21ST CENTURY HOLDING CO
Form 10-K/A
September 03, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A
AMENDMENT NO. 1
FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

(MARK ONE)

[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES ACT OF 1934
For the fiscal year ended December 31, 2002

or

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period of _____________to_______________

Commission file number 0-2500111

21ST CENTURY HOLDING COMPANY
(Exact name of registrant as specified in its Charter)

FLORIDA	65-0248866
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No)

4161 N.W. 5TH STREET, PLANTATION, FLORIDA 33317
(Address of Principal executive offices) (Zip Code)

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

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

Securities registered pursuant to Section 12(g) of the Exchange Act:
Common Stock, par value $0.01 per share
(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in the Exchange Act Rule 12b-2). Yes [ ] No [X]

The aggregate market value of the Issuer's common stock held by non-affiliates (based on the last sale of the common stock as reported by the Nasdaq National Market) on June 30, 2002 was: $13,298,055.

As of March 28, 2003, there were 3,012,201 shares of the common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated by reference: Portions of the Company's Proxy Statement for the 2003 Annual Meeting - Part III.

General information about 21st Century Holding Company (the "Company") can be found at www.fedusa.com. The Company makes its 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 Exchange Act of 1934 available free of charge on its web site, as soon as reasonably practicable after they are electronically filed with the SEC.

FORWARD-LOOKING STATEMENTS

Statements in this report or in documents that are incorporated by reference that are not historical fact are forward-looking statements that are subject to certain risks and uncertainties that could cause actual events and results to differ materially from those discussed herein. Without limiting the generality of the foregoing, words such as "may," "will," "expect," "believe," "anticipate," "intend," "could," "would," "estimate," or "continue" or the negative other variations thereof or comparable terminology are intended to identify forward-looking statements. The risks and uncertainties include, without limitation, uncertainties related to estimates, assumptions and projections generally; inflation and other changes in economic conditions (including changes in interest rates and financial markets); 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 the Company; risks related to the nature of the Company's business; dependence on investment income and the composition of the Company's investment portfolio; the adequacy of its liability for loss and loss adjustment expense ("LAE"); insurance agents; claims experience; limited experience in the insurance industry; 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; courts decisions and trends in litigation and health care and auto repair costs; and other matters described from time to time by the Company in this report, and 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, investors should be aware that generally accepted accounting principles prescribe when a company may reserve for particular risks, including litigation exposures. Accordingly results for a given reporting period could be significantly affected if and when a reserve is established for a major contingency. Reported results may therefore appear to be

volatile in certain accounting periods.

PART I

ITEM 1. BUSINESS

GENERAL

The Company is a vertically integrated insurance holding company, which, through its subsidiaries, controls substantially all aspects of the insurance underwriting, distribution and the claims process. The Company underwrites personal automobile insurance, homeowners insurance and mobile home property and casualty insurance in the State of Florida through its wholly-owned subsidiaries, Federated National Insurance Company ("Federated National") and American Vehicle Insurance Company ("American Vehicle"). The Company internally processes claims made by its own and third party insureds through a wholly-owned claims adjusting company, Superior Adjusting, Inc. ("Superior"). The Company also offers premium financing to its own and third-party insureds through its wholly-owned subsidiary, Federated Premium Finance, Inc. ("Federated Premium").

The Company markets and distributes its own and third-party insurers' products and its other services primarily in South Florida, through a network of 23 agencies, owned by Federated Agency Group, Inc. ("Federated Agency Group"), a wholly-owned subsidiary, 40 franchised agencies and approximately 125 independent agents. The Company, through its wholly-owned subsidiary, FedUSA, Inc. ("FedUSA"), franchises agencies under the FedUSA name. As of December 31, 2002, franchises were granted for 40 FedUSA agencies, of which 34 were operating. The Company intends to focus its future expansion efforts for its agency network on franchised agencies.

The Company offers income tax preparation software and service through Express Tax Service, Inc. ("Express Tax"), an 80% owned subsidiary, as well as franchise opportunities for these services through EXPRESSTAX Franchise Corporation ("EXPRESSTAX"), a wholly-owned subsidiary of Express Tax. As of December 31, 2002, 136 EXPRESSTAX franchises had been granted in nine states.

The Company believes that it can be distinguished from its competitors because it generates revenue from substantially all aspects of the insurance underwriting, distribution and claims process. The Company provides quality service to both its agents and insureds by utilizing an integrated computer system, which links the Company's insurance and service entities. The Company's

computer and software systems allow for automated premium quotation, policy issuance, billing, payment and claims processing and enables the Company to continuously monitor substantially all aspects of its business. Using these systems, the Company's agents can access a customer's driving record, quote a premium, offer premium financing and, if requested, generate a policy on-site. The Company believes that these systems have facilitated its ability to market and underwrite insurance products on a cost-efficient basis, allow Company-owned and franchised agencies to be a "one stop" shop for insurance, tax preparation and other services, and will enhance the Company's ability to expand in Florida and to other states.

The Company's primary products are standard and nonstandard personal automobile insurance. The former is principally provided to insureds who present an average risk profile in terms of payment history, driving record, vehicle and other factors. The latter is principally provided to insureds who are unable to obtain preferred or standard insurance coverage because of their payment history, driving record, age, vehicle type or other factors, including market conditions for preferred or standard risks. Underwriting standards for standard insurance coverage have become more restrictive, thereby requiring more drivers to seek coverage in the nonstandard automobile insurance market. These factors have contributed to an increase in the size of the nonstandard personal automobile insurance market.

The Company currently underwrites and sells insurance only in Florida; however, the Company intends to expand to other selected states and American Vehicle has applied to obtain a license to underwrite and sell personal automobile insurance in Alabama. The Company will select additional states for expansion based on a number of criteria, including the size of the personal automobile insurance market, statewide loss results, competition and the regulatory climate. The Company's ability to expand into other states will be subject to the prior regulatory approval of each state. Certain states impose operating requirements upon licensee applicants, which may impose burdens on the Company's ability to obtain a license to conduct insurance business in those other states. There can be no assurance that the Company will be able to obtain the required licenses, and the failure to do so would limit the Company's ability to expand geographically.

The Company's executive offices are located at 4161 N.W. 5th Street, Plantation, Florida and its telephone number is (954) 581-9993.

BUSINESS STRATEGY

The Company's strategy is to seek continued growth of its business by capitalizing on the efficiencies of its vertical integration and by:

- expanding into additional states. Currently, American Vehicle has applied to obtain a license to underwrite and sell automobile insurance in Alabama and anticipates filing applications in additional states in the southeastern U.S. shortly;
- expanding the Company's product offerings to include commercial general liability insurance for businesses, for which the Company received regulatory approval in Florida;
- expanding its agency network primarily through the sale of FedUSA franchises;
- employing the business practices developed and used in Florida in its expansion to other selected states;
- maintaining a commitment to provide quality service to agents and insureds by emphasizing customer service;
- encouraging agents to place a high volume of quality business with the Company by providing them with attractive commission structures tied to premium levels and loss ratios; and
- expanding its EXPRESSTAX franchises to all 50 states.

INSURANCE OPERATIONS AND RELATED SERVICES

UNDERWRITING

GENERAL. The Company underwrites its personal automobile insurance, homeowners and mobile home property insurance and casualty insurance through Federated National and personal automobile insurance through American Vehicle. Federated National and American Vehicle are currently licensed to conduct business only in Florida, although American Vehicle has applied to obtain a license to underwrite and sell personal automobile insurance in Alabama.

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

	YEARS ENDED DECEMBER 31,					
	2002		2001		2000	
	PREMIUM	PERCENT	PREMIUM	PERCENT	PREMIUM	PERCENT
	(DOLLARS IN THOUSANDS)					
Written:						
Automobile ...	$ 52,586	83.4%	$ 24,743	72.2%	$ 25,361	79.1%
Homeowners ...	8,670	13.8%	7,662	22.4%	4,604	14.3%
Mobile Home ..	1,780	2.8%	1,866	5.4%	2,109	6.6%
Total Written	$ 63,036	100.0%	$ 34,271	100.0%	$ 32,074	100.0%
Ceded:						
Automobile ...	$ 25,286	100.0%	$(12,789)	100.0%	$ (7,625)	100.0%
Homeowners ...	--	--	--	--	--	--
Mobile Home ..	--	--	--	--	--	--
Total Ceded ..	$ 25,286	100.0%	$(12,789)	100.0%	$ (7,625)	100.0%
Net:						
Automobile ...	$ 27,300	72.3%	$ 11,954	55.6%	$ 17,736	72.5%
Homeowners ...	8,670	23.0%	7,662	35.7%	4,604	18.8%
Mobile Home ..	1,780	4.7%	1,866	8.7%	2,109	8.7%
Total Net	$ 37,750	100.0%	$ 21,482	100.0%	$ 24,449	100.0%

The Company markets its personal automobile insurance through its network of Company-owned agencies, franchised agencies and independent agents.

STANDARD AUTOMOBILE. Standard personal automobile insurance is principally provided to insureds who present an average risk profile in terms of payment history, driving record, vehicle type and other factors. Limits on

standard personal automobile insurance are generally significantly higher than those for nonstandard coverage, but typically provide for deductibles and other restrictive terms. The Company is underwriting standard personal automobile insurance policies providing coverage no higher than $100,000 per individual, $300,000 per accident for bodily injury, $50,000 per accident for property damage and comprehensive and collision up to $50,000 per accident, with deductibles ranging from $200 to $1,000. The approximate average premium on these policies is currently $1,400.

NONSTANDARD AUTOMOBILE. Nonstandard personal automobile insurance is principally provided to insureds that are unable to obtain standard insurance coverage because of their payment history, driving record, age, vehicle type or other factors, including market conditions. Underwriting standards for preferred and standard coverage have become more restrictive, thereby requiring more insureds to seek nonstandard coverage and contributing to the increase in the size of the nonstandard automobile market. Nonstandard automobile insurance generally involves the potential for higher claims experience. Loss exposure is limited, however, because premiums usually are at higher rates than those charged for standard insurance coverage and because approximately 37% of the policies issued by the company provide the minimum coverage required of the policyholder by statute and provide no bodily injury coverage. The Company currently underwrites nonstandard personal automobile insurance in Florida, where the minimum limits are $10,000 per individual, $20,000 per accident for bodily injury, $10,000 per accident for property damage and comprehensive and $50,000 for collision. The average annual premium on policies currently in force is approximately $717. Both Federated National and American Vehicle underwrite this coverage on an annual and semi-annual basis.

4

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

HOMEOWNERS. Federated National underwrites homeowners' insurance principally in Central and Southern Florida. Homeowners' insurance generally protects an owner of real and personal property against covered causes of loss to that property. Limits on homeowners' insurance are generally significantly higher than those for mobile homes, but typically provide for deductibles and other restrictive terms. Federated National's property lines typically provide maximum coverage in the amount of $200,000, with the average policy limit being approximately $150,000. The average annual premium on policies currently in force is approximately $1,050 and the typical deductible is $1,000. The Company markets Federated National's homeowners' insurance through its network of Company-owned agencies, franchises, and independent agents.

FLOOD. In April 2002 the Company was authorized to write flood insurance through the National Flood Insurance Program ("NFIP"). The Company writes the policy for the Federal Flood program which assumes 100% of the flood risk and the Company retains a commission for its service. The average flood policy premium is $300 with limits not to exceed $250,000.

