21ST CENTURY HOLDING CO
Form 10-Q/A
December 09, 2005

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q/A
AMENDMENT NO. 1

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2005
OR

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

FOR THE TRANSITION PERIOD FROM ________________ TO _________________.

Commission file number 0-2500111

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

Florida	65-0248866
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)

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

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

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

Yes [X] No [ ]

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

Yes [ ] No [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

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

Common Stock, $.01 par value - 6,399,816 outstanding as of November 11, 2005.

21ST CENTURY HOLDING COMPANY

EXPLANATORY NOTE

This Form 10-Q/A amends and restates Items 1 and Item 2 of the Quarterly Report on Form 10-Q filed by 21st Century Holding Company on November 14, 2005 to correct certain typographical errors contained in those items in the Form 10-Q. These corrections are necessary due to certain typographical errors that occurred primarily in the preparation of the final electronic version of the Form 10-Q prior to the transmission of the Form 10-Q to the Securities and Exchange Commission via the Edgar System.

The typographical errors were contained in (i) a table in footnote 6 of our financial statements entitled "Segment Information" on page 14 and (ii) our loss ratio was indirectly described as 53.76% instead of 52.90% on page 32 of our Form 10-Q. We also added a new line item to cover the cover page indicating that we are not a shell company, as defined in Rule 12b-2 of the Exchange Act.

This Form 10-Q/A consists of a cover page, this explanatory note, the answers (as amended to Items 1 and 2 of the Form 10-Q), the signature page and the required certifications of the principal executive officer and the principal financial officer of 21st Century. While the answers (as amended) to Items 1 and 2 have been restated in full as required by Rule 12b-15 under the Securities Exchange Act of 1934, no changes have been made to such answers except those described above.

Other than as set forth above, this Form 10-Q/A does not and does not purport to, amend, update or restate the information in any other item of the Form 10-Q or reflect any events that have occurred after the Form 10-Q was filed on November 14, 2005

PART I: FINANCIAL INFORMATION
ITEM 1

21ST CENTURY HOLDING COMPANY
CONSOLIDATED BALANCE SHEETS

	September 30, 2005	December 31, 2
ASSETS		
Investments		
Fixed maturities, available for sale, at fair value	$ 76,886,274	$ 69,587,
Equity securities	16,899,476	14,795,
Total investments	93,785,750	84,382,
Cash and cash equivalents	1,465,466	6,127,

Receivable for investments sold	1,450,000	
Finance contracts, net of allowance for credit losses of $433,356 in 2005 and $475,788 in 2004, and net of unearned finance charges of $383,210 in 2005 and $453,487 in 2004	7,570,143	8,289,
Prepaid reinsurance premiums	72,746	5,510,
Premiums receivable, net of allowance for credit losses of $81,979 and $541,851, respectively	6,186,474	6,024,
Reinsurance recoverable, net	20,702,811	25,488,
Deferred policy acquisition costs	8,507,210	6,957,
Income taxes recoverable	859,174	7,915,
Deferred income taxes	3,068,170	3,656,
Property, plant and equipment, net	3,967,353	4,272,
Goodwill, net	--	153,
Other assets	6,189,294	4,822,
Total assets	$ 153,824,591	$ 163,601,
LIABILITIES AND SHAREHOLDERS' EQUITY		
Unpaid losses and LAE	$ 36,128,129	$ 46,570,
Unearned premiums	57,961,219	50,152,
Premiums deposits	1,947,560	1,871,
Revolving credit outstanding	78,104	2,148,
Bank overdraft	3,283,046	14,832,
Funds held under reinsurance treaties	1,568,872	
Subordinated debt	11,875,000	16,875,
Deferred income from sale of agency operations	2,028,450	2,500,
Accounts payable and accrued expenses	2,531,671	3,673,
Total liabilities	117,402,051	138,624,
Commitments and contingencies		
Shareholders' equity:		
Common stock, $0.01 par value. Authorized 37,500,000 shares; issued 7,090,565 and 6,744,791 shares, respectively; Outstanding 6,393,716 and 6,047,942, respectively	70,906	67,
Additional paid-in capital	29,556,539	26,310,
Accumulated other comprehensive (deficit)	(1,223,763)	(504,
Retained earnings	9,798,503	883,
Treasury stock, 696,849 shares, at cost	(1,779,645)	(1,779,
Total shareholders' equity	36,422,540	24,976,
Total liabilities and shareholders' equity	$ 153,824,591	$ 163,601,

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Three Months Ended

	September 30, 2005	September 30, 2004	Septemb 20
Revenue:			
Gross premiums written	$ 25,355,235	$ 24,301,800	$ 86,8
Gross premiums ceded	(7,188,343)	(3,525,315)	(12,1
Net premiums written	18,166,892	20,776,485	74,6
Increase (Decrease) in prepaid reinsurance premiums	72,745	760,823	(5,4
Decrease (Increase) in unearned premiums	2,462,575	156,954	(7,8
Net change in prepaid reinsurance premiums and unearned premiums	2,535,320	917,777	(13,2
Net premiums earned	20,702,212	21,694,262	61,4
Finance revenue	807,778	784,584	2,8
Managing general agent fees	558,883	501,225	1,8
Net investment income	972,302	839,641	2,7
Net realized investment gains	--	80,959	2
Other income	614,393	148,595	1,0
Total revenue	23,655,568	24,049,266	70,1
Expenses:			
Loss and LAE	13,275,690	42,292,556	32,4
Operating and underwriting expenses	1,607,749	3,363,823	5,3
Salaries and wages	1,600,716	1,623,134	4,7
Interest expense	313,962	186,902	1,1
Policy acquisition costs, net of amortization	3,920,679	2,521,738	10,9
Total expenses	20,718,796	49,988,154	54,7
Income (loss) from continuing operations before provision (benefit) for income tax expense	2,936,772	(25,938,887)	15,4
Provision (benefit) for income tax expense	1,084,054	(9,337,258)	5,7
Net income (loss) from continuing operations	1,852,718	(16,601,629)	9,6
Discontinued operations:			
Income (loss) from discontinued operations (including gain on disposal of $1,630,000 and $0, respectively)	--	(540,496)	1,6
Provision (benefit) for income tax expense	--	(195,867)	5
Income (loss) from discontinued operations	--	(344,629)	1,0
Net income (loss)	$ 1,852,718	$ (16,946,258)	$ 10,6
Basic net income (loss) per share from continuing operations	$ 0.29	$ (2.80)	$

Basic net income (loss) per share from discontinued operations	$ --	$ (0.06)	$
Basic net income (loss) per share	$ 0.29	$ (2.86)	$
Fully diluted net income (loss) per share from continuing operations	$ 0.28	$ (2.80)	$
Fully diluted net income (loss) per share from discontinued operations	$ --	$ (0.06)	$
Fully diluted net income (loss) per share	$ 0.28	$ (2.86)	$
Weighted average number of common shares outstanding	6,384,386	5,925,952	6,1
Weighted average number of common shares outstanding (assuming dilution)	6,589,257	6,279,826	6,5
Dividends declared per share	$ 0.08	$ 0.08	$

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Nine
Cash flow from operating activities:	
Net income (loss)	$ 10
Adjustments to reconcile net income (loss) to net cash provided by operating activities:	
Amortization of investment (discount) premium, net	
Depreciation and amortization of property plant and equipment, net	
Gain from sale of discontinued operations	(1
Net realized investment gains	
Common Stock issued for interest on Notes	
Provision for credit losses, net	
(Recovery) of provision for uncollectible premiums receivable	
Recognition of deferred income from sale of franchises	
Sale of equity in subsidiary	
Changes in operating assets and liabilities:	
Premiums receivable	
Prepaid reinsurance premiums	5

Due from reinsurers, net	4
Income taxes recoverable	7
Deferred income tax expense	
Policy acquisition costs, net of amortization	(1
Goodwill	
Finance contracts receivable	
Other assets	(1
Unpaid losses and loss adjustment expenses	(10
Unearned premiums	7
Premium deposits	
Funds held under reinsurance treaties	1
Bank overdraft	(11
Accounts payable and accrued expenses	(1
Net cash provided by operating activities	11
Cash flow (used in) investing activities:	
Proceeds from sale of investment securities available for sale	59
Purchases of investment securities available for sale	(69
Receivable (Payable) for investments sold (purchased)	(1
Collection of mortgage loans	
Purchases of property and equipment	
Proceeds from sale of discontinued operations	1
Proceeds from sale of assets	
Net cash (used in) investing activities	(10
Cash flow (used in) provided by financing activities:	
Subordinated debt	(3
Exercised stock options	1
Dividends paid	(1
Purchases of treasury stock	
Revolving credit outstanding	(2
Net cash (used in) provided by financing activities	(5
Net (decrease) increase in cash and cash equivalents	(4
Cash and cash equivalents at beginning of period	6
Cash and cash equivalents at end of period	$ 1

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Nine

(continued)

Supplemental disclosure of cash flow information:	
Cash paid during the period for:	
Interest	$
Income taxes	$
Non-cash investing and finance activities:	
Accrued dividends payable	$
Retirement of subordinated debt by Common Stock issuance	$ 1
Stock issued to pay interest on subordinated debt	$

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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21st Century Holding Company
Notes to Consolidated Financial Statements

(1) ORGANIZATION AND BUSINESS

The accompanying unaudited consolidated financial statements of 21st Century Holding Company (the "Company") have been prepared in accordance with generally accepted accounting principles ("GAAP") for interim financial information and with the instructions for Form 10-Q and Rule 10-01 of Regulation S-X. These financial statements do not include all information and notes required by GAAP for complete financial statements, and should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K/A (Amendments No. 1 and No. 2) for the year ended December 31, 2004. The December 31, 2004 year-end balance sheet data was derived from audited financial statements but does not include all disclosures required by GAAP. The financial information furnished reflects all adjustments, consisting only of normal recurring accruals, which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented. The results of operations are not necessarily indicative of the results of operations that may be achieved in the future.

