in accordance with the stock option plan were anti-dilutive for the years ended December 31, 2004 and 2002 and were not taken into account in the computation.

At December 31, 2003 and 2002, warrants issued to two employees to purchase 7,800, and 62,500 shares, respectively, of common stock at $9 per share were outstanding. During 2003, 54,700 warrants were exercised.

At December 31, 2002, warrants sold as part of an underwriting agreement at a price of $0.0001 per warrant, entitling the holder to purchase 125,000 shares of common stock at $10.86 per share, were outstanding. During 2003, all of the 125,000 shares were exercised. All of these potential common shares were excluded from the computation of net income per share for 2002 because their inclusion would have an anti-dilutive effect.

A summary of the numerator and denominator of the basic and fully diluted (2003 only) net income (loss) per share is presented below:

	Income (Loss) (Numerator)	Shares Outstanding (Denominator)	Per-sha Amount
For the year ended December 31, 2004:			
Basic net income (loss) per share	$(10,857,775)	5,847,102	$(1.86
Fully diluted income (loss) per share	$(10,857,775)	5,847,102	$(1.86

For the year ended December 31, 2003:			
Basic net income per share	$ 8,364,876	4,756,972	$1.76
Fully diluted income per share	$ 8,364,876	5,022,938	$1.67
For the year ended December 31, 2002:			
Basic net income per share	$ 4,570,201	4,508,439	$1.01
Fully diluted income per share	$ 4,570,201	4,508,439	$1.01

(15) SEGMENT INFORMATION

We operate principally in two business segments consisting of insurance and financing. The insurance segment consists of underwriting through Federated National and American Vehicle, managing general agent operations through Assurance MGA, claims processing through Superior Adjusting and marketing and distribution through independent agents. The insurance segment sells primarily standard and nonstandard personal automobile insurance, homeowners' insurance, mobile home property and casualty insurance, and general liability insurance. This segment includes substantially all aspects of the insurance, distribution and claims process. The financing segment consists of premium financing through Federated Premium Finance. The financing segment provides premium financing to our insureds and third party carrier insureds, and is marketed through our distribution network.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies and practices. We evaluate business segments based on GAAP pretax operating earnings. Corporate overhead expenses are not allocated to business segments. Transactions between reportable segments are accounted for at fair value.

Operating segments that are not individually reportable are included in the "All Other" category, which includes the operations of the parent holding company.

Information regarding components of operations for the years ended December 31, 2004, 2003 and 2002 follows:

	Years Ended December 31,		
	2004	2003	2002
Total Revenues			
Insurance Segment:			
Earned premium	$ 66,241,344	$ 42,284,795	$ 26,914,565
Investment income	4,160,658	5,815,074	1,253,215

Adjusting income	5,771,141	4,172,084	2,886,838
MGA fee income	2,039,783	2,328,681	1,970,226
Commision income	2,240,386	3,532,108	670,918
Other income	434,819	(625,157)	93,719
Total insurance revenue	80,888,131	57,507,585	33,789,481
Financing Segment:			
Premium finance income	2,748,149	2,622,745	3,657,942
Pay day advances	--	--	56,584
Total financing revenue	2,748,149	2,622,745	3,714,526
All other segment revenue	2,918,690	3,224,734	1,445,606
Total operating revenue	86,554,970	63,355,064	38,949,613
Intercompany eliminations	(9,983,546)	(9,766,646)	(4,958,477
Total revenues	$ 76,571,424	$ 53,588,418	$ 33,991,136
Earnings (loss) before income taxes:			
Insurance segment	$(24,436,582)	$ 13,241,545	$ 7,563,465
Financing segment	1,059,107	622,740	1,421,302
All other segments	1,171,835	(212,455)	(199,414
Total earnings (loss) before income taxes	$(22,205,639)	$ 13,651,830	$ 8,785,353

Information regarding total assets as of December 31, 2004 and 2003 follows:

	Years Ended December 31,	
	2004	2003
Assets by segment		
Insurance segment	$ 134,894,764	$ 93,301,125
Financing segment	8,536,786	10,105,548
All other segments	15,460,463	3,602,606
Total assets by segment	158,892,013	107,009,279
Intercompany eliminations	4,709,359	(313,686)
Total assets by segment	$ 163,601,372	$ 106,695,593

Supplemental segment information as of and for the year ended December 31, 2004, 2003 and 2002 follows:

	Years Ended December 31,		
	2004	2003	
Insurance segment			
Deferred policy acquisition costs -	$ 6,957,168	$ 1,739,685	$
Reserves for unpaid loss and LAE	$ 46,570,679	$ 24,570,198	$
Unearned premiums	$ 50,152,711	$ 34,122,663	$
Earned premiums	$ 66,241,344	$ 44,877,230	$
Net investment income (loss)			
Insurance segment	$ 4,139,178	$ 1,624,216	$
All other segments	21,480	--	
Total net investment income (loss)	$ 4,160,658	$ 1,624,216	$
Claims and adjustment expenses incurred related to current years - Insurance segment	$ 76,423,059	$ 26,274,932	$
Claims and adjustment expenses incurred related to prior years - Insurance segment	$ (1,430,278)	$ 1,234,047	$
Amortization of deferred acquisition costs - Insurance segment			
Insurance segment	$ 10,525,334	$ 2,436,813	$
Financing segment	137,861	212,285	
Eliminations	(2,240,386)	(3,503,376)	
Total amortization of deferred acquisition costs:	$ 8,422,808	$ (854,278)	$
Paid claims and claim adjustment expense - Insurance segment	$ 52,645,741	$ 21,836,470	$
Net premiums written - Insurance segment	$ 85,176,108	$ 50,900,790	$

(16) STOCK COMPENSATION PLANS

In December 1998, we issued warrants to two employees to purchase 62,500 shares of common stock of the Company at $9 per share. The estimated fair value of these warrants at the date issued was approximately $226,000 using a Black-Scholes option pricing model and assumptions similar to those used for valuing the Company's stock options as described below. During 2004, all remaining warrants were exercised.

We implemented a stock option plan in November 1998 that provides for the granting of stock options to officers, key employees and consultants. The objectives of this plan includes 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 have been granted at prices, which are either equal to or above the market value of the stock on the date of grant, vest over a four-year period, and expire ten years after the grant date. Under this plan, we are authorized to grant options to purchase up to 900,000 common shares, and, as of December 31, 2004, we had outstanding exercisable options to purchase 198,275 shares.