MOBILE HOME. Federated National underwrites homeowners insurance for

mobile homes, principally in Central and Northern Florida, where the Company believes that the risk of catastrophe loss from hurricanes is less than in other areas of the state. Homeowners' insurance generally protects an owner of real or personal property against covered causes of loss to that property. Homeowners' insurance for mobile homes generally involves the potential for above-average loss exposure. In the absence of major catastrophe losses, loss exposure is limited because premiums usually are at higher rates than those charged for non-mobile home property and casualty insurance. Additionally, Federated National's property lines typically provide maximum coverage in the amount of $75,000, with the average policy limit being approximately $31,000. In addition, the Company presently limits its mobile home coverage to no more than 10% of its underwriting exposure. The average annual premium on policies currently in force is approximately $315 and the typical deductible is $500. The Company markets Federated National's mobile home property and casualty insurance through independent agents.

FUTURE PRODUCTS. The Company intends to expand its product offerings by underwriting additional insurance products and programs such as commercial general liability insurance for businesses, and marketing them through its distribution network. Expansion of the Company's product offerings will result in a slight increase in expenses due to additional costs incurred in additional actuarial rate justifications, software and personnel. Offering additional insurance products may require regulatory approval.

ASSURANCE MGA

Assurance Managing General Agents, Inc. ("Assurance MGA") acts as Federated National's and American Vehicle's exclusive managing general agent. Assurance MGA currently provides all underwriting policy administration, marketing, accounting and financial services to Federated National, American Vehicle and the Company's agencies and participates in the negotiation of reinsurance contracts.

Assurance MGA generates revenue through policy fee income and other administrative fees from the marketing of companies' products through the Company's distribution network. Although Assurance MGA recently diverted business from an unaffiliated insurance company to American Vehicle, and ceased acting as a third party administrator for this company, Assurance MGA plans to establish relationships with additional carriers and add additional insurance products in the future.

SUPERIOR ADJUSTING

The Company internally processes claims made by Federated National's and American Vehicle's insureds through Superior. The Company-owned agencies and independent agents have no authority to settle claims or otherwise exercise control over the claims process. Management believes that the employment of salaried claims personnel, as opposed to independent adjusters, results in reduced ultimate loss payments, lower loss adjustment expenses and improved customer service. The Company only retains independent appraisers and adjusters on an as needed basis. Additionally, Superior currently adjusts claim files for the Florida Insurance Guarantee Association on a flat fee per file basis as well as adjusting claims for another unaffiliated local insurance company.

Claims settlement authority levels are established for each adjuster or manager based on the employee's ability and level of experience. Upon receipt, each claim is reviewed and assigned to an adjuster based on the type and

severity of the claim. The Company employs an in-house counsel to monitor claims-related litigation. The claims policy of the Company emphasizes prompt and fair settlement of meritorious claims and the establishment of appropriate liability for claims. The Company believes that the internal processing of claims enables it to provide quality customer service while controlling claims adjustment expenses.

FEDERATED PREMIUM

Federated Premium provides premium financing to Federated National's, American Vehicle's and third-party insureds', although the financing of third party insureds' policies was discontinued in the fourth quarter. Premium financing is marketed through the Company's distribution network of Company-owned and franchised agencies (but not through independent agents). Lending operations are supported by Federated Premium's own capital base and are currently leveraged through a credit facility with FlatIron Funding Company LLC.

Premiums for property and casualty insurance are typically payable at the time a policy is placed in force or renewed. Federated Premium's services allow the insured to pay a portion of the premium when the policy is placed in force and the balance in monthly installments over the life of the policy. As security, Federated Premium retains a contractual right, if a premium installment is not paid when due, to cancel the insurance policy and to receive the unearned premium from the insurer, or in the event of insolvency of an insurer, from the Florida Guarantee Association, subject to a $100 per policy deductible. In the event of cancellation, Federated Premium applies the unearned premium towards the payment obligation of the insured. The Company believes that the premium financing it offers to its own insureds involves limited credit risk.

As part of its premium financing offered to third-party insureds, Federated Premium may advance funds for financed premiums to independent insurance agencies that represent third-party insurers. If remittance is not made by the agency to the third-party insurer, advances made by Federated Premium may only be recoverable to the extent that the agency's receipt of such advances is received by the third-party insurer. In the past, the Company closely monitored the independent insurance agencies it used to reduce this risk. In order to reduce the amount of charge offs of uncollected accounts, Federated Premium discontinued financing policies generated by independent agents in the fourth quarter of 2001.

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

	YEARS ENDED DECEMBER 31,			
	2002		2001	
	PREMIUMS	PERCENT	PREMIUMS	PERCENT
	(DOLLARS IN THOUSANDS)			
Federated National	$22,331	55.4%	$20,174	43.9%
American Vehicle	12,850	31.9	1,066	2.3
Other insurers	5,124	12.7	24,728	53.8

Total.................................	$40,305	100.0%	$45,968	100.0%
	=======	=====	=======	=====

Federated Premium's operations are funded by a revolving loan agreement ("Revolving Agreement") with FlatIron Funding Company LLC ("FlatIron"). The Revolving Agreement is structured as a sale of contracts receivable under a sale and assignment agreement with FPF, Inc. (a wholly-owned subsidiary of FlatIron), which gives FPF, Inc. 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. The Revolving Agreement, which was amended and revised in September 2001, allowed for a maximum credit commitment of $7.0 million plus an initial additional amount of $700,000 for the transition from September 30, 2001 when the previous agreement expired. The line declined by $100,000 each month beginning November 1, 2001. In September 2002, the line was amended and revised allowing for a maximum credit commitment of $4.0 million.

The decrease in the maximum credit commitment under the revolving loan agreement was reduced by FlatIron due to the A.M. Best ratings of third party insurance carriers with which the Company was financing policies at the time. Simultaneously, the Company ceased financing policies underwritten by third party insurance carriers altogether and began financing only those policies underwritten by the Company's insurance carriers. Additionally, the Company implemented a direct bill program for policies underwritten by the Company's carriers. These changes markedly decreased credit risks and made the Company's reliance on the higher credit commitment previously offered by FlatIron unnecessary.

Direct billing is where the insurance company accepts from the insured, as a receivable, a promise to pay the premium, as opposed to requiring the full amount of the policy, either directly from the insured or from a premium finance company. The direct billing program does not increase the Company's risk because

the insurance policy, which serves as collateral, is managed by the Company's computer system. Underwriting criteria are designed with down payment requirements and monthly payments that create policyholder equity, also called unearned premium, in the insurance policy. The equity in the policy is collateral for the extension of credit to the insured. Through the Company's monitoring systems, the Company tracks delinquent payments and, in accordance with the terms of the extension of credit, cancels the policy before the policyholder's equity is extinguished. If any excess premium remains after cancellation of the policy and deduction of applicable penalties, this excess is refunded to the policyholder.By financing policies underwritten only by its own insurance carriers, the Company's credit risks are reduced because it can more securely rely on the underwriting processes of its own insurance carriers. Furthermore, the direct bill program enables the Company to closely manage its risk while providing credit to its insureds.

The amount of FPF's advance is subject to availability under a borrowing base calculation, with maximum advances outstanding not to exceed the maximum credit commitment. The annual interest rate on advances under the Revolving Agreement is the prime rate plus additional interest varying from 1.25% to 3.25% based on the prior month's ratio of contracts receivable related to insurance companies with an A. M. Best rating of B or worse to total

contracts receivable. The Company's effective interest rate on this line of credit, based on the Company's average outstanding borrowings under the Revolving Agreement, was 6.23%, 7.84% and 9.55% for the years ended December 31, 2002, 2001 and 2000, respectively. The Revolving Agreement contains various operating and financial covenants, with which the Company was in compliance at December 31, 2002 and 2001. The Revolving Agreement, as amended, expires September 30, 2004. Outstanding borrowings under the Revolving Agreement as of December 31, 2002 and 2001 were approximately $4.3 million and $6.7 million, respectively. Outstanding borrowings in excess of the $4.0 million commitment totaled $312,420 and are permissible by reason of a compensating cash balance of $352,433 held for the benefit of FPF, Inc. Interest expense on this revolving credit line for the years ended December 31, 2002, 2001 and 2000 totaled approximately $342,000, $592,000 and $643,000, respectively.

TAX PREPARATION SERVICES AND ANCILLARY SERVICES

The Company also offers other services at its Company-owned and franchised agencies including tax return preparation and electronic filing and the issuance and renewal of license tags. In August 1999, the Company acquired an 80% interest in Express Tax. Express Tax licenses tax return preparation software to business locations throughout the United States and also earns fees on all electronically filed returns. Express Tax previously licensed its software to the Company's agencies and will continue to do so in the future.

FRANCHISE OPERATIONS

FedUSA franchises insurance and financial service. FedUSA commenced the offering of franchises in December 2000 and as of December 31, 2002 had 34 operating franchises.

The franchise agreement for each FedUSA franchise grants the franchisee the right to operate a FedUSA insurance agency within an exclusive territory for a ten-year period, with two additional ten-year options. FedUSA collects a non-refundable initial franchise fee of $14,950, royalty fees, advertising fees, and other fees.

In 2002, EXPRESSTAX began franchising an agency for tax return preparation, electronic filing and related financial products. The EXPRESSTAX franchise agreement grants the franchisee the non-exclusive right to open and operate a center for a ten-year period, with two additional ten-year options. EXPRESSTAX may collect a non-refundable initial franchise fee of $4,500, in addition to royalty fees, advertising fees, and other fees. As of December 31, 2002, 136 EXPRESSTAX franchises had been granted in nine states. The Company has ceased awarding new licenses. Renewals for existing licenses cost $300 per year, plus shipping, before June 15, and $500, plus shipping, thereafter.

MARKETING AND DISTRIBUTION

The Company markets and distributes its own and third-party insurers' products and its other services primarily in Central and South Florida through a network of 23 Company-owned agencies, 34 operating franchised agencies and approximately 125 independent agents. Company-owned agencies are located in Miami-Dade, Broward, Palm Beach, Martin, Orange, Osceola, Volusia and Seminole Counties, Florida. Franchised agencies are located in Miami-Dade, Broward, Palm Beach, Martin, St. Lucie and Orange Counties, Florida. Independent agents are located primarily in South Florida. The Company supports its agency network by

advertising in various media in conjunction with its franchised agencies.

Whether Company-employed, franchise-employed or independent, agents have the authority to sell and bind insurance coverages in accordance with procedures established by Assurance MGA. Assurance MGA reviews all coverages bound by the agents promptly and generally accepts all coverages that fall within stated underwriting criteria. Assurance MGA also has the right, within a period of 60 days from a policy's inception, to cancel any policy upon 45 days' notice, even if the risk falls within its underwriting criteria.

The Company believes that its integrated computer system, which allows for rapid automated premium quotation and policy issuance by its agents, is a key element in providing quality service to both its agents and insureds. For example, upon entering a customer's basic personal information, the customer's driving record is accessed and a premium rate is quoted. If the customer chooses to purchase the insurance, the system generates the policy on-site. Each agency, whether company-owned or franchised, is designed to be a "one stop" shop for insurance, tax preparation and ancillary services.

The Company believes that its distribution system will ultimately enable it to lower its expense ratio and operate with more favorable loss experience. A lower expense ratio will, in turn, allow the Company to more effectively compete with larger providers of automobile insurance as well as other forms of insurance.