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 are authorized to underwrite personal automobile insurance, commercial general liability insurance, homeowners' property and casualty insurance and mobile home property and casualty insurance in various states with various lines of authority through our wholly owned subsidiaries, Federated National Insurance Company ("Federated National") and American Vehicle Insurance Company ("American Vehicle").

Federated National is authorized to underwrite personal automobile insurance, homeowners' property and casualty insurance and mobile home property and casualty insurance in Florida as an admitted carrier. American Vehicle is authorized to underwrite personal and commercial automobile insurance and commercial general liability insurance in Florida as an admitted carrier. In addition, American Vehicle is authorized to underwrite commercial general liability insurance in Georgia, Kentucky and Virginia as a surplus lines carrier and in Texas, Louisiana and Alabama as an admitted carrier. We anticipate that underwriting will begin in Kentucky, Alabama and Virginia in the near future.

American Vehicle operations in Florida, Georgia and Louisiana are on-going. American Vehicle operations in Texas, Alabama and Kentucky are expected to begin this year. American Vehicle has pending applications, in various stages of approval, to be authorized as a surplus lines carrier in the states of California, South Carolina and Arkansas.

During the nine months ended September 30, 2005, 61.0%, 19.6%, 19.0% and 0.4% of the premium we underwrote were for homeowners' property and casualty insurance, commercial general liability insurance, personal automobile insurance, and mobile home property and casualty insurance, respectively. During the nine months ended September 30, 2004, 63.8%, 13.2%, 21.4% and 1.6% of the premium we underwrote were for homeowners' property and casualty insurance, commercial general liability insurance, personal automobile insurance, and mobile home property and casualty 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").

We market and distribute our own and third-party insurers' products and our other services primarily in Florida, through contractual relationships with a network of approximately 1,500 independent agents and a select number of general agents.

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 a 6% commission fee from the insurance companies' net written premium, policy fee income of $25 per policy and other administrative fees from the marketing of other companies' products through the Company's distribution network. The 6% commission fee from Federated National and American Vehicle was made effective January 1, 2005. Assurance MGA plans to establish relationships with additional carriers and add additional insurance products in the future.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES

(A) CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us 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 our evaluation of the determination of liability for unpaid losses and loss adjustment expenses (LAE). In addition, significant estimates form the basis for our reserves with respect to finance contracts, premiums receivable, deferred income taxes, deferred

policy acquisition costs and loss contingencies. 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, as well as current and expected economic conditions. We periodically re-evaluate these significant factors and make adjustments where facts and circumstances dictate.

(B) IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS

In December 2004, the Financial Accounting Standards Board ("FASB") revised SFAS No. 123, Share-Based Payments ("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 the Company's fiscal year beginning January 1, 2006 as subsequently extended by the SEC pursuant to its April 13, 2005 announcement. We have not yet determined the effect on us of the adoption of SFAS No. 123R.

(C) STOCK OPTIONS

The Company continues to account for stock-based compensation using the intrinsic value method prescribed by APB 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 the Company's stock compensation plans been determined based upon fair values at the grant dates for awards under the plan in accordance with SFAS No. 123, the Company's net income and net income per share would have been reduced to the pro forma amounts indicated below.

	For the three months ended September 30,		For the nine months ended September 30,	
	2005	2004	2005	2004
Net Income as reported	$ 1,852,718	$ (16,946,258)	$ 10,696,539	$ (10,347,4
Compensation, net of tax effect	132,308	6,171,950	932,007	6,714,5
Pro forma net income	$ 1,720,410	$ (23,118,208)	$ 9,764,532	$ (17,061,9
Net income per share				
As reported - Basic	$ 0.29	$ (2.86)	$ 1.73	$ (1.
As reported - Diluted	$ 0.28	$ (2.86)	$ 1.64	$ (1.
Pro forma - Basic	$ 0.27	$ (3.90)	$ 1.58	$ (2.
Pro forma - Diluted	$ 0.26	$ (3.90)	$ 1.49	$ (2.

Additional stock option awards are anticipated in future years.

21st Century Holding Company
Notes to Consolidated Financial Statements

The weighted average fair value for new options granted during the nine months ending September 30, 2005, estimated on the date of grant was $18.00. In connection with the sale of Express Tax Service, Inc. and EXPRESSTAX Franchise Corporation on January 1, 2005, 105,000 Incentive Stock Options under the 2002 Stock Option plan were cancelled and reissued as Non-Qualified Stock Options. The weighted average fair value of options granted during 2004 as estimated on the date of grant using the Black-Scholes option-pricing model was $6.13 to $18.26 in 2004. The fair value of options granted is estimated on the date of grant using the following assumptions:

	September 30, 2005	September 30, 2004
Dividend yield	2.33% to 2.43%	2.24% to 3.19%
Expected volatility	49.85% to 96.76%	99.65% to 103.20%
Risk-free interest rate	3.34% to 4.17%	2.13% to 3.60%
Expected life (in years)	2.56 to 2.63	3.00 to 3.60

(D) EARNINGS PER SHARE

Basic earnings per share ("Basic EPS") is computed by dividing net income by the weighted average number of common shares outstanding during each period presented. Diluted earnings per share ("Diluted EPS") is computed by dividing net income by the weighted average number of shares of common stock and common stock equivalents outstanding during the period presented; outstanding warrants and stock options are considered common stock equivalents and are included in the calculation using the treasury stock method. Additionally, when applicable, we include in our computation of the weighted average number of common shares outstanding all common stock issued in connection with the repayment of our Subordinated debt.

(E) RECLASSIFICATIONS

Certain amounts in 2004 financial statements have been reclassified to conform to the 2005 presentation.

(3) 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 Westchester Premium Acceptance Corporation ("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. Our lender could decide 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.

The amounts 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 8.22% and 7.45% for the nine months ended September 30, 2005 and 2004, respectively.

Outstanding borrowings under the Revolving Agreement as of September 30, 2005 were approximately $0.08 million. Outstanding borrowings as of December 31, 2004 were approximately $2.1. Outstanding borrowings in excess of the $2.0 million credit limits totaled $148,542 as of December 31, 2004. The excess amount was permissible by reason of a compensating cash balance of $156,095 for December 31, 2004 that was held for the benefit of WPAC and was included in other assets. Interest expense on this revolving credit line for the nine months ended September 30, 2005 and September 30, 2004 totaled approximately $69,000 and $150,000, respectively.

(4) COMMITMENTS AND CONTINGENCIES

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. 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 alleged that this was contrary to the Statement of Financial Accounting Concepts Nos. 1, 2 and 5. We believe, however, that the lawsuit was 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 conducted the Final Settlement Hearing on July 26, 2005, and approved the settlement. We anticipate our active involvement with this matter to be concluded. We reserved and charged against fourth quarter 2003 earnings $600,000 for the potential settlement and associated costs.

In 2000 and 2001 respectively, two class action lawsuits were filed against an unaffiliated insurance company for which our subsidiary, Assurance MGA, was the managing general agent. These lawsuits were seeking compensatory damages in an undisclosed amount based on allegations of unfair practices involving the computation of interest due the policyholder in connection with automobile premium refunds. The unaffiliated company has contested these lawsuits over the last several years. Negotiations relative to this matter have been ongoing and in July 2005 the parties reached an agreement wherein we have paid $240,000 to resolve the underlying actions in these suits subject to our contractual duties with respect to the unaffiliated company. We believe that we will be successful in our efforts to enjoin others to participate in this settlement; however we are unable to quantify the participation of others at this time. Accordingly, we charged against second quarter 2005 earnings $240,000 for this action.