In 2001, we implemented a franchisee stock option plan that provides for the granting of stock options to individuals purchasing Company owned agencies which are then converted to franchised agencies. The purpose of the plan is to advance our interests by providing an additional incentive to encourage managers of Company owned agencies to purchase the agencies and convert them to franchises. Options outstanding under the plan have been granted at prices, which are above the market value of the stock on the date of grant, vest over a ten-year period, and expire ten years after the grant date. Under this plan, we are authorized to grant options to purchase up to 988,500 common shares, and, as of December 31, 2004, we had outstanding exercisable options to purchase 15,000 shares.

In 2002, we implemented the 2002 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 key employees, consultants, independent contractors, Officers and Directors, upon whose efforts and judgment our success is largely dependent, by authorizing the grant of options to purchase Common Stock to persons who are eligible to participate hereunder, thereby encouraging stock ownership by such persons, all upon and subject to the terms and conditions of the Plan. Options outstanding under the plan have been granted at prices which are above the market value of the stock on the date of grant, 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 December 31, 2004, we had outstanding exercisable options to purchase 906,300 shares.

Activity in our stock option plans for the period from January 1, 2002 to December 31, 2004 is summarized below:

	1998 PLAN		2001 FRANCHISEE PLAN	
	Number of Shares	Weighted Average Option Exercise Price	Number of Shares	Weighted Average Option Exercise Price
Outstanding at January 1, 2002	618,858	$ 6.67	125,745	$ 6.67
Granted	342,398	$ 6.67	--	
Exercised	(1,500)			
Cancelled	(158,249)	$ 6.67	(8,512)	$ 6.67
Outstanding at December 31, 2002	801,507	$ 6.67	117,233	$ 6.67

Granted	--	$ 6.67	15,000	$ 9.17
Exercised	(375,371)	$ 6.67	(92,273)	$ 6.67
Cancelled	(17,606)	$ 6.67	--	
Outstanding at December 31, 2003	408,530	$ 6.67	39,960	$ 7.61
Granted	--			--
Exercised	(193,755)	$ 6.67	(24,960)	$ 6.67
Cancelled	(16,500)	$ 6.67	--	
Outstanding at December 31, 2004	198,275	$ 6.67	15,000	$ 9.17

Options outstanding as of December 31, 2004 are exercisable as follows:

	1998 PLAN		2001 FRANCHISEE PLAN		
Options Exercisable at:	Number of Shares	Weighted Average Option Exercise Price	Number of Shares	Weighted Average Option Exercise Price	Number Shares
December 31, 2004	141,275	$6.67	15,000	$ 6.67	491,12
December 31, 2005	28,500	$6.67	--	$ 6.67	160,87
December 31, 2006	28,500	$6.67	--	$ 6.67	89,15
December 31, 2007		$6.67	--	$ 6.67	89,15
December 31, 2008	--	$ --	--	$ 6.67	44,30
Thereafter	--	$ --	--	$ 6.67	31,70
Total options exercisible	198,275		15,000		906,30

We continue to account for stock-based compensation using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, under which no compensation cost for stock options is recognized for stock option awards granted to employees at or above fair market value. Had compensation expense for our stock compensation plan been determined based upon fair values at the grant dates for awards under the plan in accordance with SFAS No. 123, our net income (loss) and net income (loss) per share would have been reduced (increased) to the pro forma amounts indicated below. Additional stock option awards are anticipated in future years.

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21ST CENTURY HOLDING COMPANY AND SUBSIDIARIES
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For the year ending December 31,

	2004	2003	2002
Net Income (loss) as reported .	$ (10,857,776)	$ 8,364,876	$ 4,570,201
Compensation, net of tax effect	7,277,028	4,783,080	1,750,528
Pro forma net income (loss) ...	$ (18,134,804)	$ 3,581,796	$ 2,819,673
Net income (loss) per share			
As reported - Basic	$ (1.86)	$ 1.76	$ 1.01
As reported - Diluted	$ (1.86)	$ 1.67	$ 1.01
Pro forma - Basic	$ (3.10)	$ 0.75	$ 0.63
Pro forma - Diluted	$ (3.10)	$ 0.71	$ 0.63

The weighted average fair value of options granted during 2004, 2003 and 2002 estimated on the date of grant using the Black-Scholes option-pricing model was $6.13 to $18.26; $4.21 to $8.31 and $1.45 to $5.37, respectively. The fair value of options granted is estimated on the date of grant using the following assumptions:

	December 31, 2004	December 31, 2003	December 31, 2002
Dividend yield	2.24% to 3.19%	1.96% to 2.10%	.073% to 3.50%
Expected volatility	96.76% to 103.20%	105.91% to 108.73%	120.22%
Risk-free interest rate	2.13% to 3.25%	2.30% to 3.94%	4.49% to 5.82%
Expected life (in years)	3.00 to 3.60	3.00 to 6.36	4.83 to 7.02

Summary information about the Company's stock options outstanding at December 31, 2004:

	Range of Exercise Price	Outstanding at December 31, 2004	Weighted Average Contractual Periods in Years	Weighted Average Exercise Price
1998 Plan	$6.67	198,275	1.99	$6.67
2001 Franchise Plan	$6.67 to $9.17	15,000	3.21	$9.17
2002 Plan	$8.33 - $20.00	906,300	2.60	$10.74

(17) EMPLOYEE BENEFIT PLAN

We have established a profit sharing plan under Section 401(k) of the Internal Revenue Code. This plan allows eligible employees to contribute up to 15 percent of their compensation on a pre-tax basis, not to exceed statutory limits. For the years ended December 31, 2004, 2003 and 2002, we did not contribute to the plan. Our contributions, if any, are vested incrementally over five years.

(18) ACQUISITIONS

We made no acquisitions during 2004.

(19) COMPREHENSIVE INCOME (LOSS)

Reclassification adjustments related to the investment securities included in comprehensive income (loss) for the years ended December 31, 2004, 2003 and 2002 are as follows:

	December 31,		
	2004	2003	2002
Unrealized holdings net gains (losses) arising during the year	$(809,639)	$(520,893)	$(103,
Reclassification adjustment for (gains) losses included in net income	520,893	227,091	90,
	(288,746)	(293,802)	(13,
Tax effect	108,655	196,012	4,
Net depreciation on investment securities	$(180,091)	$ (97,790)	$ (8,

(20) AUTHORIZATION OF PREFERRED STOCK

Our Amended and Restated Articles of Incorporation authorize the issuance of one million shares of preferred stock with designations, rights and preferences determined from time to time by our board of directors. Accordingly, our board of directors is empowered, without shareholder approval, to issue preferred stock with dividends, liquidation, conversion, voting or other rights that could adversely affect the voting power or other rights of the holders of common stock. We have not issued preferred shares as of December 31, 2004.