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

	YEARS ENDED DECEMBER 31,			
	2002		2001	
	PREMIUMS	PERCENT	PREMIUMS	PERCENT
			(DOLLARS IN THOUSANDS)	
Through Company-owned agencies..........	$20,403	32.4%	$9,932	29.0%
Through franchised agencies............	11,761	18.6%	2,659	7.7%
Through independent agents.............	30,872	49.0%	21,680	63.3%
Total..............................	$63,036	100.0%	$34,271	100.0%

The Company plans to continue to expand its distribution network and market its products and services in other regions of Florida and other states by franchising additional insurance agencies and establishing relationships with additional independent agents. As the Company expands its insurance operations to other states, the Company will seek to replicate its distribution network in those states. There can be no assurance, however, that the Company will be able to obtain the required regulatory approvals to offer additional insurance products or expand into states other than Florida.

REINSURANCE

The Company follows industry practice of reinsuring a portion of its risks and paying for that protection based upon premiums received on all

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

Reinsurance is ceded under separate contracts or "treaties" for the separate lines of business underwritten. The Company collectively ceded $25.3 million in premiums written for the year ended December 31, 2002. The Company's reinsurance for automobile insurance is primarily ceded with Transatlantic, an A++ rated reinsurance company. Federated National ceded 40%, 50% and 30% of automobile premiums written and losses incurred in 2002, 2001 and 2000, respectively, to Transatlantic.

American Vehicle ceded 80% of its premiums written and losses incurred during 2001. From January 2002 until November 2002 the Company reduced its percentage of ceded premiums written and losses incurred to 70% and then to 40% effective November 1, 2002.

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

The reinsurance programs renew annually, although the Company continually reviews the programs and may elect to change it more frequently. Reinsurance is placed directly by the Company on the automobile line of business.

The Company is selective in choosing a reinsurer and considers numerous factors, the most important of which is the financial stability of the reinsurer, its history of responding to claims and its overall reputation. In an effort to minimize its exposure to the insolvency of a reinsurer, the Company evaluates the acceptability and reviews the financial condition of the reinsurer at least annually. The Company's current policy is to use only reinsurers that have an A.M. Best rating of "A" (Excellent) or better.

In order to minimize the effect of a natural disaster, the Company purchases catastrophic reinsurance from both the state-run Florida Hurricane Catastrophe Fund and private re-insurers. The Company uses actuarial models to determine what level of reinsurance would be necessary to limit the Company's total exposure under property insurance policies to the total amount of claims that would result from an event expected to occur no more often than once in every 100 years. As of December 31, 2002, Federated National would pay approximately $3 million in claims before catastrophic reinsurance would take effect. Afterward, the Company would pay all claims in excess of approximately $33 million.

LIABILITY FOR UNPAID LOSSES AND LAE

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

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

All newly reported claims received with respect to personal automobile policies are set up with an initial average liability. The average liability for these claims are determined every quarter by dividing the number of closed claims into the total amount paid during the three-month period. If a claim is open more than 45 days, that open case liability is evaluated and the liability is adjusted upward or downward according to the facts and damages of that particular claim.

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

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

Among the classes of insurance underwritten by the Company, the automobile and homeowners liability claims historically tend to have longer time lapses between the occurrence of the event, the reporting of the claim to the Company and the final settlement than do automobile physical damage and homeowners property claims. Liability claims often involve parties filing suit and therefore may result in litigation. By comparison, property damage claims tend to be reported in a relatively shorter period of time and settle in a shorter time frame with less occurrence of litigation.

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

The following table sets forth a reconciliation of beginning and ending

liability for unpaid losses and LAE as shown in the Company's consolidated financial statements for the periods indicated.

	YEARS ENDED DECEMBE	
	2002	2001
	(DOLLARS IN THOUSAND	
Balance at January	$11,005	$9,766
Less reinsurance recoverables	(4,798)	(2,790)
Net balance at January 1	$6,207	$6,976
Incurred related to:		
Current year	$15,896	$13,586
Prior years	91	2,569
Total incurred	$15,987	$16,155
Paid related to:		
Current year	$8,149	$8,769
Prior years	4,908	8,258
Total paid	$13,057	$17,027
Balance, American Vehicle, at acquisition date	$ --	$103
Net balance at end of period	$9,136	$6,207
Plus reinsurance recoverables	7,848	4,798
Balance at end of period	$16,984	$11,005

As shown above, as a result of the Company's review of its liability for losses and LAE, which includes a re-evaluation of the adequacy of reserve levels for prior year's claims, the Company increased its liability for loss and LAE for claims occurring in prior years by $91,000, $2,569,000 and $1,445,000 for the years ended December 31, 2002, 2001 and 2000, respectively. There can be no assurance concerning future adjustments of reserves, positive or negative, for claims through December 31, 2002.

Based upon consultations with the Company's independent actuarial consultants and their statement of opinion on losses and LAE, the Company believes that the liability for unpaid losses and LAE is currently adequate to cover all claims and related expenses which may arise from incidents reported and IBNR.

The following table presents total unpaid loss and LAE, net, and total reinsurance recoverables shown in the Company's consolidated financial statements for the periods indicated.

	YEARS ENDED DECEMBER	
	2002	2001

	(DOLLARS IN THOUS	
Loss and LAE, net	$5,585	$2,736
IBNR, net	3,551	3,471
Total unpaid loss and LAE, net	$9,136	$6,207
Reinsurance recoverable	$4,382	$1,910
IBNR recoverable	3,466	2,888
Total reinsurance recoverable	$7,848	$4,798

The following table presents the liability for unpaid losses and LAE for the Company for the years ended December 31, 1993 through 2002. The top line of the table shows the estimated net liabilities for unpaid losses and LAE at the balance sheet date for each of the periods indicated. These figures represent the estimated amount of unpaid losses and LAE for claims arising in all prior years that were unpaid at the balance sheet date, including losses that had been incurred but not yet reported. The portion of the table labeled "Cumulative paid as of" shows the net cumulative payments for losses and LAE made in succeeding years for losses incurred prior to the balance sheet date. The lower portion of the table shows the re-estimated amount of the previously recorded liability based on experience as of the end of each succeeding year.

				YEARS ENDED DECEMBER 31,			
	2002	2001	2000	1999	1998	1997	1996
					(DOLLARS IN THOUSANDS)		
Balance Sheet Liability	$9,136	$6,207	$6,976	$4,428	$5,366	$4,635	$4,532
Cumulative paid as of:							
One year later		5,275	8,228	4,289	3,460	2,694	2,850
Two years later			9,568	5,799	4,499	3,533	3,539
Three years later				6,328	5,111	3,972	3,882
Four years later					5,387	4,241	4,107
Five years later						4,325	4,223
Six years later							4,262
Seven years later							
Eight years later							
Nine years later							
Re-estimated net liability as of:							
End of year	$9,136	$6,207	$6,976	$4,428	$5,366	$4,635	$4,532
One year later		6,954	9,445	5,875	4,676	4,360	4,332
Two years later			10,197	6,284	5,160	4,063	4,255
Three years later				6,605	5,352	4,317	4,102
Four years later					5,515	4,386	4,304
Five years later						4,395	4,321
Six years later							4,321
Seven years later							
Eight years later							
Nine years later							

Cumulative redundancy (deficiency)	$ --	$(747)	$(3,221)	$(2,177)	$(149)	$ 240	$ 21

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

The table below sets forth the differences between Loss and LAE reserves as disclosed for GAAP basis compared to SAP basis presentation for the years ending 2002 and 2001.

	YEARS ENDED DECEMBER 31,	
	2002	2001
	(DOLLARS IN THOUSANDS)	
GAAP basis Loss and LAE reserves	$16,984	$11,005
Less unpaid Losses and LAE ceded	(7,847)	(4,798
Insurance apportionment plan	285	--
SAP basis Loss and LAE reserves	$9,422	$6,207

The table below sets forth the differences between Loss and LAE incurred as disclosed for GAAP basis compared to SAP basis presentation for the years ending 2002, 2001 and 2000.

	YEARS ENDED DECEMBER 31,	
	2002	2001
	(DOLLARS IN THOUSANDS)	
GAAP basis Loss and LAE incurred	$15,987	$16,155
Intercompany adjusting and other expenses	2,484	1,440
Insurance apportionment plan	700	--
Other	--	10
SAP Basis Loss and LAE incurred	$19,171	$17,605

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

The following table sets forth Loss Ratios, Expense Ratios and Combined

Ratios for the periods indicated for the insurance business of Federated National and American Vehicle for 2002. The amounts for 2001 and 2000 are for Federated National only. The ratios, inclusive of unallocated loss adjustment expenses ("ULAE"), are shown in the table below, and are computed based upon SAP. The expense ratios include management fees paid to the Company in the amount of $0, $0 and $300,000 in 2002, 2001 and 2000, respectively.

11

	YEARS ENDED DECEMBER 31,		
	2002	2001	2000
Loss Ratio..........................	60%	82%	80%
Expense Ratio.......................	25%	25%	31%
Combined Ratio......................	85%	107%	111%

In order to reduce losses and thereby reduce the Loss Ratio and the Combined Ratio, both Federated National and American Vehicle raised premium rates once in 2002, and plan to request further rate increases in 2003. The improved loss ratio for 2002 as compared to 2001 is attributed the $2.6 million adverse reserve development experienced in 2001 where only $.09 million was incurred in 2002. Highlights for the improved ratios include, but are not limited to the termination of unprofitable agency relations, increased scrutiny over fraudulently asserted claims, streamlined paperless claims processing system, new claims management supervision and in house legal counsel, as well as limiting loss exposures in historically high loss areas.

American Vehicle's first full year of operations produced a Loss Ratio of 72%, an Expense Ratio of 14% and a Combined Ratio of 86% based on SAP. Comparing Federated National to American Vehicle's Loss, Expense and Combined Ratios, it should be noted that 2002 was American Vehicle's first full year of operations under ownership by the Company. As such, the earnings cycle of American Vehicle is less mature than Federated National's earning cycle. Generally, for a company writing policies with a term of 12 months the earnings cycle would not be considered complete until there have been 24 months of consecutive level written premiums.

COMPETITION

The Company operates in a highly competitive market and faces competition from both national and regional insurance companies, many of whom are larger and have greater financial and other resources than the Company, have favorable A.M. Best ratings and offer more diversified insurance coverage. The Company's 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. The Company may also face competition from new or temporary entrants in its niche markets. In some cases, such entrants may, because of inexperience, desire for new business or other reasons, price their insurance below the pricing structure of the Company. Although the Company's pricing is inevitably influenced to some degree by that of its competitors, management of the Company believes that it is generally not in the Company's best interest to compete solely on price, choosing instead to compete on the basis of underwriting criteria, its distribution network and superior service to its agents and insureds. The Company competes with respect to automobile insurance in Florida with more than 100 companies, which underwrite personal automobile insurance. Companies of comparable or smaller

size, which compete with the Company in the personal automobile insurance industry, 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. Competition could have a material adverse effect on the Company's business, results of operations and financial condition.

REGULATION

GENERAL

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

12

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

Most states have insurance laws requiring that rate schedules and other information be filed with the state's insurance regulatory authority, either directly or through a rating organization with which the insurer is affiliated. The regulatory authority may disapprove a rate filing if it finds that the rates are inadequate, excessive or unfairly discriminatory. Rates, which are not necessarily uniform for all insurers, vary by class of business, hazard covered, and size of risk. Certain states have recently adopted laws or are considering proposed legislation which, among other things, limit the ability of insurance companies to effect rate increases or to cancel, reduce or non-renew insurance coverage with respect to existing policies, particularly personal automobile insurance. The Company's experience in Florida to date, however, has been that although legislative proposals of this type have been considered from time to time, none have yet been adopted. Nevertheless, the Florida legislature may adopt laws of this type in the future, which could adversely the Company's business.