As an admitted carrier in the State of Florida, we are required to participate in certain insurer solvency pools under Florida Statutes Section 631.57(3) (a). Participation in these pools is based on our written premiums by line of business to total premiums written statewide by all insurers. Participation may result in assessments against us. No related assessments have been incurred by either insurance company through the date of this 10-Q.

During its regularly scheduled meeting on August 17, 2005, the Board of Governors of Citizens Property Insurance Corporation "Citizens" determined a 2004 plan year deficit existed in the High Risk Account. The Board decided that a $515 million Regular Assessment is in the best interest of Citizens and consistent with Florida Statutes. On this basis, the Board certified for a Regular Assessment. Federated National's participation in this assessment totaled $2.0 million. Provisions contained in our excess of loss reinsurance policies provide for their participation totaling $1.6 million. Pursuant to Section 627.3512, Florida Statutes, insurers are permitted to recoup the assessment by adding a surcharge to policies in an amount not to exceed the amount paid by the insurer to Citizens. Federated National is currently underwriting the recoupment in connection with this assessment. As noted above, Federated National is entitled to recoup this assessment, and will subrogate $1.6 million to our reinsurers.

Federated National and American Vehicle are also required to participate in an insurance apportionment plan under Florida Statutes Section 627.351, which is referred to as a Joint Underwriting Association Plan ("JUA Plan"). The JUA Plan provides for the equitable apportionment of any profits realized, or losses and expenses incurred, among participating motor vehicle insurers. In the event of an underwriting deficit incurred by the JUA Plan which is not recovered through the policyholders in the JUA Plan, such deficit shall be recovered from

the companies participating in the JUA Plan in the proportion that the net direct written premiums of each such member during the preceding calendar year bear to the aggregate net direct premiums written in this state by all members of the JUA Plan. Federated National and American Vehicle were assessed $44,350 and $1,615, respectively by the JUA Plan based on its July 2005 Cash Activity Report.

(5) COMPREHENSIVE INCOME

For the three and nine months ended September 30, 2005 and 2004, comprehensive income consisted of the following:

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Net income	$ 1,852,718	$(16,946,258)	$ 10,696,539	$(10,347
Change in net unrealized gain (loss) on investments available for sale	(860,601)	1,772,140	(1,139,339)	(169
Comprehensive income, before tax	992,117	(15,174,118)	9,557,200	(10,517
Income tax benefit (expense) related to items of other comprehensive income	321,308	(661,633)	433,672	69
Comprehensive income	$ 1,313,425	$(15,835,751)	$ 9,990,872	$(10,448

(6) SEGMENT INFORMATION

The Company and its subsidiaries 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 and claims processing through Superior. The insurance segment sells personal automobile, homeowner's property and casualty, and commercial general liability lines of insurance products and includes substantially all aspects of the insurance and claims process. The financing segment consists of premium financing through Federated Premium. The financing segment provides premium financing to the Company's insureds and is marketed through the Company's relationship with its network of non-affiliated agencies.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies and practices. The Company evaluates its business segments based on GAAP pretax operating earnings. Corporate overhead expenses are allocated to business segments. Transactions between reportable segments are accounted for at fair value.

Operating segments that are not individually reportable, based on the extent of the current operations in such segments, are included in the "All Other" category. The "All Other" category currently includes the operations of 21st Century Holding Company, the parent company.

21st Century Holding Company
Notes to Consolidated Financial Statements

Information regarding components of operations for the three and nine months ended September 30, 2005 and 2004 follows:

	Three months ended September 30,		Nine mon ended Septem
	2005	2004	2005
Total revenue			
Insurance segment	$ 24,562,514	$ 24,834,162	$ 73,380,921
Financing segment	630,549	594,540	2,217,415
All other segments	1,071,152	828,804	1,880,406
Total operating segments	26,264,215	26,257,506	77,478,742
Intercompany eliminations	(2,608,647)	(2,208,240)	(7,311,012)
Total revenues	$ 23,655,568	$ 24,049,266	$ 70,167,730
Earnings (loss) before income taxes			
Insurance segment	$ 2,502,165	$(26,233,911)	$ 16,210,870
Financing segment	452,470	213,266	1,027,920
All other segments	(17,863)	81,757	(1,814,114)
Total earnings (loss) before income taxes	$ 2,936,772	$(25,938,888)	$ 15,424,676

Information regarding total assets as of September 30, 2005 and December 31, 2004 follows:

	September 30, 2005	December 31, 2004
Total assets		
Insurance segment	$ 143,757,620	$ 134,894,764
Financing segment	7,817,422	8,536,786
All other segments	6,165,309	15,460,463
Total operating segments	157,740,351	158,892,013
Intercompany eliminations	(3,915,760)	4,709,359
Total assets	$ 153,824,591	$ 163,601,372

(7) REINSURANCE AGREEMENTS

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 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.

For the 2005-2006 hurricane season, the excess of loss treaties will insure us for approximately $64.0 million, with the Company retaining the first $3.0 million of loss and LAE. The treaties have a one full reinstatement provision for each excess layer with 100% additional premium as to time and pro rata to amount. In addition, we purchased from the private sector Reinstatement Premium Protection which will reimburse the Company 100% of the cost of reinstatement for the second event. Unused coverage from the first two events carries forward to events beyond the second, in conjunction with a lowered attachment point (as explained below) afforded by the Florida Hurricane Catastrophe Fund ("FHCF").

In addition to the excess of loss reinsurance policies (described above), we continue to participate in the FHCF to protect our interest in the insurable risks associated with our homeowner and mobile home owner insurance products. For the first two events, FHCF coverage begins after the Company's retention of $3.0 million and its excess of loss reinsures retention of approximately $43.0 million.

Maximum coverage afforded from the combined policies of our FHCF and excess of loss policies in effect for varying dates from June 1, 2005 to June 30, 2006 total approximately $209.0 million. FHCF will retain approximately $145.0 million, our excess of loss reinsurance policies will retain $64.0 million, and the Company will retain the first $3 million of insurable losses for two events. For events beyond the second largest, FHCF coverage attaches after the Company and its excess of loss reinsures collective retention of approximately $15.0 million. Additionally, unused coverage from our excess of loss reinsurance treaties may be carried forward.

As a result of the loss and LAE incurred in connection with Hurricanes Dennis, Katrina and Rita, the Company expects Hurricane Katrina is the first reinsurable event, as illustrated in the accompanying table.

Hurricane	Gross Losses	Reinsurance Recoveries	Net Losses
	(Dollars in Millions)		
Dennis (July 10, 2005)	$ 2.9	$ --	$ 2.9
Katrina (August 25, 2005)	14.6	11.6	3.0
Rita (September 20, 2005)	0.1	--	0.1
Total Loss Estimate	$ 17.6	$ 11.6	$ 6.0

For the 2004-2005 hurricane season, the excess of loss treaties insured us for $24 million, while the Company retained the first $10 million of loss and LAE. The treaties had a provision which, for a prepaid premium, insured us for another $24 million of loss and LAE for subsequent occurrences while the Company retained the first $10 million in loss and LAE. As a result of the loss and LAE incurred in connection with the Hurricanes Charley and Frances, the Company exhausted its recoveries of $48 million under the terms of these treaties.

Maximum coverage afforded from the combined policies of our FHCF and

excess of loss policies in effect for varying dates from June 1, 2004 to June 30, 2005 totaled approximately $200.0 million, during which time we retained the first $10 million of insurable losses on each event. However, loss and LAE incurred for Hurricanes Ivan and 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.

Hurricane	Gross Losses	Reinsurance Recoveries	Net Losses
	(Dollars in Millions)		
Charley (August 13, 2004)	$ 58.1	$ 48.1	$ 10.0
Frances (September 3, 2004)	48.7	38.7	10.0
Ivan (September 14, 2004)	18.5	--	18.5
Jeanne (September 25, 2004)	12.4	--	12.4
Total Loss Estimate	$137.7	$ 86.8	$ 50.9

Furthermore, as a result of the 2004 hurricanes, we incurred a net reinstatement reinsurance premium of $5.0 million that was amortized through operations from the reinstatement date of August 13, 2004 to June 30, 2005.

In August and September 2004, the State of Florida experienced four hurricanes, Charley, Frances, Ivan and Jeanne. Federated National incurred significant losses relative to its homeowners' and mobile homeowners' insurance lines of business. Approximately 8,900 policyholders have filed hurricane-related claims totaling an estimated $138.0 million, of which we estimate that our share of the costs associated with these hurricanes will be approximately $50.9 million, net of reinsurance recoveries and amortized reinstatement premiums.

The excess of loss treaties also insured 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 and Jeanne and any subsequent catastrophic events through June 30, 2005, up to $34 million each, are the responsibility of the Company.