(21) 21ST CENTURY HOLDING COMPANY

The following summarizes the major categories of 21st Century Holding Company's (parent company only) financial statements:

ASSETS	2004	2003
Cash and cash equivalents	$ 5,641,910	$ 547,760
Investments and advances to subsidiaries	40,753,944	28,893,129
Deferred income taxes	7,917,385	824,171
Income taxes recoverable	(8,674,526)	765,634
Property, plant and equipment, net	637,641	699,919

Loan costs, net of amortization	837,665	430,803
Other assets	6,123,042	258,280
Total assets	$ 53,237,061	$ 32,419,696
LIABILITIES AND SHAREHOLDERS' EQUITY		
Subordinated debt	$ 16,875,000	$ 6,875,000
Dividends payable	442,183	422,890
Other liabilities	7,118,905	909,171
Total liabilities	24,436,088	8,207,061
Shareholders' equity:		
Common stock	67,448	40,889
Additional paid-in capital	26,310,147	21,181,048
Accumulated other comprehensive deficit	309,280	(525,506)
Retained earnings	3,893,743	5,283,978
Treasury stock	(1,779,645)	(1,767,774)
Total shareholders' equity	28,800,973	24,212,635
Total liabilities and shareholders' equity	$ 53,237,061	$ 32,419,696

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21ST CENTURY HOLDING COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Condensed Statements of Operations

	2004	2003	2002
Revenue:			
Management fees from subsidiaries	$ 1,992,000	$ 1,993,500	$ 1,885,000
Equity in income (loss) of subsidiaries	(16,433,198)	12,871,893	5,605,148
Net investment income (loss)	21,480	308	--
Other income	95,520	336,194	95,283
Total revenue	(14,324,198)	15,201,895	7,585,431
Expenses:			
Advertising	519,245	315,125	140,287
Salaries and wages	716,229	519,456	457,856
Legal fees	232,971	855,573	50,304
Interest expense and amortization of loan costs	909,162	403,952	8,853
Other expenses	1,020,257	836,921	674,654

Total expenses	3,397,864	2,931,027	1,331,954
Income (loss) before provision for income tax expense and extraordinary gain	(17,722,062)	12,270,867	6,253,477
Benefit (expense) for income tax	6,864,287	(3,905,992)	(1,683,276)
Net income (loss)	$(10,857,775)	$ 8,364,875	$ 4,570,201

Condensed Statements of Cash Flow

	2004	2003
Cash flow from operating activities:		
Net income (loss)	$(10,857,775)	$ 8,364,876
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Equity in income (loss) of subsidiaries	32,632,932	(3,096,893)
Depreciation and amortization of property plant and equipment	94,257	138,151
Common Stock issued for interest on Notes	356,250	112,500
Deferred income tax expense	(7,093,214)	(24,094)
Income tax recoverable	9,440,160	(765,634)
Dividends payable	19,293	(242,943)
Changes in operating assets and liabilities:		
Other assets	(5,864,762)	154,012
Other Liabilities	6,209,732	497,197
Net cash provided by operating activities	24,936,873	5,137,172
Cash flow from investing activities:		
Purchases of property and equipment	31,979	(17,604)
Increased capital of subsidiaries	(16,199,733)	(9,775,000)
Net cash provided by (used in) investing activities	(16,167,754)	(9,792,604)
Cash flow from financing activities:		
Dividends paid	(1,882,399)	(999,106)
Subordinated debt	12,500,000	7,500,000
Stock options exercised	2,856,250	6,868,646
Purchases of treasury stock	(11,871)	(681,842)
Advances from (to) subsidiaries	(20,135,929)	(7,506,855)
Net cash provided by (used in) financing activities	(6,673,949)	5,180,843
Net increase in cash and cash equivalents	2,095,170	525,411
Cash and cash equivalents at beginning of year	547,760	22,349
Cash and cash equivalents at end of year	$ 2,642,930	$ 547,760

21ST CENTURY HOLDING COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2004, 2003, 2002

(22) SUBORDINATED DEBT

On July 31, 2003, we completed a private placement of our 6% Senior Subordinated Notes (the "July 2003 Notes"), which were offered and sold to accredited investors as units consisting of one July 2003 Note with a principal amount of $1,000 and warrants (the "2003 Warrants") to purchase shares of our Common Stock. We sold an aggregate of $7.5 million of July 2003 Notes in this placement, which resulted in proceeds to us (net of placement agent fees of $450,724 and offering expenses of $110,778) of $6,938,498.

The July 2003 Notes pay interest at the annual rate of 6%, are subordinated to senior debt of the Company, and mature on July 31, 2006. Quarterly payments of principal and interest due on the July 2003 Notes may be made in cash or, at our option, in shares of our Common Stock. If paid in shares of Common Stock, the number of shares to be issued shall be determined by dividing the payment due by 95% of the weighted-average volume price for the Common Stock on Nasdaq as reported by Bloomberg for the 20 consecutive trading days preceding the payment date.

The 2003 Warrants issued in this placement to the purchasers of the July 2003 Notes and to the placement agent in the offering, J. Giordano Securities Group ("J. Giordano"), each entitle the holder to purchase 3/4 of one share of our Common Stock at an exercise price of $12.74 per whole share (as adjusted for the Company's three-for-two stock split) until July 31, 2006. The total number of shares issuable upon exercise of 2003 Warrants issued to the purchasers of the July 2003 Notes and to J. Giordano totaled 408,050. GAAP requires that detachable warrants be valued separately from debt and included in paid-in capital. Based on the terms of the purchase agreement with the investors in the private placement, management believes that the July 2003 Warrants had zero value at the date of issuance.

On September 30, 2004, we completed a private placement of 6% Senior Subordinated Notes due September 30, 2007 (the "September 2004 Notes"). These notes were offered and sold to accredited investors as units consisting of one September 2004 Note with a principal amount of $1,000 and warrants to purchase shares of our Common Stock (the "2004 Warrants"), the terms of which are similar to our July 2003 Notes and 2003 Warrants, except as described below. We sold an aggregate of $12.5 million of units in this placement, which resulted in proceeds (net of placement agent fees of $700,000 and offering expenses of $32,500) to us of $11,767,500.