Most states require licensure or regulatory approval prior to the

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

All insurance companies must file quarterly and annual statements with certain regulatory agencies and are subject to regular and special examinations by those agencies. The last regulatory examination of Federated National covered the three-year period ended on December 31, 1998. No material deficiencies were found during this regulatory examination. In some instances, various states routinely require deposits of assets for the protection of policy holders either in those states or for all policyholders. As of December 31, 2002, Federated National and American Vehicle hold investment securities with a fair value of approximately $1,027,000 and $1,066,000, respectively, as deposits with the State of Florida.

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

Under these laws, Federated National would be permitted to pay dividends of approximately $142,000 to the Company in 2003, and American Vehicle would be permitted to pay $9,000 in dividends in 2003. Although the Company believes that amounts required for it to meet its financial and operating obligations will be available from sources other than dividends from insurance subsidiaries, there can be no assurance in this regard. Further, there can be no assurance that, if requested, the Florida Department of Financial Services will allow any dividends in excess of the amount available, to be paid by Federated National to the Company in the future. No dividends were paid by Federated National or American Vehicle in 2002, 2001 or 2000, and none are anticipated in 2003.The maximum dividends permitted by state law are not necessarily indicative

of an insurer's actual ability to pay dividends or other distributions to a parent company, which also may be constrained by business and regulatory considerations, such as the impact of dividends on capital surplus, which could affect an insurer's competitive position, the amount of premiums that can be written and the ability to pay future dividends. Further, state insurance laws and regulations require that the statutory capital surplus of an insurance company following any dividend or distribution by it be reasonable in relation to its outstanding liabilities and adequate for its financial needs.

13

While the non-insurance company subsidiaries are not subject directly to the dividend and other distribution limitations, insurance holding company regulations govern the amount that any affiliate within the holding company system may charge any of the insurance companies for service (e.g., management fees and commissions).

In order to enhance the regulation of insurer solvency, the National Association of Insurance Commissioners ("NAIC") established risk-based capital requirements for insurance companies that are designed to assess capital adequacy and to raise the level of protection that statutory surplus provides for policy holders. These requirements measure three major areas of risk facing property and casualty insurers: (i) underwriting risks, which encompass the risk of adverse loss developments and inadequate pricing; (ii) declines in asset values arising from credit risk; and (iii) other business risks from investments. Insurers having less statutory surplus than required will be subject to varying degrees of regulatory action, depending on the level of capital inadequacy. The requirements establish various levels of regulatory action. Based upon the 2002 statutory financial statements for Federated National and American Vehicle, each company's statutory surplus exceeds all regulatory action levels established by the NAIC. The Florida Department of Financial Services, which follows these requirements, could require Federated National or American Vehicle to cease operations in the event they fail to maintain the required statutory capital.

The extent of regulatory intervention and action increases as the ratio of an insurer's statutory surplus to its Authorized Control Level ("ACL"), as calculated under the NAIC's requirements, decreases. The first action level, the Company Action Level, requires an insurer to submit a plan of corrective actions to the insurance regulators if statutory surplus falls below 200.0% of the ACL amount. The second action level, the Regulatory Action Level, requires an insurer to submit a plan containing corrective actions and permits the insurance regulators to perform an examination or other analysis and issue a corrective order if statutory surplus falls below 150.0% of the ACL amount. The Authorized Control Level, the third action level, allows the regulators to rehabilitate or liquidate an insurer in addition to the aforementioned actions if statutory surplus falls below the ACL amount. The fourth action level is the Mandatory Control Level, which requires the regulators to rehabilitate or liquidate the insurer if statutory surplus falls below 70.0% of the ACL amount. Federated National's ratio of statutory surplus to its ACL was 274.2%, 300.8% and 273.2% at December 31, 2002, 2001 and 2000, respectively. American Vehicle's ratio of statutory surplus to its ACL was 412.4% and 3,234.6% at December 31, 2002 and 2001, respectively. Regulatory action is triggered if surplus falls below 200.0% of the ACL amount.

The NAIC has also developed Insurance Regulatory Information Systems ("IRIS") ratios to assist state insurance Department of Financial Services in identifying companies, which may be developing performance or solvency problems, as signaled by significant changes in the companies' operations. Such changes may not necessarily result from any problems with an insurance company, but may merely indicate changes in certain ratios outside the ranges defined as normal

by the NAIC. When an insurance company has four or more ratios falling outside "usual ranges," state regulators may investigate to determine the reasons for the variance and whether corrective action is warranted. As of December 31, 2002, Federated National was outside NAIC's usual ranges with respect to its IRIS tests on 7 out of 12 ratios. Federated National was not in the "usual ranges" primarily because of the loss stemming from its other than temporary write down of the WorldCom bonds and because of the short fall in Federated National's loss and LAE reserves in 2000 and 1999. IRIS ratios in excess of "usual ranges" relative to surplus growth stemmed from the Company's infusion of $2.1 million into Federated National. Federated National has carefully reviewed its loss and LAE reserves and management believes that such reserves at December 31, 2002 are adequate. American Vehicle was outside NAIC's usual ranges on six ratios primarily because American Vehicle was in operation for the entire year 2002 as compared to 2001 when it resumed business in November. Prior to 2001 American Vehicle had not written insurance policies since 1997 and was under capitalized. Management does not currently believe that the Florida Department of Financial Services will take any significant action with respect to Federated National or American Vehicle regarding the IRIS ratios, although there can be no assurance that will be the case.

Effective January 1, 2001, the Company's insurance subsidiaries adopted the Codification of Statutory Accounting Principles guidance issued by the NAIC, which provides guidance for areas where statutory accounting has been silent and changes current accounting in some areas. The adoption of this codification did not have a material effect on the Company's consolidated financial statements.

INSURANCE HOLDING COMPANY REGULATION

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

FINANCE COMPANY REGULATION

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

FRANCHISE COMPANY REGULATION

FedUSA and EXPRESSTAX are subject to Federal Trade Commission ("FTC") regulation, and state and international laws, which regulate the offer and sale of franchises. FedUSA and EXPRESSTAX are also subject to a number of state laws,

which regulate substantive aspects of the franchisor franchisee relationship. The FTC's Trade Regulation Rule on Franchising (the "FTC Rule") require FedUSA and EXPRESSTAX to furnish to prospective franchisees a franchise offering circular containing information prescribed by the FTC Rule.

State laws that regulate the offer and sale of franchises and the franchisor franchisee relationship presently exist in a substantial number of states. Such laws often require registration of the franchise offering with state authorities and regulate the franchise relationship by, for example, requiring the franchisor to deal with its franchisees in good faith, prohibiting interference with the right of free association among franchisees, limiting the imposition of standards of performance on a franchisee and regulating discrimination among franchisees in charges, royalties or fees.

UNDERWRITING AND MARKETING RESTRICTIONS

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

LEGISLATION

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

INDUSTRY RATINGS SERVICES

In 2002, A.M. Best Company assigned Federated National a B rating ("Fair," which is the seventh of 14 rating categories) and American Vehicle a B+ rating ("Very Good," which is the sixth of 14 rating categories). Federated National and American Vehicle are rated "A" ("Unsurpassed," which is first of six ratings) by Demotech, Inc. Best's ratings are based upon factors of concern to agents, reinsurers and policyholders and are not primarily directed toward the protection of investors.

EMPLOYEES

As of December 31, 2002, the Company and its subsidiaries had 233 employees. The Company is not a party to any collective bargaining agreement and has not experienced work stoppages or strikes as a result of labor disputes. The Company considers relations with its employees to be satisfactory.

SENIOR MANAGEMENT

Set forth below is certain information concerning senior management of the Company who are not also executive officers or directors of the Company:

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

James A. Epstein was appointed Secretary in January 2002. Mr. Epstein joined the Company as General Counsel in September 2000. From 1997 to 1999, Mr. Epstein was an attorney with Conrad & Scherer in Fort Lauderdale, Florida, and from June 1999 to September 2000, Mr. Epstein was General Counsel for 186K.Net, Co., a private company in Boca Raton, Florida.

GLOSSARY OF SELECTED TERMS

CEDE	To transfer to an insurer or reinsurer all or part of the insurance written by an insurance entity.
CEDING COMMISSION	A payment by a reinsurer to the ceding company, generally on a proportional basis, to compensate the ceding company for its policy acquisition costs.
COMBINED RATIO	The total of the Loss Ratio plus the Expense Ratio on either SAP or GAAP basis.
EXPENSE RATIO	Under SAP, the ratio of underwriting expenses to net written premiums. Using GAAP basis, the ratio of underwriting expenses to net premiums earned.
GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("GAAP")	Accounting practices and principles, as defined principally by the American Institute of Certified Public Accountants, the Financial Accounting Standards Board. GAAP is the method of accounting typically used by the Company for reporting to persons or entities other than insurance regulatory authorities.
GROSS PREMIUMS WRITTEN	The total of premiums received or to be received for insurance written by an insurer during a specific period of time without any reduction for reinsurance ceded.
HARD MARKET	The portion of the market cycle of the property and casualty insurance

	industry characterized by constricted industry capital and underwriting capacity, increasing premium rates and, typically, enhanced underwriting performance.
INCURRED BUT NOT REPORTED LOSSES ("IBNR")	The estimated liability of an insurer, at a given point in time, with respect to losses that have been incurred but not yet reported to the insurer, and for potential future developments on reported claims.
INSURANCE REGULATORY INFORMATION SYSTEM ("IRIS")	A system of ratio analysis developed by the NAIC primarily intended to assist state insurance Department of Financial Services in executing their statutory mandates to oversee the financial condition of insurance companies.
LOSS ADJUSTMENT EXPENSE ("LAE")	The expense of investigating and settling claims, including legal fees, outside adjustment expenses and other general expenses of administering the claims adjustment process.
LOSS RATIO	Under both SAP and GAAP, net losses and LAE incurred, divided by net premiums earned, expressed as a percentage.
LOSS RESERVES	The estimated liability of an insurer, at a given point in time, with respect to unpaid incurred losses, including losses, which are IBNR and related LAE.
LOSSES INCURRED	The total of all policy losses sustained by an insurance company during a period, whether paid or unpaid. Incurred losses include a provision for claims that have occurred but have not yet been reported to the insurer.
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS ("NAIC")	A voluntary organization of state insurance officials that promulgates model laws regulating the insurance industry, values securities owned by insurers, develops and modifies insurer financial reporting, statements and insurer performance criteria and performs other services with respect to the insurance industry.

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

	financial statements, and the recording of transactions, in accordance with the rules and procedures adopted by regulatory authorities, generally emphasizing solvency consideration rather than a going concern concept of accounting. The principal differences between SAP and GAAP are as follows: (a) SAP, certain assets (non-admitted assets) are eliminated from the balance sheet; (b) under SAP, policy acquisition costs are expensed upon policy inception, while under GAAP they are deferred and amortized over the term of the policies; and (c) under SAP, certain reserves are recognized which are not recognized under GAAP.
UNDERWRITING	The process whereby an underwriter reviews applications submitted for insurance coverage and determines whether it will provide all or part of the coverage being requested, and the price of such premiums. Underwriting also includes an ongoing review of existing policies and their pricing.
UNDERWRITING EXPENSE	The aggregate of policy acquisition costs, including that portion of general and administrative expenses attributable to underwriting operations.
UNEARNED PREMIUMS	The portion of premiums written representing unexpired policy terms as of a certain date.

ITEM 2. PROPERTIES

Federated National owns the Company's current headquarters in Plantation, Florida, a two-story building with approximately 13,960 square feet of office space. Federated National also owns and partially occupies a three-story building with approximately 39,250 square feet of office space in Lauderdale Lakes, Florida. Approximately 75.5% of the Lauderdale Lakes building is leased to third parties and the remainder is occupied by Federated National or is vacant.