Reinsurance is ceded under separate contracts or "treaties" for the separate lines of business underwritten and terms of coverage. The Company collectively ceded $12.1 million and ($1.0) million in premiums written for the nine months ended September 30, 2005 and 2004, respectively. During the nine months ended September 30, 2005 and 2004, respectively, we primarily reinsured Federated National's homeowners' insurance lines of business. The Company's reinsurance for homeowners' insurance is with several participants, all of which were AM Best rated "A" (Excellent) or better at the inception of our policies. Subsequent to the inception of our treaties, two of the participants have been downgraded by AM Best to "B" (Fair) or better. The Company does not anticipate credit quality issues to arise from the downgrading of these participants, and accordingly has not established a credit allowance.

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 are 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 to engage only reinsurers that have an A.M. Best rating of "A" or better remains unchanged.

During 2004 and through the date of this report, Federated National and American Vehicle have not reinsured any of its automobile insurance.

(8) STOCK COMPENSATION PLANS

We implemented a stock option plan in November 1998 that provides for the granting of stock options to directors, officers, key employees and consultants. The objectives of this plan include 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 September 30, 2005 and December 31, 2004, we had outstanding exercisable options to purchase 123,650 and 198,275 shares, respectively.

In 2001, we implemented a franchisee stock option plan that provided for the granting of stock options to individuals purchasing Company owned agencies which were then converted to franchised agencies. The purpose of the plan was 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, though in connection with our sale of our franchise operations we do not anticipate additional options to be granted under this plan. As of September 30, 2005 and 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, and 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, the Company is authorized to grant options to purchase up to 1,800,000 common shares, and, as of September 30, 2005 and December 31, 2004, we had outstanding exercisable options to purchase 758,808 and 906,300 shares, respectively.

Notes to Consolidated Financial Statements

Activity in the Company's stock option plans for the period from January 1, 2004 to September 30, 2005, is summarized below:

	1998 Plan		2001 Franchisee Plan		2002 P
	Number of Shares	Weighted Average Option Exercise Price	Number of Shares	Weighted Average Option Exercise Price	Number of Shares
Outstanding at January 1, 2004	408,530	$ 6.67	39,960	$ 7.61	938,100
Granted	--		--		178,750
Exercised	(193,755)	$ 6.67	(24,960)	$ 6.67	(136,300)
Cancelled	(16,500)	$ 6.67	--		(74,250)
Outstanding at December 31, 2004	198,275	$ 6.67	15,000	$ 9.17	906,300
Granted	--		--		125,000
Exercised	(74,625)	$ 6.67	--		(111,742)
Cancelled	--		--		(160,750)
Outstanding at September 30, 2005	123,650	$ 6.67	15,000	$ 9.17	758,808

Options outstanding as of September 30, 2005 are exercisable as follows:

	1998 Plan		2001 Franchisee Plan		2002 Plan	
Options Exercisable at:	Number of Shares	Weighted Average Option Exercise Price	Number of Shares	Weighted Average Option Exercise Price	Number of Shares	Weighted Average Option Exercise Price
September 30, 2005	95,900	$ 6.67	15,000	$ 6.67	491,908	$ 9.22
December 31, 2005	--		--		8,800	$ 9.22
December 31, 2006	27,750	$ 6.67	--		88,750	$ 9.22
December 31, 2007	--		--		88,750	$ 9.22
December 31, 2008	--		--		44,800	$ 9.22
December 31, 2009	--		--		32,800	$ 9.22
Thereafter	--		--		3,000	$ 9.22
Total options exercisible	123,650		15,000		758,808	

The Company continues to account for stock-based compensation using the intrinsic value method prescribed by APB 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 the Company's stock compensation plans been determined based upon fair values at the grant dates for awards under the plan in accordance with SFAS No. 123, the Company's net income and net income per share would have been reduced to the pro forma amounts indicated below.

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21st Century Holding Company
Notes to Consolidated Financial Statements

	For the three months ended September 30,		For the nine months ended September 30,	
	2005	2004	2005	2004
Net Income as reported	$ 1,852,718	$ (16,946,258)	$ 10,696,539	$ (10,347,4
Compensation, net of tax effect	132,308	6,171,950	932,007	6,714,5
Pro forma net income	$ 1,720,410	$ (23,118,208)	$ 9,764,532	$ (17,061,9
Net income per share				
As reported - Basic	$ 0.29	$ (2.86)	$ 1.73	$ (1.
As reported - Diluted	$ 0.28	$ (2.86)	$ 1.64	$ (1.
Pro forma - Basic	$ 0.27	$ (3.90)	$ 1.58	$ (2.
Pro forma - Diluted	$ 0.26	$ (3.90)	$ 1.49	$ (2.

Additional stock option awards are anticipated in future years.

The weighted average fair value for new options granted during the nine months ending September 30, 2005, estimated on the date of grant was $18.00. In connection with the sale of Express Tax Service, Inc. and EXPRESSTAX Franchise Corporation on January 1, 2005, 105,000 Incentive Stock Options under the 2002 Stock Option plan were cancelled and reissued as Non-Qualified Stock Options. The weighted average fair value of options granted during 2004 as estimated on the date of grant using the Black-Scholes option-pricing model was $6.13 to $18.26 in 2004. The fair value of options granted is estimated on the date of grant using the following assumptions:

	September 30, 2005	September 30, 2004
Dividend yield	2.33% to 2.43%	2.24% to 3.19%
Expected volatility	49.85% to 96.76%	99.65% to 103.20%
Risk-free interest rate	3.34% to 4.17%	2.13% to 3.60%
Expected life (in years)	2.56 to 2.63	3.00 to 3.60

Summary information about the Company's stock options outstanding at September 30, 2005:

Range of Exercise Price	Outstanding at September 30, 2005	Weighted Average Contractual Periods in Years	Weighted Average Exercise Price

1998 Plan	$6.67	123,650	2.69	$6.67
2001 Franchise Plan	$6.67 to $9.17	15,000	3.21	$9.17
2002 Plan	$8.33 - $20.00	758,808	2.56	$10.94

(9) 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 594,421. 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.

During the third quarter of 2005, the Company purchased and intends to retire 300,000 shares of its' Warrants in connection with our July 2003 Notes. The Warrants were separately traded under the symbol TCHCW. The Company paid $0.80 per share for a total of $240,000.

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 total number of shares issuable upon exercise of 2004 Warrants issued to the purchasers of the September 2004 Notes and to J. Giordano totaled 1,019,608. 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 and in accordance with the contractual computations, the quarterly payments of principal and interest due in shares of our Common Stock.

Quarterly payment due date	2005	2004	2003
January 31,	55,537	54,014	--
April 30,	--	53,729	--
July 31,	--	49,965	--
October 31,	--	69,200	61,792
Total common stock issued	55,537	226,908	61,792

As indicated on the table below, we paid, pursuant to the terms of the September 2004 Notes and in accordance with the contractual computations, the quarterly payments of principal and interest due in shares of our Common Stock.

Quarterly payment due date	2005
January 31,	103,870
April 30,	--
July 31,	--
October 31,	--
Total common stock issued	103,870

For the July 2003 Notes, the quarterly principal and interest payments totaling approximately $0.6 million per payment are due quarterly for three years with the last installment due on July 31, 2006. The scheduled principal loan payments for the next two years are as follows:

For the period	
Three months ending December 31, 2005	$ 625,000
Year ending December 31, 2006	1,875,000
Total	$2,500,000

For the September 2004 Notes, the quarterly principal and interest payments, totaling approximately $1.0 million per payment, are due quarterly for three years with the last installment due on September 30, 2007. The scheduled principal loan payments for the next three years are as follows:

For the period	
Three months ending December 31, 2005	$1,041,667
Year ending December 31, 2006	4,166,667
Year ending December 31, 2007	4,166,666
Total	$9,375,000

The Company retains the privilege of repaying these notes in cash or by the issuance of common stock. Through our January 31, 2005 payment, we made our quarterly installment payments by issuing common stock. Our April 30, 2005 and July 31, 2005 scheduled payments of principal and interest were made in cash, as was our next regularly scheduled payment due October 31, 2005.

(10) DISCONTINUED OPERATIONS

The Company completed the transaction contemplated by the Stock Purchase and Redemption Agreement dated January 3, 2005 with Express Tax Service, Inc. ("Express Tax"), Robert J. Kluba and Robert H. Taylor. The Company was the beneficial and record owner of 80% of the issued and outstanding stock of Express Tax, which in turn owned 100% of the issued and outstanding stock of EXPRESSTAX Franchise Corporation ("EXPRESSTAX"). Mr. Kluba was the President and a director of Express Tax and EXPRESSTAX, and the owner of the remaining 20% of the issued and outstanding stock of Express Tax. The sale of the stock closed on January 13, 2005 with an effective date of January 1, 2005.