The September 2004 Notes pay interest at the annual rate of 6%, mature on September 30, 2007, and rank pari passu in terms of payment and priority to the July 2003 Notes. Quarterly payments of principal and interest due on the September 2004 Notes, like the July 2003 Notes, may be made in cash or, at our option, in shares of our Common Stock. If paid in shares of Common Stock, the number of shares to be issued shall be determined by dividing the payment due by 95% of the weighted-average volume price for the Common Stock on Nasdaq as reported by Bloomberg for the 20 consecutive trading days preceding the payment date.

The 2004 Warrants issued to the purchasers of the September 2004 Notes and to the placement agent in the offering, J. Giordano, each entitle the holder to purchase one share of our Common Stock at an exercise price of $12.75 per share and will be exercisable until September 30, 2007. The number of shares issuable upon exercise of the 2004 Warrants issued to purchasers equaled $12.5 million divided by the exercise price of the warrants, and totaled 980,392. The number of shares issuable upon exercise of the 2004 Warrants issued to J. Giordano equaled $500,000 divided by the exercise price of the warrants, and totaled 39,216. GAAP requires that detachable warrants be valued separately from debt and included in paid-in capital. Based on the terms of the purchase agreement with the investors in the private placement, management believes that the September 2004 Warrants had zero value at the date of issuance.

The terms of the 2004 Warrants provide for adjustment of the exercise price and the number of shares issuable thereunder upon the occurrence of certain events typical for private offerings of this type.

As indicated on the table below, we paid, pursuant to the terms of the July 2003 Notes, the quarterly payments of principal and interest due in shares of our Common Stock and in accordance with the contractual computations issued common stock as follows:

Quarterly payment due date	2004	2003
January 31,	54,014	--
April 30,	53,729	--
July 31,	49,965	--
October 31,	69,200	61,792
Total common stock issued	226,908	61,792

For the July 2003 Notes, the first quarterly principal and interest payments totaling approximately $0.7 million per payment were due on October 31, 2003 and quarterly thereafter for three years with the last installment due on July 31, 2006. The scheduled loan payments for the next three years are as follows:

For the period	
Year ending December 31, 2005	$2,500,000
Year ending December 31, 2006	1,875,000
Total	$4,375,000

For the September 2004 Notes, the first quarterly principal and interest payments, totaling approximately $1.2 million per payment, is due beginning next year on January 31, then quarterly thereafter for three years with the last installment due on September 30, 2007. The scheduled loan payments for the next three years are as follows:

For the period	
Year ending December 31, 2005	$ 4,166,668

Year ending December 31, 2006	4,166,668
Year ending December 31, 2007	4,166,664
	$12,500,000

(23) SCHEDULE VI - SUPPLEMENTAL INFORMATION CONCERNING PROPERTY-CASUALTY INSURANCE OPERATIONS

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21ST CENTURY HOLDING COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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	Loss and loss adjustment expenses CURRENT YEAR	Loss and loss adjustment expenses PRIOR YEAR	Amortization of deferred policy acquisition expenses	Paid losses and loss adjustment expenses	Net premiums written
2004	$ 76,423,059	$ (1,430,278)	$ 8,422,808	$ 52,645,741	$85,176,108
2003	$ 26,274,932	$ 1,234,047	$ (854,279)	$ 21,836,470	$50,900,790
2002	$ 15,896,251	$ 90,874	$(2,064,314)	$ 13,057,571	$35,271,201

Affiliation with registrant	Deferred policy acquisition costs	Reserves for losses and loss adjustment expenses	Discount, if any, deducted from previous column	Unearned premiums	Net pr ear
Consolidated Property and Casualty Subsidiaries					
2004	$6,957,168	$46,570,679	$ --	$50,152,711	$66,
2003	$1,739,685	$24,570,198	$ --	$34,122,663	$42,
2002	$7,721	$16,983,756	$ --	$28,934,486	$26,

(24) DISCONTINUED OPERATIONS

On December 22, 2004 we announced our intention to sell our interest in Express Tax Service, Inc. and EXPRESSTAX Franchise Corporation for approximately $2 million cash. This transaction closed with an effective date of January 1, 2005. The book value of Express Tax Service, Inc. and EXPRESSTAX Franchise Corporation on January 1, 2005 was approximately $0.6 million.

Additionally, on the same day, the Company also announced a definitive agreement to sell the assets of its subsidiaries, Federated Agency Group, Inc. and Fed USA, Inc., to affiliates of Affirmative Insurance Holdings, Inc. ("Affirmative")(Nasdaq: AFFM) for approximately $9.5 million. The sale of assets to Affirmative closed on December 31, 2004, at which time the Company received $7 million cash, with up to an additional $2.5 million due in the first quarter of 2006, subject to certain performance criteria are met. The company believes it will meet these criteria during 2005. Assets and liabilities, including goodwill, that were sold totaled approximately $2.1 million on December 31, 2004.

The company has recognized a $2.5 million receivable relating to this transaction and it is reflected in Other Assets. Concurrently, the company has also recognized a $2.5 million deferred gain relating to the same transaction and it is reflected as a liability titled Deferred income on discontinued operations.

(25) SUBSEQUENT EVENTS

Subsequent to December 31, 2004 and the date of presentation the Company received notice from the Alabama Department of Insurance that American Vehicle has been admitted and licensed to underwrite personal automobile and commercial general liability lines of insurance.

On or about January 31, 2005 the Company issued 159,407 shares of common stock in payment of the principal and interest due on the July 2003 and September 2004 Notes for the three months ended January 31, 2005.

On February 18, 2005, Florida's Citizens Property Insurance Corporation, the state-run insurer of last resort, announced that it will likely need to impose an assessment on all property insurers in Florida pursuant to their deficit resulting from the claims from 2004's four hurricanes. The assessment, if imposed, would be based on our homeowner premiums written to total homeowner premiums written statewide by all insurers. The assessment would then be passed on to all property policyholders. An estimate of our assessment, if an assessment is made, is undeterminable at this time.