The Company's agencies are primarily located in leased locations pursuant to leases expiring at various times through February 2016. The aggregate annual rental for the facilities is approximately $371,000. Two locations are owned by the Company.

The Company believes that these facilities are adequate for its current needs.

ITEM 3. LEGAL PROCEEDINGS

The Company is 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 the Company's consolidated financial position, results of operations, or liquidity.

In June 2000, a lawsuit was filed against the Company and its directors and executive officers seeking compensatory damages in an undisclosed amount on the basis of allegations that the Company's amended registration statement dated November 4, 1998 was inaccurate and misleading concerning the manner in which the Company 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. Specifically, the plaintiffs allege that the Company recognized ceded commission income on a written basis, rather than amortized on a pro rata basis. The plaintiffs allege that this was contrary to the Statement of Financial Accounting Concepts Nos. 1, 2 and 5. The Company has since accounted for ceded commission on a pro rata basis and has done so since these matters were brought to the Company's attention in 1998. Nevertheless, the Company believes that the lawsuit is without merit and is vigorously defending the action, as the Company reasonably relied upon outside subject matter experts to make these determinations at the time. The lawsuit was filed in the United States District Court for the Southern District of New York and seeks class action status. The plaintiff class purportedly includes purchasers of the Company's common stock between November 5, 1998 and August 13, 1999. The Court recently denied the Company's Motion to Dismiss the plaintiffs' First Amended Complaint and the Company filed an Answer and Affirmative Defenses.

Prior to its acquisition by the Company in 2001, American Vehicle was involved in litigation with a former officer and director. The litigation was adjudicated and American Vehicle, among others, was found liable and paid the final judgment. A petition was filed seeking costs of $136,000 and appellate attorneys fees in excess of $2.0 million for fees American Vehicle's previous owners have agreed to indemnify the Company against any such fees and costs and, the $500,000 purchase price for American Vehicle is held in escrow pending settlement of the fees and costs issued. On February 26, 2003, the 11th Judicial Circuit in Miami, Florida entered an amended final judgment awarding the plaintiffs $1,140,387 in attorney fees and costs. Both parties are appealing this judgment. Management anticipates that there will be no costs associated with the settlement of this case, consequently, no liability for fees and costs have been accrued.

The Company, as a direct premium writer in the State of Florida, is required to participate in certain insurer solvency pools under Florida Statutes 631.57(3)(a). Participation in these pools is based on the Company's written premium by line of business to total premiums written statewide by all insurers. Participation may result in assessments against the Company. The Company was assessed $258,000 and $203,000, for the years ended December 31, 2002 and 2001, respectively. During 2002 the Company recovered $180,000 of the 2001 assessment and is entitled to recover all of these assessments as permitted by the state of Florida through policy surcharges in 2003. For the years ended December 31, 2000 and 1999, no amounts were assessed against the Company.

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

No assessments by have been incurred by either insurance company through the date of issuance of this report.

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

None

PART II

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

(a) MARKET INFORMATION

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

QUARTER ENDED	HIGH	LOW
March 31, 2002	$4.89	$3.04
June 30, 2002	$12.20	$4.55
September 30, 2002	$7.45	$4.29
December 31, 2002	$13.61	$6.68
March 31, 2001	$3.38	$1.91
June 30, 2001	$3.10	$2.03
September 30, 2001	$2.65	$0.98
December 31, 2001	$3.15	$1.50

(b) HOLDERS

As of March 28, 2003, there were approximately 37 holders of record of the Company's common stock. The Company believes that the number of beneficial owners of its Common Stock is in excess of 850.

(c) DIVIDENDS

The Company paid a quarterly dividend of $0.02 per share on its common stock from the fourth quarter of 2000, until the third quarter of 2002. The Company declared a $0.05 per share dividend in the third quarter of 2002 and a $0.06 per share dividend in the fourth quarter of 2002. The Company expects to

continue to pay a quarterly dividend in the future. However, payment of dividends in the future will depend on the Company's earnings and financial position and such other factors, as the Company's Board of Directors deems relevant. Moreover, the ability of the Company to continue to pay dividends may be restricted by regulatory limits on the amount of dividends that Federated National and American Vehicle are permitted to pay to the Company.

(d) SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

See the section under Item 11. "Executive Compensation" entitled "Equity Compensation Plan Information for Fiscal 2003" in this report.

For additional information concerning the Company's capitalization please see Note 16, "Stock Compensation Plans" of the Notes to the Consolidated Financial Statements included in Item 8.

ITEM 6. SELECTED FINANCIAL DATA

	As of or for the year ended Decem		
OPERATIONS DATA:	2002	2001	2000
Revenue:			
Gross premiums written	$ 63,036,468	$ 34,271,338	$ 32,073,768
Gross premiums ceded	(25,286,828)	(12,789,404)	(7,625,095)
Net premiums written	37,749,640	21,481,934	24,448,673
Decrease (increase) in unearned premiums, net of prepaid reinsurance premiums	(8,356,636)	(1,226,373)	(4,127,334)
Net premiums earned	29,393,004	20,255,561	20,321,339
Commission income	1,905,936	2,828,779	2,780,869
Finance revenue	4,452,626	5,267,523	5,709,848
Managing general agent fees	1,970,226	5,871,388	5,410,500
Net investment income	1,253,765	1,066,641	1,225,413
Net realized investment gains (losses)	(1,369,961)	(2,911,658)	(109,256)
Other income	2,973,950	3,098,332	2,214,894
Total revenue	40,579,545	35,476,566	37,553,607
Expenses:			
Losses and loss adjustment expenses	15,987,125	16,154,902	14,990,118
Operating and underwriting expenses	10,778,990	11,644,183	11,892,577
Salaries and wages	8,004,694	8,478,771	9,375,775
Amortization of deferred acquisition costs, net	(2,064,314)	1,467,238	1,673,754
Amortization of goodwill	--	540,010	606,653
Total expenses	32,706,495	38,285,104	38,538,877
Income (loss) before provision for income tax expense and extraordinary gain	7,873,050	(2,808,538)	(985,270)

(Provision) benefit for income tax expense ...	(3,302,849)	630,553	462,396
Net income (loss) and extraordinary gain	4,570,201	(2,177,985)	(522,874)
Extraordinary gain	--	1,185,895	--
Net income (loss)	$ 4,570,201	$ (992,090)	$ (522,874)
Basic net income (loss) per share before extraordinary gain	$ 1.52	$ (0.69)	$ (0.15)
Extraordinary gain	--	0.38	--
Basic net income (loss) per share	$ 1.52	$ (0.31)	$ (0.15)
Cash dividends declared per share	$ 0.15	$ 0.08	$ 0.02
BALANCE SHEET DATA:			
Total assets	$ 75,318,011	$ 56,228,577	$ 55,412,969
Investments	25,377,796	17,507,422	18,965,798
Finance contracts, consumer loans and pay advances receivable, net	7,217,873	10,813,881	13,792,791
Total liabilities	57,220,348	42,019,446	40,456,972
Unpaid losses and loss adjustment expenses	16,983,756	11,005,337	9,765,848
Unearned premiums	28,934,486	14,951,228	13,038,417
Revolving credit outstanding	4,312,420	6,676,817	8,091,034
Total shareholders' equity	$ 18,097,664	$ 14,209,131	$ 14,955,997
Book value per share	$ 6.02	$ 4.69	$ 4.49

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

OVERVIEW

The Company is a vertically integrated insurance holding company, which, through its subsidiaries, controls substantially all aspects of the insurance underwriting, distribution and claims process. The Company underwrites personal automobile insurance and homeowners and mobile home property and casualty insurance in the State of Florida through its subsidiaries, Federated National and American Vehicle. The Company internally processes claims made by its own and third party insureds through a wholly-owned claims adjusting company, Superior. The Company also offers premium financing to its own and third-party insureds through its wholly-owned subsidiary, Federated Premium.

The Company markets and distributes its own and third-party insurers' products and its other services primarily in South Florida, through a network of

23 agencies owned by Federated Agency Group, a wholly-owned subsidiary, 34 operating franchised agencies and approximately 125 independent agents. The Company, through its wholly-owned subsidiary, FedUSA, franchises agencies under the FedUSA name. The Company intends to focus its future expansion efforts for its agency network on franchised agencies.

The Company offers income tax preparation software and service through Express Tax, its 80% owned subsidiary, as well as franchise opportunities for these services through EXPRESSTAX, a wholly-owned subsidiary of Express Tax. As of December 31, 2002, 136 EXPRESSTAX franchises had been granted in nine states.

The Company's 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 the Company's business, results of operations and financial condition. Also, if the Company's estimated liabilities for unpaid losses and LAE are less than actual losses and LAE, the Company will be required to increase reserves with a corresponding reduction in the Company's net income in the period in which the deficiency is identified.

The Company operates in a highly competitive market and faces competition from both national and regional insurance companies, many of whom are larger and have greater financial and other resources than the Company, have favorable A.M. Best ratings and offer more diversified insurance coverage. The Company's competitors include other companies that market their products through agents, as well as companies that 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. The Company may also face competition from new or temporary entrants in its niche markets. In some cases, such entrants may, because of inexperience, desire for new business or other reasons, price their insurance below the pricing structure of the Company. Although the Company's pricing is inevitably influenced to some degree by that of its competitors, management of the Company believes that it is generally not in the Company's best interest to compete solely on price, choosing instead to compete on the basis of underwriting criteria, its distribution network and superior service to its agents and insureds. The Company competes with respect to automobile insurance in Florida with more than 100 companies, which underwrite personal automobile insurance. Companies of comparable or smaller size, which compete with the Company in the personal automobile insurance industry, include U.S. Security Insurance Company, United Automobile Insurance Company, Direct General Insurance Company and Security National, as well as major insurers such as Progressive Casualty Insurance Company. Competition could have a material adverse effect on the Company's business, results of operations and financial condition.

CRITICAL ACCOUNTING POLICIES

The Company's accounting policies are more fully described in Note 2 of Notes to Consolidated Financial Statements. As disclosed therein, the preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results inevitably will differ from those estimates, and such differences may be material to the financial statements.

The most significant accounting estimates inherent in the preparation of the Company's financial statements include estimates associated with

management's evaluation of the determination of liability for unpaid losses and loss adjustment expense and the recoverability of goodwill. In addition, significant estimates form the bases for the Company's reserves with respect to finance contracts, premiums receivable and deferred income taxes. Various assumptions and other factors underlie the determination of these significant estimates. The process of determining significant estimates is fact specific and takes into account factors such as historical experience, current and expected economic conditions, and in the case of unpaid losses and loss adjustment expense, an actuarial valuation. Management constantly reevaluates these significant factors and makes adjustments where facts and circumstances dictate. See Note 2 of Notes to Consolidated Financial Statements.

ACCOUNTING CHANGES. In June 2000, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities -- an amendment of Financial Accounting Standards Board Statement No. 133," which because of the Company's early adoption of Statement of Financial Accounting Standard No. 133, was effective for all fiscal quarters beginning after June 15, 2000. This statement amends the accounting and reporting standards of Statement of Financial Accounting Standard No. 133 for certain derivative instruments and certain hedging activities. Because the Company has limited involvement with derivative financial instruments and does not engage in the derivative market for hedging purposes, the adoption of Statement of Financial Accounting Standard No. 138 did not have a material effect on the Company's financial statements.