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 Express Tax, less $348,649 representing intercompany receivables owed to Express Tax 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 Express Tax and EXPRESSTAX for five years following the closing. The Company's investment in its subsidiary totaled $230,000.

In connection with the transaction, the Company has extended the expiration dates for the 75,000 outstanding stock options previously granted to Mr. Kluba and the 30,000 outstanding stock options previously granted to Mr. 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.

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

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.

Item 2

Management's Discussion and Analysis of Financial Condition and Results of Operations

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 relating to losses from the seven hurricanes that occurred in the current fiscal year and fiscal 2004 and other estimates, assumption and projections contained in this 10-Q; inflation and other changes in economic conditions (including changes in interest rates and financial markets); pricing competition and other initiatives by competitors; ability to obtain regulatory approval for requested rate changes and the timing thereof; legislative and regulatory developments; the outcome of litigation pending against us, including the terms of any settlements; risks related to the nature 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; insurance agents; claims experience; ratings by industry services; catastrophe losses; reliance on key personnel; weather conditions (including the severity and frequency of storms, hurricanes, tornadoes and hail); changes in driving patterns and loss trends; acts of war and terrorist activities; court decisions and trends in litigation and 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. The Company undertakes 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 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.

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 are authorized to underwrite personal automobile insurance, commercial general liability insurance, homeowners' property and casualty insurance and mobile home property and casualty insurance in various states with various lines of authority through our wholly owned subsidiaries, Federated National and American Vehicle.

Federated National is authorized to underwrite personal automobile insurance, homeowners' property and casualty insurance and mobile home property and casualty insurance in Florida as an admitted carrier. American Vehicle is authorized to underwrite personal and commercial automobile insurance and commercial general liability insurance in Florida as an admitted carrier. In addition, American Vehicle is authorized to underwrite commercial general liability insurance in Georgia, Kentucky and Virginia as a surplus lines carrier and in Texas, Louisiana and Alabama as an admitted carrier. We anticipate that underwriting will begin in Kentucky, Alabama and Virginia in the near future. American Vehicle operations in Florida, Georgia and Louisiana are on-going. American Vehicle operations in Texas, Alabama and Kentucky are expected to begin this year. American Vehicle has pending applications, in various stages of approval, to be authorized as a surplus lines carrier in the states of California, South Carolina and Arkansas.

During the nine months ended September 30, 2005, 61.0%, 19.6%, 19.0% and 0.4% of the premium we underwrote were for homeowners' property and casualty insurance, commercial general liability insurance, personal automobile insurance, and mobile home property and casualty insurance, respectively. During the nine months ended September 30, 2004, 63.8%, 13.2%, 21.4% and 1.6% of the premium we underwrote were for homeowners' property and casualty insurance, commercial general liability insurance, personal automobile insurance, and mobile home property and casualty insurance, respectively. We internally process claims made by our own and third-party insureds through our wholly owned claims adjusting company, Superior. We also offer premium financing to our own and third-party insureds through our wholly owned subsidiary, Federated Premium.

We market and distribute our own and third-party insurers' products and our other services primarily in Florida, through contractual relationships with a network of approximately 1,500 independent agents and a select number of general agents.

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 a 6% commission fee from the insurance companies' net written premium, policy fee income of $25 per policy and other administrative fees from the marketing of other companies' products through the Company's distribution network. The 6% commission fee from Federated National and American Vehicle was made effective January 1, 2005. Assurance MGA plans to establish relationships with additional carriers and add additional insurance products in the future.

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.

We operate in a highly competitive market 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 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 independent agents and insureds. We compete with respect to automobile insurance in Florida 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 commercial general liability insurance market include Century Surety Insurance Company, Atlantic Casualty Insurance Company, Colony Insurance Company, Nautilus Insurance Company and Burlington/First Financial Insurance Companies. Competition could have a material adverse effect on our business, results of operations and financial condition.

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

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us 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 our evaluation of the determination of liability for unpaid losses and loss adjustment expenses ("LAE"). In addition, significant estimates form the basis for our reserves with respect to finance contracts, premiums receivable, deferred income taxes, deferred acquisition costs and loss contingencies. 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, as well as current and expected economic conditions. We periodically re-evaluate these significant factors and make adjustments where facts and circumstances dictate.

Using the various complex actuarial methods and different underlying assumptions, our actuaries produce a number of point estimates for each class of business. After reviewing the appropriateness of the underlying assumptions, management selects the carried reserve for each class of business. We do not calculate a range of loss reserve estimates. Ranges are not a true reflection of the potential volatility between carried loss reserves and the ultimate settlement amount of losses incurred prior to the balance sheet date. This is due to the fact that ranges are developed based on known events as of the valuation date whereas the ultimate disposition of losses is subject to the outcome of events and circumstances that were unknown as of the valuation date.

Among the numerous factors that contribute to the inherent uncertainty in the process of establishing loss reserves are the following:

- Changes in the market and inflation rate for goods and services related to covered damages such as medical care and home repair costs,
- Changes in the judicial environment regarding the interpretation of policy provisions relating to the determination of coverage,
- Changes in the general attitude of juries in the determination of liability and damages,
- Legislative actions,
- Changes in our estimates of the number and/or severity of claims that have been incurred but not reported as of the date of the financial statements,
- Changes in our underwriting standards, and
- Any changes in our claim handling procedures.

We establish and evaluate unpaid loss reserves using recognized standard statistical loss development methods and techniques. Each component of loss reserves is affected by the expected frequency and average severity of claims. Such amounts are analyzed using statistical techniques on historical claims data and adjusted when appropriate to reflect perceived changes in loss patterns. Data is analyzed by policy coverage, jurisdiction of loss, reporting date and occurrence date, among other factors. A brief discussion of each component follows.

Average reserve amounts are established for automobile claims prior to the development of an individual case reserve. Average reserve amounts are driven by the estimated average severity per claim and the number of new claims opened.

For other than automobile lines, claims adjusters generally establish individual claim case loss and LAE reserve estimates as soon as the specific facts and merits of each claim can be evaluated. Case reserves represent the

amounts that in the judgment of the adjusters are reasonably expected to be paid in the future to completely settle the claim, including expenses. Individual case reserves are revised as more information becomes known.

For unreported claims, incurred but not reported ("IBNR") reserve estimates are calculated by first projecting the ultimate number of claims expected (reported and unreported) for each significant coverage by using historical quarterly and monthly claim counts, to develop age-to-age projections of the ultimate counts by accident quarter. Reported claims are subtracted from the ultimate claim projections to produce an estimate of the number of unreported claims. The number of unreported claims is multiplied by an estimate of the average cost per unreported claim to produce the IBNR reserve amount. Actuarial techniques are difficult to apply reliably in certain situations, such as to new legal precedents, class action suits, long-term claimants from personal injury protection coverage or recent catastrophes. Consequently, supplemental IBNR reserves for these types of events may be established.

New Accounting Pronouncements

The material set forth in Item 1, Part I, "Financial Statements - Note 2 - Summary of Significant Accounting Policies and Practices" of this Form 10-Q is incorporated herein by reference.

Recent Events

Beginning in June and continuing through late October of 2005, Florida was once again affected by several hurricanes. Florida was the only state where Federated National had homeowner insurance policies in force. Significant efforts have been employed in order to determine the extent of claim frequency and severity for each hurricane as they relate to our in-force homeowners' policies in the affected areas. Estimations of ultimate gross losses have been formulated based upon computer modeling, provided by our reinsurers, that geographically maps the address of our risks to the storm paths and respective intensity.

The table below is a summary of each storms projected effect on Federated National.

Hurricane	* Estimated Claim Count	Gross Losses	Reinsurance Recoveries	Net Losses
	(Dollars in Millions)			
Arlene (June 7, 2005)	--	$ --	$ --	$ --
Dennis (July 10, 2005)	325	2.9	--	2.9
Katrina (August 25, 2005)	2,100	14.6	11.6	3.0
Rita (September 20, 2005)	20	0.1	--	0.1
Wilma (October 24, 2005)	9,000	95.0	92.0	3.0

* As of this reporting date

Based on projections from our reinsurers for the ultimate gross losses from Hurricanes Katrina and Wilma, we anticipate that our retention will be approximately $15.0 million with coverage that extends up to approximately $165.0 million for events beyond Hurricane Wilma; these limits are subject to

change based on the ultimate costs of these storms.

Effective as of November 10, 2005, Richard Widdicombe has agreed to resign as the Company's Chief Executive Officer and Director. Mr. Widdicombe is resigning for personal reasons and does not have any disagreements with the Company. Mr. Widdicombe and the Company intend to enter into a separation and release agreement, which will provide for Mr. Widdicombe to remain with the Company for another month to oversee the transition to the new Chief Executive Officer.