21st Century Holding Company (the "Company") completed the transaction contemplated by the Stock Purchase and Redemption Agreement (the "Agreement") dated January 3, 2005 with Express Tax Service, Inc. ("ETS"), Robert J. Kluba ("Kluba") and Robert H. Taylor ("Taylor"); together with Kluba, the "Buyers"). The Company was the beneficial and record owner of 80% of the issued and outstanding stock of ETS, which in turn owned 100% of the issued and outstanding stock of EXPRESSTAX Franchise Corporation ("ETFC"). Kluba was the President and a director of ETS and ETFC, and the owner of the remaining 20% of the issued and outstanding stock of ETS. The sale of the assets closed on January 13, 2005 with an effective date of January 1, 2005. For more information, see Note 24, "Discontinued Operations."

The Company received at closing a cash payment of $311,351, which reflected the purchase price of $660,000 for all of the Company's common stock in ETS, less $348,649 representing intercompany receivables owed to ETS by the Company. The Company also received a payment of $1,200,000 in exchange for the Company's agreement not to compete with the current business of ETS and ETFC for five years following the closing.

In connection with the transaction, the Company has extended the expiration dates for the 75,000 outstanding stock options previously granted to Kluba and the 30,000 outstanding stock options previously granted to Kluba's wife, such that 80% of such stock options shall expire, if not exercised, on the first anniversary date of the closing and the remaining 20% of such stock options shall expire on the second anniversary date of the closing; none of these options shall be exercisable for the six-month period following the closing.

Effective March 1, 2005, Federated National sold its interest in the Lauderdale Lakes property used by the company as its headquarters to 21st Century at the property's net book value of approximately $2.9 million.

As a result of a $6.1 million capital contribution made during the first quarter of 2005 from 21st Century, Federated National's compliance with the precribed premium to capital surplus ratio has been restored.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

(A) EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures within 90 days of this report was carried out by the Company under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures have been designed and are being operated in a manner that provides reasonable assurance that the information required to be disclosed in reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. A controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

(B) CHANGES IN INTERNAL CONTROLS

Subsequent to the date of the most recent evaluation of our internal controls, there were no significant changes in our internal controls or in other factors that could significantly affect the internal controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

ITEM 9B. OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Under our Articles of Incorporation, our Board of Directors is divided into three classes. Each class of directors serves a staggered term. Carl Dorf and Charles B. Hart, Jr. hold office until the 2005 Annual Meeting, and each has been nominated for reelection to the Board, to serve as class III directors until the Annual Meeting to be held in 2008 or until their successors are duly elected and qualified. Bruce Simberg, Richard W. Wilcox, Jr. and Peter J. Prygelski are class II directors and hold office until the 2006 Annual Meeting. Edward J. Lawson and Richard A. Widdicombe are class I directors and hold office until the 2007 Annual Meeting.

Nominees

The following persons were recommended by the Board of Directors and are nominated as directors as follows:

Name	Age	Position with the Company
Carl Dorf (1) (2)	64	Director
Charles B. Hart, Jr. (1) (2) (3)	66	Director

Carl Dorf was appointed to the Board of Directors in August 2001. Since April 2001 Mr. Dorf has been the principal of Dorf Asset Management, LLC, and is responsible for all investment decisions made by that company. From January 1991 to February 2001, Mr. Dorf served as the Fund Manager of ING Pilgrim Bank and Thrift Fund. Prior to his experience at Pilgrim, Mr. Dorf was a principal in Dorf & Associates, an investment management company.

Charles B. Hart, Jr. has more than 40 years of experience in the insurance industry. From 1973 to 1999, Mr. Hart served as President of Public Assurance Group and as General Manager of Operations for Bristol West Insurance Services. Since 1999, Mr. Hart has acted as an insurance consultant. Mr. Hart was appointed to the Board of Directors in March 2002.

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(1) Member of Independent Directors Committee.
(2) Member of Investment Committee.
(3) Member of Audit Committee.

Set forth below is certain information concerning the directors who are not currently standing for election:

Name	Age	Position with the Company
Edward J. Lawson (2)	55	President, Chairman of the Board and Directo
Richard A. Widdicombe	46	Chief Executive Officer and Director
Bruce F. Simberg (2)	56	Director
Richard W. Wilcox, Jr. (1) (2) (3)	63	Director
Peter J. Prygelski (1) (2) (3)	36	Director

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(1) Member of Independent Directors Committee.
(2) Member of Investment Committee.
(3) Member of Audit Committee.

Edward J. Lawson co-founded the Company and has served as our President and Chairman of the Board since the Company's inception in 1991. Mr. Lawson has more than 18 years' experience in the insurance industry, commencing with the founding of the Company's initial agency in 1983.

Richard A. Widdicombe was appointed as our Chief Executive Officer in June 2003. Mr. Widdicombe joined the Company in November 1999 as President of Federated National Insurance Company ("Federated National") and Assurance Managing General Agents, Inc. ("Assurance MGA"). In August 2001 he was appointed as the President of American Vehicle Insurance Company ("American Vehicle"). Mr. Widdicombe holds his adjuster's license and CPCU designation. Mr. Widdicombe is a member of the Florida Department of Financial Services Initial Disaster Assessment team. Mr. Widdicombe was appointed to the Board of Directors in August 2001.

Bruce F. Simberg has served as a director of the Company since January 1998. Mr. Simberg has been a practicing attorney for the last 23 years, most recently as managing partner of Conroy, Simberg, Ganon, Krevans & Abel, P.A., a law firm in Ft. Lauderdale, Florida, since October 1979. Mr. Simberg was appointed to the Board of Directors in January 1998.

Richard W. Wilcox, Jr. has been in the insurance industry for almost 40 years. In 1963, Mr. Wilcox began an insurance agency that eventually developed into a business generating $10 million in annual revenue. In 1991, Mr. Wilcox sold his agency to Hilb, Rogal and Hamilton Company ("HRH") of Fort Lauderdale, for which he retained the position of President through 1998. In 1998, HRH of Fort Lauderdale merged with Poe and Brown of Fort Lauderdale, and Mr. Wilcox served as the Vice President. Mr. Wilcox retired in 1999 and joined the Company's Board of Directors in January 2003.

Peter J. Prygelski was appointed as a director of the Company in January 2004. Since April 2004, Mr. Prygelski has been Senior Manager, Business Risk Services Consulting with Ernst & Young in Fort Lauderdale, Florida. Mr. Prygelski is a Certified Internal Auditor. Prior to his employment at Ernst & Young, Mr. Prygelski work as an Independent Sarbanes Oxley and Internal Audit

Consultant from September 2003 to April 2004. From November 1991 to August 2003 Mr. Prygelski was employed in the internal audit department of American Express, where he was most recently the Director/Assistant General Auditor of American Express Centurion Bank. As such, Mr. Prygelski managed the company's audit activities and managed a staff of 12 audit professionals and an annual department budget of $2.5 million. His responsibilities included preparing and implementing the company's annual audit plan; supporting the company's audit committee by communicating issues related to planning, audit results, plan status, and integrated audit coverage; managing the relationships with senior management, the external auditors, and regulatory authorities; and addressing risks and control gaps to ensure that the company maintained an adequate control system.