Effective January 1, 2000, the Company adopted Statement of Position 98-7, "Deposit Accounting: Accounting for Insurance and Reinsurance Contracts That Do Not Transfer Insurance Risk." The Statement of Position provides guidance on accounting for insurance and reinsurance contracts that do not transfer insurance risk. All of the Company's reinsurance agreements are risk-transferring arrangements, accounted for according to Statement of Financial Accounting Standard No. 113, "Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts." The adoption of Statement of Position 98-7 had no effect on the Company's financial statements.

Effective July 1, 2000, the Company adopted Financial Accounting Standards Board Interpretation No. 44, "Accounting for Certain Transactions Including Stock Compensation (an Interpretation of Accounting Principles Board Opinion No. 25)." Financial Accounting Standards Board Interpretation No. 44 clarifies the application of Accounting Principles Board Opinion No. 25 for only certain issues, such as: (a) the definition of employee for purposes of applying Accounting Principles Board Opinion No. 25; (b) the criteria for determining whether a plan qualifies as a noncompensatory plan; (c) the accounting consequence of various modifications to the terms of a previously fixed stock option or award; and (d) the accounting for an exchange of stock compensation awards in a business combination. The adoption of Financial Accounting Standards Board Interpretation No. 44 did not have a material effect on the Company's financial statements.

Effective December 31, 2000, the Company adopted Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements." The Staff Accounting Bulletin summarizes the SEC staff's views on applying accounting principles generally accepted in the United States to the recognition of revenue in financial statements. The adoption of Staff Accounting Bulletin No. 101 had no effect on the Company's financial statements.

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 141, "Business Combinations," which became effective January 1, 2002. Statement of Financial Accounting Standard No. 141

requires all business combinations initiated after September 30, 2001 to be accounted for using the purchase method. Additionally, Statement of Financial Accounting Standard No. 141 requires an acquired intangible asset, whenever acquired, to be recognized separately from goodwill if the benefit of the intangible asset is obtained through contractual or other legal rights or if the intangible asset can be sold, transferred, licensed, rented, or exchanged, regardless of the acquirer's intent to do so.

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 142 "Goodwill and Other Intangible Assets," which became effective January 1, 2002. Statement of Financial Accounting Standard No. 142 eliminates the amortization of goodwill over its estimated useful life, but requires goodwill to be subject to at least an annual assessment for impairment by applying a fair-value-based test. Upon adoption of Financial Accounting Standards No.142 January 1, 2002, the Company ceased amortization of goodwill. See footnote (t) GOODWILL for additional information.

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 143, "Accounting for Asset Retirement Obligations," which became effective for fiscal years beginning after June 15, 2002. Statement of Financial Accounting Standard No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible, long-lived assets and the associated asset retirement costs. Adoption of this statement has had no material effect on the Company's financial statements.

In October 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which became effective for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years. Statement of Financial Accounting Standard No. 144 revises and clarifies the existing professional guidance addressing: (a) recognition and measurement of the impairment of long-lived assets to be held and used; (b) the measurement of long-lived assets to be disposed of by sale; and (c) the reporting of discontinued operations and components of an entity that either has been disposed of (by sale, by abandonment, or in a distribution to owners) or is classified as held for sale. The adoption of Statement of Financial Accounting Standard No. 144 had no effect on the Company's financial statements.

In April 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 145, "Rescission of Financial Accounting Standards Board Statements No. 4, 44 and 64, Amendment of Financial Accounting Standards Board Statement No. 13, and Technical Corrections," which became effective for fiscal years beginning after May 15, 2002. The rescission of Statement of Financial Accounting Standard No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and Statement of Financial Accounting Standard No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements," which had amended Statement of Financial Accounting Standard No. 4, will affect income statement classification of gains and losses from extinguishment of debt. Statement of Financial Accounting Standard No. 4 required material gains and losses from extinguishment of debt to be classified as extraordinary items. Under Statement of Financial Accounting Standard No. 145, extinguishment of debt is now considered a risk management strategy by the reporting enterprise, and the Financial Accounting Standards Board does not believe it should be considered extraordinary under the criteria in Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations--Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," unless the debt extinguishment meets the unusual-in-nature and infrequency-of-occurrence criteria in Accounting Principles Board Opinion No. 30. The Company has not yet determined the impact that the adoption of this statement will have on the financial statements.

In July 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No.146, "Accounting for Costs Associated with Exit or Disposal Activities." Statement of Financial Accounting Standard No. 146 supersedes Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." Statement of Financial Accounting Standard No. 146 requires that, in certain instances, costs associated with an exit or disposal plan be recognized when incurred rather than at the date of a commitment to an exit or disposal plan. Statement of Financial Accounting Standard No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The Company has not yet determined the impact that the adoption of this statement will have on the financial statements.

In October 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 147, "Acquisitions of Certain Financial Institutions," which clarifies the accounting treatment for acquisitions of financial institutions. In addition, this Statement amends Statement of Financial Accounting Standard No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," to include in its scope long-term customer-relationship intangible assets of financial institutions such as depositor- and borrower-relationship intangible assets and credit cardholder intangible assets. Statement of Financial Accounting Standard No. 147 is effective on October 1, 2002. The adoption of Statement of Financial Accounting Standard No. 147 will have no effect on the Company's financial statements.

In December 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," which amended Statement of Financial Accounting Standard No. 123, "Accounting for Stock-Based Compensation." The new standard provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation.

Additionally, the statement amends the disclosure requirements of Statement of Financial Accounting Standard No. 123 to require prominent disclosures in the annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. This statement is effective for financial statements for fiscal years ending after December 15, 2002. In compliance with Statement of Financial Accounting Standard No. 148, the Company has elected to continue to follow the intrinsic value method in accounting for stock-based employee compensation arrangement as defined by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and have made the applicable disclosures in the "Stock-Based Compensation" section, see Note 16.

ANALYSIS OF FINANCIAL CONDITION
AS OF DECEMBER 31, 2002 AS COMPARED TO DECEMBER 31, 2001

INVESTMENTS. Investments increased $7.9 million to $25.4 million as of December 31, 2002 from $17.5 million as of December 31, 2001 primarily as a result of an increase in insurance premiums written. An investment impairment of $2.0 million was charged to operations in 2002 for WorldCom bonds held by the Company and reflecting WorldCom's bankruptcy. These bonds were marked to market from $2.5 million to $0.5 million based on the Company's estimate of the ultimate realizable value of the bonds. As a result of this occurrence, management more carefully monitors its investment concentrations, industries and asset allocations. There were no instances of large concentrations of investment securities requiring write downs. The Company did not hold any non-traded

investment securities during 2002 or 2001.

Below is a summary of unrecognized impairment loss at December 31, 2002 by investment category.

	NET UNREALIZED GAINS (LOSSES)
December 31, 2002	
Fixed maturities:	
U.S. government obligations	$ 425
Obligations of states and political subdivisions	33,610
Corporate securities:	
Communications	(332,383)
Financial	62,101
Other	28,703
	$(207,544)
Equity securities:	
Preferred stocks	$ (316)
Common stocks	(23,843)
	$ (24,159)
Total fixed and equity securities	$(231,704)

23

The Company believes that none of its net unrealized losses at December 31, 2002 or March 31, 2003 meet the criteria for "other than temporary" impairment. In addition, the Company had no realized losses during the quarter ended March 31, 2003, which would confirm that the unrealized losses at December 31, 2002 were other than temporary.

It is often difficult to anticipate the necessity for "other than temporary" mark downs. An issuer's delinquent interest payments and/or delinquent principal repayments, coupled with adverse news bulletins such as filing for bankruptcy, would indeed trigger the necessity to recognize a devaluation. Based on information known through the release of the issuers' respective financial statements, the Company determined, in its best judgment, that all other market values less than cost were temporary. Temporary timing differences between current market price and book value do not affect current earnings, but are treated as adjustments to the equity section of the Company's balance sheet. When the current market price of a security is less than book value and the timing differences are associated with "other than temporary" or permanent declines, then the resulting adjustment would always have a negative impact on earnings and would be recognized in the current period earnings. Such adjustments cannot be subsequently revalued upward through earnings.

The following tables relate to securities with an unrealized loss.

FIXED MATURITIES FIXED MATURITIES

	INVESTMENT GRADE	NON-INVESTMENT GRADE	PREFERRED STOCK
CARRYING VALUE			
December 31, 2002	$ 24,400,348	$ 500,243	$ 208,316
December 31, 2001	16,915,642	0	208,316
UNREALIZED GAIN (LOSS)			
December 31, 2002	(294,803)	87,257	(316)
December 31, 2001	202,321	0	(15,816)
PERCENTAGE OF LOSSES TO CARRYING VALUE			
December 31, 2002	(1.21)	17.44	(0.15)
December 31, 2001	1.20	0	(7.59)

	2002				
	CARRYING VALUE	UNREALIZED GAIN (LOSS)	% OF UNREALIZED GAIN (LOSS) TO CARRYING VALUE	CARRYING VALUE	UNREA
Fixed maturities investment grade	$24,400,348	$ (294,803)	(1.21)%	$16,915,642	$
Fixed maturities non-investment grade	$ 500,243	$ 87,257	17.44%	$ --	$
Preferred stock	$ 208,316	$ (316)	(0.15)%	$ 208,316	$
Common stock	$ 355,549	$ (23,843)	(6.71)%	$ --	$
Total	$25,464,456	$ (231,705)		$17,123,958	$

Of the securities held in the Company's investment portfolio, 97.3% and 95.5% were bonds, and 2.1% and 1.1% were equity securities at December 31, 2002 and 2001, respectively. Investment in mortgage loans were 0.6% and 3.4% at December 31, 2002 and 2001, respectively.

Of the total fair value and unrealized loss of the Company's investment portfolio, 19.64% and 0 % of the fair value, and 0 % and 0 % of the unrealized loss at December 31, 2002 and 2001, respectively, were attributable to non-investment grade or non-rated securities.

As of December 31, 2002, there were no unrealized losses of individual material underwater securities.

The following is a summary of the securities sold at a loss during 2002.

Description	Amount of Loss	Fair Value	Discussion:
Lucent Tech.	$ (103,696)	$ 794,256	During 2002, the telecommun adversely affected by the c investigation and discovery as WorldCom, Enron, etc. L 2001 and has been at an unr time. The ability and inte unrealized losses until the contradicted in this case b unpredictable circumstances
Other fixed securities	$ (59,549)	$ 2,185,045	The numerous securities inc at a less material amount a overall market declines.
Common	$ (103,334)	$ 923,908	The numerous securities inc at a less material amount a overall market declines. N result of sales during 2002

The following table shows the maturity dates for the fixed maturity securities in the Company's investment portfolio grouped by class:

	1 YEAR OR LESS	1-5 YEARS	5-10 YEARS	10-20 YEARS	+2
U.S. Government		$102,183			
Municipals	$103,304	468,274	$5,403,352	$2,385,390	
Corporate	2,272,263	12,371,401	1,598,594	--	
Total	$2,375,567	$12,941,857	$7,001,946	$2,385,390	
% of Total	9.45%	51.97%	28.12%	9.58%	

For 2002, the Company's fixed maturities rate of return was 12% as compared to the Lehman Treasury Bond Fund of 10% and the Company's rate of return for stocks held was (5%) as compared to the S&P of (23%) for the same period.

FINANCE CONTRACTS. Finance contracts receivable decreased $3.6 million from $10.8 million as of December 31, 2001 to $7.2 million as of December 31, 2002 primarily because, beginning in the third quarter 2001, the Company now only finances contracts from Company owned agencies and Company franchised agencies and no longer finances contracts originated by third party agencies. During 2002 continued emphasis was placed on direct bill premium financing.