Effective as of November 10, 2005, Edward Lawson, the Company's President and former Chief Executive Officer, will resume the position of Chief Executive Officer, as well as retaining his current duties.

Analysis of Financial Condition

As of September 30, 2005 as Compared to December 31, 2004

As of September 30, 2005, our shareholders equity was $36.4 million compared to $25.0 million as of December 31, 2004. The increase in our shareholder's equity is primarily attributable to the changes discussed below.

Total Investments

Total Investments increased $9.4 million, or 11.1%, to $93.8 million as of September 30, 2005, as compared to $84.4 million as of December 31, 2004. The increase is primarily a result of our investment of the proceeds from an increase in written insurance premiums.

Financial Accounting Standards ("SFAS") No. 115 addresses accounting and reporting for (a) investments in equity securities that have readily determinable fair values and (b) all investments in debt securities. FAS 115 requires that these securities be classified in three categories and given specific accounting treatment as follows:

Classification	Accounting Treatment
Held-to-maturity (Fixed maturities) Debt securities with the intent and ability to hold to maturity	Amortized cost
Trading securities (Corporate securities) Debt and equity securities bought and held primarily for sale in the near term	Fair value, with unrealized holding gains and los in operations
Available-for-sale (Equity securities) Debt and equity securities not classified as held-to-maturity or trading securities	Fair value, with unrealized holding gains excluded from earnings and reported as a separate of shareholders' equity, namely "Other Comprehens

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Below is a summary of unrealized gains and (losses) at September 30, 2005 and December 31, 2004 by category.

	Unrealized Gains and (Losses)	
	September 30, 2005	December 31, 2004
Fixed maturities:		
U.S. government obligations and agencies	$(827,432)	$(582,309)
Obligations of states and political subdivisions	(103,656)	(4,501)
	(931,088)	(586,810)
Corporate securities:		
Communications	9,353	23,299
Financial	(78,683)	(11,220)
Other	(14,471)	64,377
	(83,801)	76,456
Equity securities:		
Preferred stocks	--	--
Common stocks	(947,214)	(312,410)
	(947,214)	(312,410)
Total unrealized gains and (losses)	$(1,962,103)	$(822,764)

For further detail, see "Liquidity and Capital Resources," below and "Quantitative and Qualitative Disclosure about Market Risk" under Item 3 below.

Prepaid Reinsurance Premiums

Prepaid reinsurance premiums decreased $5.4 million, or 98.7%, to $01 million as of September 30, 2005, as compared to $5.5 million as of December 31, 2004. The decline is due to our payment patterns and the amortization of prepaid reinsurance premiums associated with our homeowners' book of business.

Reinsurance Recoverable, net

Reinsurance Recoverable, net decreased $4.8 million, or 18.8%, to $20.7 million as of September 30, 2005, as compared to $25.5 million as of December 31, 2004. The decrease is attributable to cash payments in connection with the settlement of loss and LAE as they relate to costs recoverable under our reinsurance agreements.

Deferred Acquisition Costs

Deferred acquisition costs increased $1.5 million, or 22.3%, to $8.5 million as of September 30, 2005, as compared to $7.0 as of December 31, 2004. Contributing to the increased acquisition costs is the 2004 sale of our captive agencies, wherein our cost of acquiring policies from those agencies will no longer be eliminated under the principles of consolidation.

Income Taxes Recoverable

Income taxes recoverable decreased $7.0 million, or 89.2%, to $0.9 million as of September 30, 2005, as compared to $7.9 million as of December 31, 2004. The decline is primarily due to the utilization of operating loss carry-forwards and current profitable operations.

Other Assets

Other assets increased $1.4 million, or 28.0%, to $6.2 million as of September 30, 2005, as compared to $4.8 million as of December 31, 2004. The increase is primarily due to Federated National's statutory approval to recoup the Citizens assessment by adding a surcharge to homeowner insurance policies in an amount limited to the assessment. For further discussion see Footnote (4) Commitments and Contingencies.

Unpaid Losses and LAE

Unpaid losses and LAE decreased $10.5 million, or 22.4%, to $36.1 million as of September 30, 2005, as compared to $46.6 million as of December 31, 2004. The decline in unpaid losses and LAE relates to our payment patterns relative to the settling of hurricane related claims. Case reserves totaled $17.5 million and $31.2 million, and IBNR reserves totaled $18.6 million and $15.4 million as of September 30, 2005 and December 31, 2004, respectively.

Factors that affect unpaid losses and LAE include the estimates made on a claim-by-claim basis known as "case reserves" coupled with bulk estimates known as 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 "Loss and LAE" below.

Unearned Premiums

Unearned premiums increased by $7.8 million, or 15.6%, to $58.0 million as of September 30, 2005, as compared to $50.2 million as of December 31, 2004. The increase was due to a $6.9 million increase in unearned homeowner's insurance premiums, a ($0.4) million decrease in unearned mobile home insurance premiums,

a ($2.4) million decrease in unearned automobile premiums, and a $3.7 million increase in unearned commercial general liability premiums. These changes reflect our continued growth along our homeowners' and commercial liability lines of business.

Bank Overdraft

Bank overdraft decreased by $11.5 million, or 77.9%, to $3.3 million as of September 30, 2005, as compared to $14.8 million as of December 31, 2004. Bank overdraft relates to hurricane-related loss and LAE disbursements paid but not yet presented for payment by the policyholder or vendor. The decrease relates to our payment patterns in relationship to the rate at which those cash disbursements are presented to the bank for payment.

Results of Operations

Three Months Ended September 30, 2005 as Compared to Three Months Ended September 30, 2004

Gross Premiums Written

Gross premiums written increased $1.1 million, or 4.3%, to $25.4 million for the three months ended September 30, 2005, as compared to $24.3 million for the comparable period in 2004. The following table denotes gross premiums written by major product line.

	Three months ended September 30,			
	2005		2004	
Automobile	$ 3,628,316	14.31%	$ 4,045,748	16.64%
Homeowners'	16,219,886	63.97%	16,564,249	68.16%
Commercial liability	5,451,419	21.50%	3,389,017	13.95%
Mobile home owners'	55,614	0.22%	302,786	1.25%
Gross written premiums	$25,355,235	100.00%	$24,301,800	100.00%

The Company's efforts to expand its commercial liability line of insurance products is coming to fruition as reflected by increased premium sales of $5.5 million for the three months ended September 30, 2005 compared to $3.4 million for the same period in the prior year. Furthermore, these policies reflect an increased percentage of the Company's total gross premiums written, increasing to 21.5% of total premium sales in the three months ended September 30, 2005 compared to 14.0% in the same period of fiscal 2004.

The Company's sale of auto insurance policies is relatively steady with premiums relatively constant at $3.6 million for the three months ended September 30, 2005 compared to $4.0 million in the same period of fiscal 2004, despite the sale of the Company's captive agents who handled most of the auto insurance policies. In 2004, the Company made a conscious decision to decrease its sale of mobile home policies and consequently, its sales of these policies have decreased to $0.06 million in the three months ended September 30, 2005, representing 0.22% of total premiums written.

The Company's sale of homeowners' policies is relatively steady with premiums relatively constant at $16.2 million for the three months ended September 30, 2005 compared to $16.6 million in the same period of fiscal 2004. The modest decrease of $0.4 million in our homeowners' gross premium written is due primarily to the decrease in the number of insurable risks, offset by the Company's rate increase of 23.1% that was affected December 1, 2004.

Gross Premiums Ceded

Gross premiums ceded increased $3.6 million, or 103.9% to a debit balance of $7.2 million for the three months ended September 30, 2005, as compared to a credit balance of $1.5 million for the three months ended September 30, 2004. The change is associated with our increased homeowner's premium volume and our reinsurance costs.

Increase in Prepaid Reinsurance Premiums

The increase in prepaid reinsurance premiums was $.07 million for the three months ended September 30, 2005, as compared to $.80 million for the three months ended September 30, 2004. The increased charge against written premium is primarily associated with the timing of our reinsurance payments measured against the term of the underlying reinsurance policies.

Decrease in Unearned Premiums

The decrease in unearned premiums was $2.5 million as of September 30, 2005, as compared to $0.2 million as of September 30, 2004. The decrease in unearned premiums of $2.5 million as of September 30, 2005 was due to a $0.3 million decrease in unearned homeowners' insurance premiums, a $0.2 million decrease in mobile home owners' insurance premiums, a $2.5 million decrease in unearned automobile premiums, and a ($0.5) million (increase) in unearned commercial liability premiums. These changes reflect our continued growth along our homeowners' and commercial liability lines of business. For further discussion, see "Unearned Premiums" above.