Please see Part 1, Item 1, "Senior Management", for information regarding our executive officers who are not directors.

ITEM 11. EXECUTIVE COMPENSATION

Summary Compensation Table

The following table summarizes compensation earned for the years ended December 31, 2004, 2003, and 2002, by our Chief Executive Officer and the three other most highly compensated executive officers whose compensation exceeded $100,000 during 2004 and is required to be reported (the "named executive officers").

	Annual Compensation (1)			Long-Term Compensati
Name and Principal Position Compensation($)	Year	Salary($)		Securities Underlying Bonus($)
Richard A. Widdicombe	2004	$143,100	0	--
Chief Executive Officer	2003	126,250	0	--
	2002	122,200	0	--
Edward J. Lawson	2004	$154,500	0	--
President and Chairman	2003	156,000	0	--
	2002	156,000	0	--
J. Gordon Jennings, III	2004	$129,577	0	--
Chief Financial Officer	2003	104,000	0	--
	2002	89,800	0	--
Kent M. Linder	2004	$118,800	0	--
Chief Operating Officer	2003	107,000	0	--
	2002	104,000	0	--

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(1) Includes $7,200 car allowance, $851 cellular phone, $8,667 health insurance premiums, $300 for events attended by officer and/or family and $1,189 airfare and hotel for management trip including family.

(2) Perquisites and other personal benefits totaling less than the applicable reporting threshold for 2002 and 2003 have been excluded.

(3) Includes $9,044 car allowance, $1,064 cellular phone, $4,924 health and dental insurance premiums, $100 for events attended by officer and/or

family and $1,028 airfare and hotel for management trip including family.

(4) Includes $10,536 health insurance premiums and $500 for events attended by officer and/or family.

(5) Includes $12,935 health and dental insurance premiums, $1,404 cellular phone, $400 for events attended by officer and/or family and $1,418 airfare and hotel for management trip including family.

Option Grants in Last Fiscal Year

The following table sets forth information concerning individual grants of stock options made during 2004 to the CFO. We have never granted stock appreciation rights.

Name	Number of Securities Underlying Options Granted (#)(1)	% of Total Options/SAR Granted to Employees in Fiscal Year	Exercise or Base Price ($/share)
J. Gordon Jennings, III	30,000	16.8%	20.00

Stock Option Exercises and Holdings

The following table sets forth certain information with respect to stock options and/or warrants exercised during calendar year 2004 by the named executive officers and unexercised stock options and/or warrants held as of December 31, 2004 by such executive officers.

	Shares Underlying Options	Value	Number of Securities Underlying Unexercised Options at Fiscal Year-End		Valu In-t At
Name	Exercised	Realized(1)	Exercisable	Unexercisable	Exerc
Richard A. Widdicombe	--	--	90,000	--	$526,
Edward J. Lawson	--	--	66,324	--	$384,
J. Gordon Jennings, III	16,000	$99,328	5,000	59,000	$23,
Kent M. Linder	--	--	75,000	--	$392,

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(1) All values are shown pretax and are rounded to the nearest whole dollar.
(2) Based on a fair market value of $13.90 per share at December 31, 2004.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of April 15, 2005, information with respect to the beneficial ownership of our Common Stock by (i) each person who is known by us to beneficially own 5% or more of our outstanding Common Stock,

(ii) each of our executive officers named in the Summary Compensation Table in the section "Executive Compensation," (iii) each of our directors, and (iv) all directors and executive officers as a group.

Name and Address of Beneficial Owner (1)	Number of Shares Beneficially Owned (2)	Perce Cl Outst
Edward J. Lawson (3)...	1,613,098	
Bruce F. Simberg (4)...	165,750	
Richard A. Widdicombe (5)....................................	141,833	
Kent M. Linder (6)...	125,150	
Carl Dorf (7)..	89,648	
Richard W. Wilcox, Jr. (8)...................................	48,250	
J. Gordon Jennings, III (9)..................................	21,500	
Charles B. Hart, Jr. (10)....................................	15,000	
Peter J. Prygelski (11)	3,900	
All directors and executive officers as a group (9 persons) (12)	2,224,129	

5% or greater holders:		
Michele V. Lawson (13) 3661 West Oakland Park Blvd, Suite 300 Lauderdale Lakes, FL 33311	1,613,098	25.1 %
Whitebox Advisors, LLC (14) 3033 Excelsior Blvd., Suite 300 Minneapolis, MN 55416	905,922	12.6 %
William D. Witter, Inc. (15) One Citicorp Center 153 East 53rd Street, 51st Floor New York, NY 10022	349,800	5.5 %

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* Less than 1%.

(1) Except as otherwise indicated, the address of each person named in the table is c/o 21st Century Holding Company, 3661 West Oakland Park Boulevard, Suite 300, Lauderdale Lakes, FL 33311.

(2) Except as otherwise indicated, the persons named in this table have sole voting and investment power with respect to all shares of Common Stock listed, which include shares of Common Stock in which such persons have the right to acquire a beneficial interest within 60 days from the date of this Proxy Statement.

(3) Represents 681,713 shares of Common Stock held of record by Michele V. Lawson, 25,425 shares held in an account for a minor, 66,324 shares of Common Stock issuable upon the exercise of stock options held by Mr. Lawson and 20,676 shares of Common Stock issuable upon the exercise of stock options held by Mrs. Lawson.

(4) Includes 28,500 shares of Common Stock issuable upon the exercise of stock options held by Mr. Simberg.

(5) Includes 3,083 shares of Common Stock held jointly with spouse and 90,000 shares of Common Stock issuable upon the exercise of stock options held by Mr. Widdicombe.

(6) Includes 75,000 shares of Common Stock issuable upon the exercise of stock options held by Mr. Linder.

(7) Includes 5,764 shares of Common Stock held by Dorf Partners 2001 LP, 67,384 shares of Common Stock held by Dorf Trust, 1,500 shares of Common Stock held in a joint account with Mr. Dorf's spouse, and 15,000 shares of Common Stock issuable upon the exercise of stock options held by Mr. Dorf.