PREPAID REINSURANCE PREMIUMS. Prepaid reinsurance premiums increased $5.7 million to $11.3 million as of December 31, 2002 from $5.6 million as of December 31, 2001 primarily due the acquisition of American Vehicle in November 2001.

REINSURANCE RECOVERABLE - NET. Reinsurance recoverable increased $0.8 million to $7.9 million as of December 31, 2002 from $7.1 million as of December 31, 2001. This increase is the result of the addition of American Vehicle offset

in part by the timing of settling monthly quota share treaties for the respective insurance companies.

PREMIUMS RECEIVABLE. Premiums receivable were $8.4 million as of December 31, 2002, an increase of $6.8 million as compared to $1.6 million outstanding as of December 31, 2001. This increase is the result of added emphasis placed on direct bill premium financing by both Federated National and American Vehicle.

DEFERRED ACQUISITION COSTS - NET. Deferred acquisition costs decreased from $12,000 as of December 31, 2001 to $8,000 as of December 31, 2002. Included in the December 31, 2001 balance were deferred commissions of $1.7 million offset by unearned ceded commissions of $1.7 million. As of December 31, 2002, deferred commissions were $3.0 million offset by unearned ceded commissions of $3.0 million. The increase in unearned ceded commissions is related to the increase in reinsurance recoverable discussed above.

Deferred acquisition costs recognized for 2002 resulted in approximately $2.1 million of income as compared to a net expense for 2001 of approximately $1.5 million. The 2002 income recognized results primarily from the netting of ceded commissions earned against the costs amortized each year which exceeded such costs in 2002.. The change in deferred policy acquisition costs, net of approximately $3.5 million, from 2002 to 2001 occurred as a result of the increased ceded commissions written in 2002 over 2001 of approximately $12.5 million, a reduction in the amount of commissions paid to independent agents as a result of in-house underwriting, recognition of unearned commissions related to third-party premium underwriting which was discontinued in late 2001, and the utilization of the available in-house underwriting capacity to absorb the increase in earned premiums from 2002 over 2001.

Most of the 2002 change in deferred policy acquisition costs, net, was recorded in the fourth quarter of 2002. This fourth quarter adjustment resulted from a reclassification of ceded commissions earned on third-party premium underwriting which had been previously recorded as managing general agent fees of approximately $1,000,000 and the computation of policy acquisition costs exclusive of commissions expense for the year of approximately $400,000. In the past, the difference in the deferred policy acquisition costs (excluding commission) was not material and accordingly was adjusted in the fourth quarter. The remaining difference of approximately $800,000 resulted from the increase in unearned premiums for the quarter, as compared to the first nine months of 2002. The increase in unearned premiums for the fourth quarter was approximately $800,000, compared to $7.5 million for the first nine months of 2002, increasing the amount of ceded commissions earned for the quarter compared to the first nine months of 2002.

25

DEFERRED INCOME TAXES. The deferred income tax asset increased $0.4 million to $2.7 million as of December 31, 2002 from $2.3 million as of December 31, 2001, primarily due to the increase of discounted unearned premiums from American Vehicle and the other than temporary write down of the Company's position held with WorldCom, Inc.

GOODWILL. Goodwill remained unchanged during 2002 due to the adoption of SFAS 142 where-in the Company's assessment of goodwill indicated no impairment.

UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES. Unpaid loss and loss adjustment expenses increased $6.0 million, from $11.0 million at December 31,

2001 to $17.0 million as of December 31, 2002. This increase is primarily due to the addition of American Vehicle's loss reserves, which represent a full year's experience for 2002.

Reserve estimation is an ongoing process in which management assesses reserve adequacy based on as much information as possible. Frequency and severity trends guide management to its conclusions as to the ultimate cost to close a claim file.

As to the reserve strengthening of the first quarter 2003 as compared to the same period for 2002, the increase was due primarily to the addition of American Vehicle to the Company's consolidated financial statements. As of March 31, 2002, American Vehicle had five months of business recorded on its books as compared to seventeen months as of March 31, 2003. Comparing incurred loss and loss adjusting expenses for the first quarter of 2003 to 2002, the addition of American Vehicle accounts for 73% of the $3.6 million increase to reserves. Mitigating this reserve increase is the increase in earned premiums of $5.0 million for the same period, of which 67% of that increase can also be attributed to American Vehicle.

The loss reserves, net of reinsurance, at the beginning of 2002 increased by $747,000 as of December 31, 2002. The increase in the reserve for the year represents a decrease for payments on outstanding claims as of December 31, 2001 of $5,296,000 and an decrease in the reserve of $4,579,000 for the amount necessary to adjust the reserve to the reevaluated amount of the reserve for accident years 2001 and prior. This increase in the reserve was necessary in management's judgment to reflect recent trends in the amount of claims settled as compared with the previous amount estimated to settle such claims.

The table below depicts the reserve balances by major line of business for the years ended December 31, 2002 and 2001.

LINE OF BUSINESS	2002	2001
Automobile liability	$ 14,813,864	$ 10,323,23
Automobile physical damage	1,165,008	87,24
Homeowner and mobile homeowner	1,004,884	594,86
Total unpaid loss and Loss adjustment expenses	$ 16,983,756	$ 11,005,33

The Company employs various statistical methodologies, including but not limited to, frequency and severity models, paid to ultimate models, and ultimate loss ratio methods, to determine the point within management's best estimate of the applicable range for the computation of reserve adequacy. Subsequently, the Company's data is submitted to an actuary who subjects the data experience to many actuarially accepted models. Based on all available information, the actuary may either acquiesce to the reserve adequacy by concluding the Company's results are within the actuary's computed range or within a nominal percentage deviation. The Company's actuary provides a separate report for each of the Company's insurance subsidiaries. Federated National carried reserves of $12,129,000 at December 31, 2002, while the actuary's results concluded that of the possible range of outcomes, approximately $9,900,000 would be the low estimate and $16,800,000 would be the high estimate.

American Vehicle carried reserves of $5,799,000 at December 31, 2002, while the actuary's estimate of reserves was approximately $4,700,000.

Federated National and American Vehicle do not insure asbestos-related illnesses, environmental remediation, product liability and other highly uncertain exposures.

UNEARNED PREMIUM. Unearned premium increased $14.0 million from $15.0 million as of December 31, 2001 to $29.0 million as of December 31, 2002. The balance of unearned premium is determined by the amount and timing of when policies are written. The increase in 2002 is primarily attributable to the addition of American Vehicle's operations.

26

REVOLVING CREDIT OUTSTANDING. Revolving credit outstanding decreased $2.4 million to $4.3 million as of December 31, 2002 from $6.7 million as of December 31, 2001. This decrease is related to the decrease in finance contracts due the Company's continued emphasis on direct bill insurance premiums in 2002.

UNEARNED COMMISSIONS. Unearned commissions declined in 2002 from $1.2 million to $19,000 due to the completion of Assurance MGA's underwriting an insurance program as a third party administrator.

PREMIUM DEPOSITS. Premium deposits were $0.7 million as of December 31, 2002 as compared $1.1 million as of December 31, 2001. This change is caused primarily by the timing of disbursements for cancelled policies and the timing of receipt of premium dollars as compared to the receipt of the policy from the agents.

RESULTS OF OPERATIONS
YEAR ENDED DECEMBER 31, 2002 COMPARED TO YEAR ENDED DECEMBER 31, 2001

GROSS PREMIUMS WRITTEN. Gross premiums written increased $28.8 million, or 84%, to $63.0 million for the year ended December 31, 2002 as compared to $34.2 million in 2001. The increase is due to the addition of American Vehicle's operations composing $19.9 million of the increase and $8.9 in increased written premiums by Federated National, which were the result of increased premium volume due to additional capacity created by increased surplus.

GROSS PREMIUMS CEDED. Gross premiums ceded increased from $12.8 million for the year ended December 31, 2001, to $25.3 million for the year ended December 31, 2002. The increase of $12.5 million is primarily due to the acquisition of American Vehicle and its 70% quota-share reinsurance treaty, which the Company entered into in order to maintain the ratio of premiums written to surplus mandated by the State of Florida.

DECREASE (INCREASE) IN UNEARNED PREMIUMS, NET OF PREPAID REINSURANCE PREMIUMS. The increase in unearned premiums, net of prepaid reinsurance premiums, was $7.1 million for the year ended December 31, 2002. The increase is primarily due to the addition of a full year of operations for American Vehicle as compared to two months of operations in 2001. The rate of return for 2002, according to the Lehman Treasury Bond Fund Index, was 10.26%. The rate of return for 2002 for the Company's fixed holdings was 12%. The rate of return for 2002, according to S&P 500, was 23.37%. The rate of return for 2002 for stocks held by the Company was 5%.

MANAGING GENERAL AGENT FEES. Managing general agent fees are charged at a rate of $25.00 per policy, which is the maximum currently permitted under

Florida law. These fees declined $3.9 million to $2.0 million for the year ended 2002. The decline is a result of Assurance MGA's completion of underwriting insurance for an unaffiliated insurance company.

NET REALIZED INVESTMENT GAINS (LOSSES). The Company experienced net losses of $1.4 million for the year ended December 31, 2002 as compared to $2.9 million for the same period in 2001. Once thought to be only a function of the equity market, segments of the highly rated bond market proved to be unsound in 2002. During 2002, the Company incurred an "other than temporary" decline in value of $2.0 million in its investment in WorldCom, Inc. bonds.

LOSSES AND LAE. The Company's loss ratio, combining the results of both insurance companies, as determined in accordance with GAAP, for the year ended December 31, 2002 was 54.4% compared with 79.8% for 2001. Losses and LAE incurred decreased $168,000 to $16.0 million for 2002 from $16.2 million for 2001. Losses and LAE, the Company's most significant expense, represent actual payments made and changes in estimated future payments to be made to or on behalf of its policyholders, including expenses required to settle claims and losses.

DEFERRED POLICY ACQUISITION COSTS. The Company's deferred policy acquisition costs declined by $3.1 million to a credit balance of $2.1 million as compared to a charge against income of $1.0 million in 2001. The increase is associated with the shift in business underwritten by Assurance MGA away from an unaffiliated insurance company to American Vehicle.

EXTRAORDINARY GAIN. In August 2001, the Company recorded an extraordinary gain of $1.2 million which represents the excess of the fair value of the net assets purchased over the purchase price, when the Company acquired American Vehicle.

27

RESULTS OF OPERATIONS
YEAR ENDED DECEMBER 31, 2001 COMPARED TO YEAR ENDED DECEMBER 31, 2000

GROSS PREMIUMS WRITTEN. Gross premiums written increased $2.2 million, or 6.9%, to $34.3 million for the year ended December 31, 2001 as compared to $32.1 million in 2000. The increase is primarily due to an increase in homeowners premiums written, which increased to $7.7 million in 2001 from $4.6 million in 2000.

GROSS PREMIUMS CEDED. Gross premiums ceded increased from $7.6 million for the year ended December 31, 2000, to $12.8 million for the year ended December 31, 2001, reflecting in part the acquisition of American Vehicle in 2001. The Company ceded 70% of the premiums written by American Vehicle in order to maintain the ratio of premiums written to surplus mandated by the State of Florida. In addition, in 2000, the Company had 30% automobile quota-share reinsurance as compared to 50% automobile quota-share reinsurance in 2001 for premiums written by Federal National.

DECREASE (INCREASE) IN UNEARNED PREMIUMS, NET OF PREPAID REINSURANCE PREMIUMS. The decrease in unearned premiums, net of prepaid reinsurance premiums, was $1.2 million for the year ended December 31, 2001 compared to $4.1 million for the year ended December 31, 2000. This decrease is due primarily to the change in quota-share reinsurance discussed above.