Net Investment Income

Net investment income increased by $0.2 million, or 15.8%, to $1.0 million for the three months ended September 30, 2005, as compared to $0.8 million for the same three-month period ended September 30, 2004. The increase in investment income is primarily a result of the additional amounts of invested assets. Also affecting our net investment income was a modest increase in overall yield to 4.37% for the three months ended September 30, 2005 as compared to a yield of 3.99% for the three months ending September 30, 2004.

Net Realized Investment Gains

Net realized investment gains decreased by $0.08 million, or 100% to $0.0 million for the three months ended September 30, 2005, as compared to $0.08 million for the three months ended September 30, 2004. The table below depicts the gains by investment category.

Net Realized

	Gains (Losses) Three Months Ended September 30, 2005	2004
Fixed maturities:		
U.S. government obligations and agencies	$ --	$ (32,116)
Obligations of states and political subdivisions	--	(10,450)
	--	(42,566)
Corporate securities:		
Other	--	--
	--	--
Equity securities:		
Preferred stocks	--	(56)
Common stocks	--	123,581
	--	123,525
Total net realized gains	$ --	$ 80,959

Loss and LAE

Loss and LAE decreased by $29.0 million, or 68.6%, to $13.3 million for the three months ended September 30, 2005, as compared to $42.3 million as of September 30, 2004. The decrease is due primarily to the Company's reinsurance retention philosophy in connection with the frequency and severity stemming from the three hurricanes that occurred in July, August and September of 2005, and the four hurricanes that occurred in August and September of 2004 which were partially offset by the impact of the improved automobile loss experience due to management's efforts to migrate from predominately liability only policies to full-coverage type automobile policies. Management continues to revise our estimates of the ultimate financial impact of these storms. The revisions to our estimates are based on our analysis of subsequent information that we receive regarding various factors, including: (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.

The table below reflects a charge to the third quarter 2005 earnings of $6.0 million, net of reinsurance recoveries of $11.6 million, stemming from the three hurricanes that occurred in July, August and September of 2005.

Hurricane	Gross Losses	Reinsurance Recoveries	Net Losses
	(Dollars in Millions)		

Dennis (July 10, 2005)	$ 2.9	$ --	$ 2.9
Katrina (August 25, 2005)	14.6	11.6	3.0
Rita (September 20, 2005	0.1	--	0.1
Total Loss Estimate	$ 17.6	$ 11.6	$ 6.0

The table below reflects a charge to the third quarter 2005 earnings of $0.7 million, net of reinsurance recoveries of $1.9 million, stemming from the four hurricanes that occurred in August and September of 2004.

Hurricane	Gross Losses	Reinsurance Recoveries	Net Losses
	(Dollars in Millions)		
Charley (August 13)	$ 0.9	$ 0.9	$ --
Frances (September 3)	1.0	1.0	--
Ivan (September 14)	0.7	--	0.7
Jeanne (September 25)	(0.0)	--	(0.0)
Total Loss Estimate	$ 2.6	$ 1.9	$ 0.7

Our loss ratio, as determined in accordance with GAAP, for the three-month period ended September 30, 2005 was 64.13% compared with 209.06% for the same period in 2004. The table below reflects the loss ratios by product line.

	Three months ended September 30, 2005	2004
Automobile	54.90%	108.31%
Homeowners'	99.49%	308.04%
Commercial liability	6.83%	9.86%
All lines	64.13%	209.06%

Losses and LAE, our most significant expense, represent actual payments made and changes in estimated future payments to be made to or on behalf of our 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

For further discussion, see the Note 7 to the Consolidated Financial Statements included under Part I, Item 1, of this Report.

Interest Expense

Interest expense increased by $0.1 million, or 68.0%, to $0.3 million for the three months ended September 30, 2005, as compared to $0.2 million for the three months ended September 30, 2004. The increase in interest expense is attributed to the September 30, 2004 "Notes".

Deferred Policy Acquisition Costs, Net of Amortization

Amortization of deferred policy acquisition costs increased by $1.4 million, or 55.5%, to $3.9 million for the three months ended September 30, 2005, as compared to $2.5 million as of September 30, 2004. Amortization of deferred policy acquisition costs consists of the actual policy acquisition costs, including commissions, payroll and premium taxes, less commissions earned on reinsurance ceded and policy fees earned.

The increase in amortization of deferred policy acquisition costs is primarily attributable to the sale of our captive agencies in December of 2004, wherein our cost of acquiring policies from those agencies will no longer be eliminated under the principles of consolidation.

Provision (Benefit) for Income Tax Expense

The provision for income tax expense increased by $10.4 million, to $1.1 million for the three months ended September 30, 2005, as compared to a ($9.3) million benefit for the three months ended September 30, 2004. The effective rate for income tax expense is 36.9% for the three months ended September 30, 2005, as compared to 36.0% for the same three-month period in 2004. The increase in the estimated income tax provision is primarily associated with the increase in pre-tax income from continuing operations.

Results of Operations

Nine Months Ended September 30, 2005 as Compared to Nine Months Ended September 30, 2004

Gross Premiums Written

Gross premiums written increased $12.9 million, or 17.4%, to $86.8 million for the nine months ended September 30, 2005, as compared to $73.9 million for the comparable period in 2004. The following table denotes gross premiums written by major product line.

	Nine months ended September 30,			
	2005		2004	
Automobile	$16,475,811	18.97%	$15,824,075	21.40%
Homeowners'	52,978,565	61.03%	47,131,793	63.76%
Commercial liability	16,977,589	19.56%	9,762,932	13.20%
Mobile home owners'	383,222	0.44%	1,210,771	1.64%
Gross written premiums	$86,815,187	100.00%	$73,929,571	100.00%

As noted above, the Company's efforts to expand commercial liability lines of insurance products are coming to fruition, while maintaining automobile production subsequent to the sale of our captive agents and our intentional decline in the mobile home market. Additionally, the $5.9 million increase in our homeowners' gross premium written is due to the Company's rate increase of

23.1% that was affected December 1, 2004, offset by the decrease in the number of those same risks, as evidenced by the $472, or 37.5%, increase in our average premium per policy to $1,730 as of September 30, 2005, compared to $1,258 as of September 30, 2004.

Gross Premiums Ceded

Gross premiums ceded increased $6.6 million, or 118.8% to $12.1 million for the nine months ended September 30, 2005, as compared to credit balance of $1.0 million for the nine months ended September 30, 2004. The change is associated with our increased homeowners' insurance premium volume and our reinsurance costs.

(Decrease) in Prepaid Reinsurance Premiums

The (decrease) in prepaid reinsurance premiums was ($5.4) million for the nine months ended September 30, 2005, as compared to ($5.3) million for the nine months ended September 30, 2004. The decreased charge against written premium is primarily associated with the timing of our reinsurance payments measured against the term of the underlying reinsurance policies.

(Increase) in Unearned Premiums

The (increase) in unearned premiums was ($7.8) million as of September 30, 2005, as compared to ($14.3) million as of September 30, 2004. The increase was due to a $6.9 million increase in unearned homeowners' insurance premiums, a ($0.4) million decrease in unearned mobile-home insurance premiums, a ($2.4) million decrease in unearned automobile premiums, and a $3.7 million increase in unearned commercial general liability premiums. These changes reflect our continued growth along our homeowners' and commercial liability lines of business.

Net Investment Income

Net investment income increased by $0.7 million, or 29.6%, to $2.8 million for the nine months ended September 30, 2005, as compared to $2.1 million for the same nine-month period ended September 30, 2004. The increase in investment income is primarily a result of the additional amounts of invested assets. Also affecting our net investment income was a comparatively flat overall yield of 3.12% for the nine months ended September 30, 2005 and 3.13% for the nine months ending September 30, 2004.

Net Realized Investment Gains

Net realized investment gains increased by $0.03 million, or 9.1% to $0.29 million for the nine months ended September 30, 2005, as compared to $0.26 million for the nine months ended September 30, 2004. The table below depicts the gains by investment category.

	Net Realized Gains (Losses) Nine Months Ended September 30,

	2005	2004
Fixed maturities:		
U.S. government obligations and agencies	$(131,066)	$ 30,397
Obligations of states and political subdivisions	(43)	(10,566)
	(131,109)	19,831
Corporate securities:		
Financial	--	(219)
Other	31,521	--
	31,521	(219)
Equity securities:		
Preferred stocks		(56)
Common stocks	384,621	241,830
	384,621	241,774
Total net realized gains	$ 285,033	$ 261,386

Loss and LAE

Loss and LAE decreased by $23.9 million, or 42.4%, to $32.5 million for the nine months ended September 30, 2005, as compared to $56.4 million as of September 30, 2004. The decrease is due primarily to the Company's reinsurance retention philosophy in connection with the frequency and severity stemming from the three hurricanes that occurred in July, August and September of 2005, and the four hurricanes that occurred in August and September of 2004 which were partially offset by the impact of the improved automobile loss experience due to management's efforts to migrate from predominately liability only policies to full-coverage type automobile policies. Management continues to revise our estimates of the ultimate financial impact of these storms. The revisions to our estimates are based on our analysis of subsequent information that we receive regarding various factors, including: (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.