(8) Includes 3,000 shares of Common Stock held in Mr. Wilcox's IRA and 15,000 shares of Common Stock issuable upon the exercise of stock options held by Mr. Wilcox.

(9) Includes 21,500 shares of Common Stock issuable upon the exercise of stock options held by Mr. Jennings.

(10) Includes 15,000 shares of Common Stock issuable upon the exercise of stock options held by Mr. Hart.

(11) Includes 300 shares of Common Stock held in Mr. Prygelski's IRA and 3,000 shares of Common Stock issuable upon the exercise of stock options held by Mr. Prygelski.

(12) Includes 350,000 shares of Common Stock issuable upon the exercise of stock options.

(13) Represents 818,960 shares of Common Stock held of record by Edward J. Lawson, 25,425 shares held in an account for a minor, 20,676 shares of Common Stock issuable upon the exercise of stock options held by Mrs. Lawson and 66,324 shares of Common Stock issuable upon the exercise of stock options held by Mr. Lawson.

(14) Includes 532,244 shares of Common Stock issuable upon the exercise of Redeemable Warrants held by Whitebox Convertible Arbitrage Partners, LP; 143,142 shares of Common Stock issuable upon the exercise of Redeemable Warrants held by Whitebox Hedged High Yield Partners, LP; 58,823 shares of Common Stock issuable upon the exercise of Redeemable Warrants held by

Whitebox Intermarket Partners, LP; and 149,702 shares of Common Stock issuable upon the exercise of Redeemable Warrants held by Pandora Select Partners, LP. Andrew Redleaf is the managing member of the General Partners of Whitebox Advisors LLC and has sole voting and dispositive power over the shares of Whitebox Advisors LLC.

(15) Includes 296,620 shares of Common Stock beneficially held on behalf of various clients of Witter, Inc. This information is based on the beneficial owner's filing with the Securities and Exchange Commission under Section 13 and/or Section 16 of the Securities Exchange Act of 1934.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Bruce Simberg, a director, is a partner of the Fort Lauderdale, Florida law firm of Conroy, Simberg, Ganon, Krevans & Abel, P.A., which renders legal services to the Company. In 2004, the Company paid legal fees to Conroy, Simberg, Ganon, Krevans & Abel, P.A. for services rendered in the amount of approximately $327,000. We believe that the services provided by Conroy, Simberg, Ganon, Krevans & Abel, P.A. are on terms at least as favorable as those that we could secure from a non-affiliated third party.

The employment agreement of Michele Lawson, Mr. Lawson's spouse and an employee of the Company, was amended to increase her annual salary to $117,000 from $78,000 and increase her car allowance to $1,125 from $300 per month. Mrs. Lawson's duties include overseeing the Company's accounts payable, claims and commission payment processes.

During 2004, Mr. Lawson's daughter received compensation totaling $70,200 for her services as a vice president of one of the Company's insurance subsidiaries and as human resources director; Mr. Lawson's sister-in-law received compensation totaling $62,701 for her services as an underwriter for one of the Company's insurance subsidiaries; and Mr. Lawson's nephew received compensation totaling $72,800 for his services as the president of the Company's premium finance subsidiary. We believe that the compensation provided to these individuals is comparable to that paid by other companies in our industry and market for similar positions.

We have adopted a policy that any transactions between the Company and executive officers, directors, principal shareholders or their affiliates take place on an arms-length basis and require the approval of a majority of our independent directors.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

DeMeo Young McGrath ("DeMeo") has served as the Company's independent auditors for each fiscal year since 2002. McKean, Paul, Chrycy, Fletcher & Co. ("McKean") was the Company's independent auditors prior to 2002.

DeMeo has advised the Company that neither it, nor any of its members, has any direct financial interest in the Company as a promoter, underwriter, voting trustee, director, officer or employee. All professional services rendered by DeMeo during the fiscal year ended December 31, 2004 were furnished at customary rates.

For the fiscal year ended December 31, 2004, fees for services provided by DeMeo and McKean were as follows:

	DeMeo	McKean
Audit Fees(1)	$ 290,302	$ 16,713
Audit-Related Fees(2)	$ 22,743	$ 0
Tax Fees(3)	$ 56,748	$ 0
Total	$ 369,793	$ 16,713

(1) Audit fees consisted of audit work performed in the preparation of financial statements, as well as work generally only the independent auditor can reasonably be expected to provide, such as statutory audits.

(2) Audit-related fees consisted primarily of audits of employee benefit plans

and special procedures related to regulatory filings in 2004.

(3) Tax fees consisted primarily of assistance with tax compliance and reporting.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8K

(A) THE FOLLOWING DOCUMENTS ARE FILED AS PART OF THIS REPORT:

(1) Financial Statements

The following consolidated financial statements of the Company and the reports of independent auditors thereon are filed with this report:

Independent Auditors' Report (De Meo, Young, McGrath).

Consolidated Balance Sheets as of December 31, 2004 and 2003.

Consolidated Statements of Operations for the years ended December 31, 2004, 2003 and 2002.

Consolidated Statements of Shareholders' Equity and Comprehensive Income (Loss) for the years ended December 31, 2004, 2003 and 2002.

Consolidated Statements of Cash Flows for the years ended December 31, 2004, 2003 and 2002.

Notes to Consolidated Financial Statements for the years ended December 31, 2004, 2003 and 2002.

(2) Financial Statement Schedules.

Schedule VI, Supplemental information concerning property-casualty insurance operations, is included herein under Item 8, Financial Statements and Supplementary Data.

(3) Exhibits

21ST CENTURY HOLDING COMPANY AND SUBSIDIARIES

EXHIBIT DESCRIPTION

3.1 Amended and Restated Articles of Incorporation (1)

3.2 Form of Registrant's Amended and Restated Bylaws (1)

4.1 Specimen of Common Stock Certificate (1)

4.2 Revised Representative's Warrant Agreement including form of Representative's Warrant (2)

4.3 Amendment dated October 1, 2003 to Warrant Agreement (3)

4.4 Form of 6% Senior Subordinated Note due July 31, 2006 (4)

4.5 Form of Redeemable Warrant dated July 31, 2003 (4)

4.6 Unit Purchase Agreement dated July 31, 2003 between the Company and the Purchasers of the 6% Senior Subordinated Notes (5)

4.7 Amendment to Unit Purchase Agreement and Registration Rights Agreement dated October 15, 2003 between the Company and the Purchasers of the 6% Senior Subordinated Notes (6)

4.8 Form of 6% Senior Subordinated Note due September 30, 2007 (15)

4.9 Form of Redeemable Warrant dated September 30, 2004 (15)

4.10 Unit Purchase Agreement dated September 30, 2004 between the Company and the Purchasers of the 6% Senior Subordinated Notes due September 30, 2007 (15)

10.1 Stock Option Plan, as amended (7)*

10.2 Employment Agreement between the Registrant and Edward J. Lawson (1)*

10.3 Employment Agreement between the Registrant and Michele V. Lawson (1)*

10.4 Form of Indemnification Agreement between the Registrant and its directors and executive officers (1)*

10.5 Revolving Credit and Term Loan Agreement between Westchester Premium Acceptance Corporation and WPAC, as amended (1)

10.6 Third Modification Agreement to Revolving Credit and Term Loan Agreement between FlatIron Funding Company, LLC and WPAC (9)

10.7 Fourth Modification Agreement to Revolving Credit and Term Loan Agreement between Federated Premium Finance, Inc., FlatIron Funding Company, LLC, FlatIron Funding Company and FlatIron Credit Company, Inc. (10)

10.8 Sale and Assignment Agreement between Federated Premium Finance, Inc. and WPAC (9)

10.9 Premium Receivable Servicing Agreement between Federated Premium Finance, Inc. and FPF, Inc. (10)

10.10 First Modification Agreement between Federated Premium Finance, Inc. and WPAC (11)

10.11 General Agency Agreement dated August 1, 1998 between Federated National Insurance Company and Assurance Managing General Agents, Inc. (12)

10.12 Managing General Agency Agreement dated September 4, 2001 between American Vehicle Insurance Company and Assurance Managing General Agents, Inc. (12)

10.13 Commercial and Private Passenger Automobile Quota Share Treaty dated December 31, 2003 between Federated National Insurance Company and TransAtlantic Reinsurance Company (13)

10.14 Private Passenger Automobile Quota Share Treaty dated January 1, 2003 between American Vehicle Insurance Company and TransAtlantic Reinsurance Company (13)

10.15 Addendum No. 1 dated September 1, 2003 to Private Passenger Automobile Quota Share Treaty between American Vehicle Insurance Company and TransAtlantic Reinsurance Company (9)

10.16 Employment Agreement dated November 1, 2003 between Registrant and Richard A. Widdicombe (13)*

10.17 Assumption Agreement dated as of May 3, 2004 between Federated National Insurance Company and Citizens Property Insurance Corporation (14)

10.18 Escrow Agreement dated as of May 3, 2004 among Citizens Property Insurance Corporation, Federated National Insurance Company and Wells Fargo, N.A. (14)

10.19 Employment Agreement dated as of June 8, 2004 between James Gordon Jennings III and 21st Century Holding Company (14)

10.20 Second Modification Agreement, dated as of September 28, 2004, between Federated Premium Finance, Inc. and Westchester Premium Acceptance Corporation (16)

10.21 First Modification Agreement, dated as of December 7, 2004 between 21st Century Holding Company and Edward J. Lawson (17)

10.22 Contract for sale and purchase of real property between Federated National Insurance Company and 21st Century Holding Company ***

10.23 Form of 2001 Franchise Program Stock Option Agreement * ***

10.24 Form of 2002 Stock Option Plan Option Agreement * ***

21ST CENTURY HOLDING COMPANY AND SUBSIDIARIES

21.1 Subsidiaries of the Registrant (10)

23.1 Consent of De Meo, Young, McGrath, Independent Certified Public Accountants **

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 **

* Management Compensation Plan or Arrangement

** Filed herewith

*** Filed with the Company's 2004 Annual Report on Form 10-K as originally filed.

(1) Previously filed as an exhibit of the same number to the Registrant's Registration Statement on Form SB-2 (File No. 333-63623) and incorporated herein by reference.

(2) Previously filed as an exhibit of the same number of the 1998 Annual Report on Form 10-KSB and incorporated herein by reference.

(3) Previously filed as an exhibit of the same number to the Registrant's Registration Statement on Form S-3 (File No. 333-105221) and incorporated herein by reference.

(4) Previously filed as Exhibits 4.1 and 4.2, respectively, to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2003 and incorporated herein by reference.

(5) Previously filed as Exhibit 4.5 to the Registrant's Registration Statement on Form S-3 (File No 333-109313) and incorporated herein by reference.

(6) Previously filed exhibit of the same number to the Registrant's Registration Statement on Form S-3 (File No. 333-108739) and incorporated herein by reference.

(7) Previously filed as an exhibit to the Company's 2000 Annual Meeting Proxy Statement and incorporated herein by reference.

(8) Previously filed as an exhibit of the same number of the 1999 Annual Report on Form 10-KSB and incorporated herein by reference.

(9) Previously filed as an exhibit of the same number of the 2000 Annual Report on Form 10-KSB and incorporated herein by reference.

(10) Previously filed as an exhibit of the same number of the 2001 Annual Report on Form 10-K and incorporated herein by reference.

(11) Previously filed as an exhibit of the same number of the 2002 Annual Report on Form 10-K and incorporated herein by reference.

(12) Previously filed as an exhibit of the same number of Amendment No. 1 to the 2002 Annual Report on Form 10K and incorporated herein by reference.

(13) Previously filed as an exhibit of the same number of the 2003 Annual Report on Form 10-K and incorporated herein by reference.

(14) Previously filed as Exhibits 10.1, 10.2 and 10.3, respectively, to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2004 and incorporated herein by reference.

(15) Previously filed as exhibits of the same number to the Registrant's Registration Statement on Form S-3 (File No. 333-120157) and incorporated herein by reference.

(16) Previously filed as Exhibit 10.1 to the Current Report on Form 8-K dated September 28, 2004 and incorporated herein by reference.

(17) Previously filed as Exhibit 10.1 to the Current Report on Form 8-K dated

December 7, 2004 and incorporated herein by reference.

21ST CENTURY HOLDING COMPANY AND SUBSIDIARIES

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the registrant has duly caused this Form 10-K/A (Amendment No. 2) report to be signed on its behalf by the undersigned, thereto duly authorized.

21ST CENTURY HOLDING COMPANY

By: /s/ Richard A. Widdicombe
Richard A. Widdicombe, Chief Executive Officer

/s/ James G. Jennings III
James G. Jennings III, Chief Financial Officer

Dated: May 17, 2005