The table below reflects a charge to current year earnings of $6.0 million, net of reinsurance recoveries of $11.6 million, stemming from the three hurricanes that occurred in July, August and September of 2005.

Hurricane	Gross Losses	Reinsurance Recoveries	Net Losses
	(Dollars in Millions)		
Dennis (July 10, 2005)	$ 2.9	$ --	$ 2.9
Katrina (August 25, 2005)	14.6	11.6	3.0
Rita (September 20, 2005	0.1	--	0.1
Total Loss Estimate	$ 17.6	$ 11.6	$ 6.0

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The table below reflects a charge to current year earnings of $7.4 million, net of reinsurance recoveries of $52.90 million, stemming from the four hurricanes that occurred in August and September of 2004.

Hurricane	Gross Losses	Reinsurance Recoveries	Net Losses
	(Dollars in Millions)		
Charley (August 13)	$ 13.8	$ 13.8	$ --
Frances (September 3)	11.1	11.1	--
Ivan (September 14)	4.8	--	4.8
Jeanne (September 25)	2.6	--	2.6
Total Loss Estimate	$ 32.3	$ 24.9	$ 7.4

Our loss ratio, as determined in accordance with GAAP, for the nine-month period ended September 30, 2005 was 52.90% compared with 115.78% for the same period in 2004. The table below reflects the loss ratios by product line.

	Nine months ended September 30,	
	2005	2004
Automobile	60.64%	90.31%
Homeowners'	64.18%	165.29%
Commercial liability	17.00%	17.70%
All lines	52.90%	115.78%

Losses and LAE, our most significant expense, represent actual payments made and changes in estimated future payments to be made to or on behalf of our 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.

For further discussion, see the Note 7 to the Consolidated Financial Statements included under Part I, Item 1, of this Report.

Salaries and Wages

Salaries and wages increased $0.4 million, or 8.4%, to $4.8 million for the nine months ended September 30, 2005, as compared to $4.4 million for the nine months ended September 30, 2004. 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 77.9%, to $1.1 million for the nine months ended September 30, 2005, as compared to $0.6 million for the nine months ended September 30, 2004. The increase in interest expense is

attributed to the September 30, 2004 "Notes".

Deferred Policy Acquisition Costs, Net of Amortization

Amortization of deferred policy acquisition costs increased by $6.4 million, or 136.1%, to $11.0 million for the nine months ended September 30, 2005, as compared to $4.6 million as of September 30, 2004. Amortization of deferred policy acquisition costs consists of the actual policy acquisition costs, including commissions, payroll and premium taxes, less commissions earned on reinsurance ceded and policy fees earned.

The increase in amortization of deferred policy acquisition costs is primarily attributable to the sale of our captive agencies in December of 2004, wherein our cost of acquiring policies from those agencies will no longer be eliminated under the principles of consolidation.

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Provision (Benefit) for Income Tax Expense

The provision for income tax expense increased by $11.5 million to $5.8 million for the nine months ended September 30, 2005, as compared to a ($5.7) million benefit for the nine months ended September 30, 2004. The effective rate for income tax expense is 37.4% for the nine months ended September 30, 2005, as compared to 35.7% for the same nine-month period in 2004. The increase in the estimated income tax provision is primarily associated with the increase in pre-tax income from continuing operations.

Liquidity and Capital Resources

Our primary sources of capital during the nine months ended September 30, 2005 were revenues generated from operations, decreased prepaid reinsurance premiums, realized income tax recoveries and increased unearned premiums. Also contributing to our liquidity was the sale of our interests in Express Tax and EXPRESSTAX, and exercised employee stock options. Because we are a holding company, we are largely dependent upon fees from our subsidiaries for cash flow.

For the nine months ended September 30, 2005 and 2004, operations generated net operating cash flow of $11.2 million and $40.8 million, respectively. During the nine months ended September 30, 2005, gross cash flow from operations generated approximately $40.1 million, due to a $7.8 million increase in unearned premiums; a $7.1 million decrease in income taxes recoverable; a $5.4 million decrease in prepaid reinsurance premiums; a $4.8 million decrease in due from reinsurers, net; a $1.6 increase in funds held under reinsurance treaties; a $0.6 million decrease in deferred income tax expense; a $0.4 million increase in the provision for credit losses, net; a $0.3 million decrease to finance contracts receivable; $0.3 million of common stock issued for interest on debt; $0.3 million in net realized investment gains; and $0.3 million in depreciation and amortization; $0.2 million in goodwill; a $0.2 million decrease in premiums receivable; a $0.1 million increase in premium deposits; all in conjunction with net income of $10.7 million.

Operations for the nine months ended September 30, 2005 used $28.9 million of gross cash flow primarily due to a $11.5 million decrease in bank overdrafts; a $10.4 million decrease in unpaid losses and LAE; $1.6 million in connection with our sale of discontinued operations; a $1.8 million increase in other

assets; a $1.1 million decrease in accounts payable and accrued expenses; a $1.6 million increase to policy acquisition costs, net of amortization; a $0.4 million decrease to the provision for uncollectible premiums receivable; a $0.3 million decrease in the equity of the subsidiary sold; and $0.2 million in amortization of investment premiums, net.

Subject to catastrophic occurrences, net operating cash flow is currently expected to be positive in both the short-term and the reasonably foreseeable future.

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 $10.2 million for the nine months ended September 30, 2005, as we generated $59.0 million and used $69.3 million from the maturity several times over of our very short municipal portfolio, and generated $1.6 million in connection with our sale of discontinued operations. Other changes to cash flow from investing activities included a $1.5 million receivable for investments sold; $0.1 million used to purchase property and equipment, and $0.1 million proceeds from the sale of assets.

Net cash used for financing activities was $5.7 million for the nine months ended September 30, 2005. The uses of cash for financing activities were primarily $1.5 million paid in dividends, $2.1 million used to reduce revolving credit outstanding, and $3.8 million used to reduce subordinated debt. Cash provided by financing activities includes $1.7 million from exercised employee stock options.

Federated Premium's operations are funded by the Revolving loan agreement with FlatIron Funding. 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. Our lender could decide 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.

The amounts 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 8.22% and 7.45% for the nine months ended September 30, 2005 and 2004, respectively.

Outstanding borrowings under the Revolving Agreement as of September 30, 2005 were approximately $76,000. Outstanding borrowings as of December 31, 2004 were approximately $2.1 million. Outstanding borrowings in excess of the $2.0 million credit limits totaled approximately $150,000 as of December 31, 2004. The excess amount was permissible by reason of a compensating cash balance of approximately $160,000 for December 31, 2004 that was held for the benefit of WPAC and was included in other assets. Interest expense on this revolving credit line for the nine months ended September 30, 2005 and September 30, 2004 totaled approximately $69,000 and $150,000, respectively.

As an alternative to premium finance, we offer direct billing in connection with our automobile program, 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 Express Tax sale, 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.

Federated National's and American Vehicle's statutory capital surplus levels as of September 30, 2005 were approximately $9.3 million and $20.4 million, respectively, and their statutory net income for the nine months ended September 30, 2005 were $1.5 million and $3.2 million, respectively.

As of September 30, 2005 and December 31, 2004, 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. The primary assets and liabilities of the Company are monetary in nature. As a result, interest rates have a more significant impact on the Company's performance than the effects of general levels of inflation. Interest rates do not necessarily move the same direction or with the same magnitude as the inflationary effect on the cost of paying losses and LAE.

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Insurance premiums are established before the Company knows 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 its 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 increased levels of inflation could cause increases in the dollar amount of incurred loss and LAE and thereby materially adversely affect future liability requirements.

Item 6

Exhibits

31.1 Certification of Chief Executive Officer pursuant to Section 302 of Sarbanes-Oxley Act *

31.2 Certification of Chief Financial Officer pursuant to Section 302 of Sarbanes-Oxley Act *

32.1 Certification of Chief Executive Officer pursuant to Section 906 of Sarbanes-Oxley Act *

32.2 Certification of Chief Financial Officer pursuant to Section 906 of Sarbanes-Oxley Act *

* Filed herewith

21st Century Holding Company

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

21st CENTURY HOLDING COMPANY

By: /s/ Edward J. Lawson

Edward J. Lawson, Chief Executive Officer

/s/ James G. Jennings, III

James G. Jennings III, Chief Financial Officer

Date: December 9, 2005