NET REALIZED INVESTMENT GAINS (LOSSES). The Company experienced net

losses of $2.9 million for the year ended December 31, 2001 compared to $109,000 for the same period in 2000. Realized gains or losses are primarily a function of the equity markets. In August 2001, the Company divested itself of its investments in common stock and does not intend to invest in common stock in the future.

OTHER INCOME. Other income increased $883,000 to $3.1 million for the year ended December 31, 2001 from $2.2 million for 2000. This increase is primarily attributable to an increase in adjusting fees due to the addition in 2000 of two nonaffiliated insurance companies as claims adjusting customers.

LOSSES AND LAE. The Company's loss ratio, as determined in accordance with GAAP, for the year ended December 31, 2001 was 79.8% compared with 73.8% for 2000. Losses and LAE incurred increased $1.2 million to $16.2 million for 2001 from $15.0 million for 2000. Losses and LAE, the Company's most significant expense, represent actual payments made and changes in estimated future payments to be made to or on behalf of its policyholders, including expenses required to settle claims and losses. In 2001, the Company experienced a significant increase in lawsuits relating to automobile claims. Management believes this increase in lawsuits was in anticipation of the effective date of recent legislation passed by the Florida legislature. This legislation, which became effective October 1, 2001, includes the establishment of a pre-suit notice requirement for no fault claims, fee schedules for certain medical procedures, the licensing of health care clinics, and toughened criminal sanctions for fraud.

EXTRAORDINARY GAIN. In August 2001, the Company recorded an extraordinary gain of $1.2 million which represents the excess of the fair value of the net assets purchased over the purchase price, when the Company acquired American Vehicle.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary sources of capital are revenues generated from operations, investment income and borrowings under a revolving agreement discussed below. Because the Company is a holding company, it is largely dependent upon management fees and /or dividends from its subsidiaries for cash flow.

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 FPF, Inc. (a wholly-owned subsidiary of FlatIron), which gives FPF Inc. 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. The Revolving Agreement, which was amended and revised in October 2001, allowed for a maximum credit commitment of $7.0 million plus an initial additional amount of $700,000 for the transition from September 30, 2001 when the previous agreement expired. The line declined by $100,000 each month beginning November 1, 2001. In September 2002 the line was amended and revised allowing for a maximum credit commitment of $4.0 million. The maximum credit commitment under the revolving loan agreement was reduced by FlatIron due to the A.M. Best ratings of third party insurance carriers for which the Company was financing policies at the time.

Simultaneously, the Company ceased financing policies underwritten by third

party insurance carriers altogether and began financing only those policies underwritten by the Company's insurance carriers. Additionally, the Company implemented a direct bill program for policies underwritten by the Company's carriers. These changes markedly decreased credit risks and made the Company's reliance on the higher credit commitment previously offered by FlatIron unnecessary. Direct billing is where the insurance company accepts from the insured, as a receivable, a promise to pay the premium, as opposed to requiring the full amount of the policy, either directly from the insured or from a premium finance company. The amount of FPF's advance is subject to availability under a borrowing base calculation, with maximum advances outstanding not to exceed the maximum credit commitment. The annual interest rate on advances under the Revolving Agreement is the prime rate plus additional interest varying from 1.25% to 3.25% based on the prior month's ratio of contracts receivable related to insurance companies with an A. M. Best rating of B or worse to total contracts receivable. The Company's effective interest rate on this line of credit, based on the Company's average outstanding borrowings under the Revolving Agreement was 6.23%, 7.84% and 9.55% for the years ended December 31, 2002, 2001 and 2000, respectively. The Revolving Agreement contains various operating and financial covenants, with which the Company was in compliance at December 31, 2002 and 2001. The Revolving Agreement, as amended, expires September 30, 2004. Outstanding borrowings under the Revolving Agreement as of December 31, 2002 and 2001 were approximately $4.3 million and $6.7 million, respectively. Outstanding borrowings in excess of the $4.0 million commitment totaled $312,420 and are permissible by reason of a compensating cash balance of $352,433 held for the benefit of FPF, Inc. Interest expense on this revolving credit line for the years ended December 31, 2002, 2001 and 2000 totaled approximately $342,000, $592,000 and $643,000, respectively.

For the year ended December 31, 2002, operations generated a cash flow of $15.0 million as compared to a cash flow deficit of $946,000 in 2001. The Company's investment portfolio, which is highly liquid as it consists almost entirely of readily marketable securities, is available to offset any cash flow deficits. The cash flow deficit from investing activities from 2002 was $6.9 million and used to enhance its portfolio. In 2001 the Company used $2.5 million to offset deficits in operating and financing cash flows. Cash flow used by financing activities was $5.7 million in 2002, as the Company reduced its revolving credit outstanding and purchased shares of its common stock in the open market. Future financing activities may use cash, if the Company believes its stock is undervalued and decides to continue to purchase shares in the open market. The Board of Directors has authorized the purchase in the open market of approximately $1.0 million of additional shares. During 2002, the Company acquired 43,400 shares for a total cost of $253,446. The Company believes that its current capital resources, together with cash flow from its operations and investing activities will be sufficient to meet its anticipated working capital requirements for the foreseeable future. There can be no assurances, however, that such will be the case.

The $15.9 million increase in cash provided by operations for 2002 as compared to 2001 primarily reflects the growth resulting from the acquisition of American Vehicle, a provision for federal and state income taxes not requiring the use of cash during 2002, and increases in accounts payable and accrued expenses. With the introduction of American Vehicle during the last quarter of 2001, significant increases in operating cash for the period ended December 31, 2002 resulted most notably in the form of unearned premiums of $12.1 million and $4.8 million in increased unpaid loss and loss adjustment expenses. The change in deferred acquisition costs, net, gave rise to $1.2 million of cash used, while unearned commissions used $1.7 million of cash. The decline in premium deposits consumed $1.2 million of cash. The increase in prepaid reinsurance premiums and the offsetting decrease in reinsurance recoverable provided a net cash increase of $50,000, net, virtually offset each other, and are related to the timing and settlement of the Company's quota-share reinsurance treaties. The

increased focus on direct billing of policy holders for insurance premiums offset cash provided by operation by approximately $6.97 million. The change in focus to direct billing from premium financing of insurance policies occurred to reduce bad debts and the Company's reliance on external financing for the premium finance operation.

Additionally, as a result of the profitable operations for the year ended December 31, 2002 as compared to net losses reported for the year ended December 31, 2001, the Company recorded federal and state income tax accruals, net of deferrals, which did not require the outlay of cash. This provided approximately $930,000 of operating cash. Also, increases in accounts payable and accrued expense balances accounted for $3.10 million of the increase in cash flow. Increased net income, net of other non-cash items, contributed $6.3 million to the overall increase in cash provided by operation during 2002.

Investing activities used cash of approximately $6.9 million in 2002, whereas in 2001 these activities provided cash of approximately $2.5 million for 2001. The change results primarily from purchases of investment securities partially offset by a decrease in finance contract receivables.

Financing activities used cash of approximately $5.7 million in 2002 as compared to 2001, which used approximately $2.0 million of cash. The increase in the use of cash is primarily due to the repayment of the revolving credit line and the use of cash to decrease bank overdrafts.

To retain its certificate of authority, the Florida insurance laws and regulations require that Federated National and American Vehicle maintain capital surplus equal to the greater of 10% of its liabilities or the 2002 statutory minimum capital and surplus requirement of $3.25 million as defined in the Florida Insurance Code. The Companies are in compliance with this requirement. The Companies are also required to adhere to prescribed net premium-to-capital surplus ratios and for the year ended December 31, 2002, the Companies were in compliance with these ratios.

The maximum amount of dividends that can be paid by Florida insurance companies without prior approval of the Florida Commissioner, is subject to restrictions relating to statutory surplus. The maximum dividend that may be paid in 2002, by the insurance companies without prior approval is limited to the lesser of statutory net income from operations of the preceding calendar year or 10% of statutory unassigned capital surplus as of the preceding December 31. No dividends were paid by Federated National or American Vehicle during 2002, 2001 or 2000.

The Company is required to comply with the NAIC's risk-based capital requirements. The NAIC's risk-based capital requirements are a method of measuring the amount of capital appropriate for an insurance company to support its overall business operations in light of its size and risk profile. NAIC's risk-based capital standards are used by regulators to determine appropriate regulatory actions relating to insurers who show signs of weak or deteriorating condition. As of December 31, 2002, based on calculations using the appropriate NAIC formula, the Company's total adjusted capital is in excess of ratios that would require any form of regulatory action. GAAP differs in some respects from reporting practices prescribed or permitted by the Florida Department of Financial Services. Federated National's statutory capital surplus was approximately $9.2 million as of December 31, 2002 and $5.7 million as of December 31, 2001. Statutory net income was $2.2 million, $2.1 million, and $1.4 million for the years ended December 31, 2002, 2001 and 2000, respectively. American Vehicle had statutory capital surplus of $4.0 million for the year

ended December 31, 2002 and approximately $3.1 million as of December 31, 2001 and had statutory net income of $135,000 and $64,000 in 2002 and 2001, respectively.

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 in the same direction or with the same magnitude as the cost of paying losses and LAE.

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, the Company attempts to anticipate the future impact of inflation when establishing rate levels. While the Company attempts to charge adequate rates, the Company may be limited in raising its premium levels for competitive and regulatory reasons. Inflation also affects the market value of the Company's investment portfolio and the investment rate of return. Any future economic changes which result in prolonged and increasing levels of inflation could cause increases in the dollar amount of incurred loss and LAE and thereby materially adversely affect future liability requirements.

SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

	YEAR ENDED DECEMB	
	FIRST QUARTER	SECOND QUARTER
Revenue:		
Net premiums earned	$5,434,494	$6,485,963
Other revenue	4,072,506	2,130,890
Total revenue	9,507,000	8,616,853
Expenses:		
Losses and loss adjustment expenses	3,184,631	3,330,196
Other expenses	4,778,133	4,363,266
Total expenses	7,962,764	7,693,462
Income (loss) before provision for income tax expense and extraordinary gain	1,544,236	923,391
(Provision) benefit for income tax expense	(552,866)	(891,350)
Net income (loss) before extraordinary gain	991,370	32,041
Extraordinary gain	--	--
Net income (loss)	$991,370	$32,041
Basic net income (loss) per share	$0.33	$0.01

	YEAR ENDED DECEMBER		
	FIRST QUARTER	SECOND QUARTER	
Revenue:			
Net premiums earned	$4,683,724	$ 5,191,369	$
Other revenue	4,864,426	2,971,661	
Total revenue	9,548,150	8,163,030	
Expenses:			
Losses and loss adjustment expenses	3,331,245	5,257,370	
Other expenses	5,450,816	5,328,624	
Total expenses	8,782,061	10,585,994	
Income (loss) before provision for income tax expense and extraordinary gain	766,089	(2,422,964)	(
(Provision) benefit for income tax expense	(267,343)	933,293	
Net income (loss) before extraordinary gain	498,746	(1,489,671)	(
Extraordinary gain	--	--	
Net income (loss)	$ 498,746	$(1,489,671)	$
Basic net income (loss) per share before extraordinary gain	$ 0.15	$ (0.47)	$
Extraordinary gain per share	--	--	
Basic net income (loss) per share	$ 0.15	$ (0.47)	$

ITEM 7a. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company's investment objective is to maximize total rate of return after Federal income taxes while maintaining liquidity and minimizing risk. The Company's current investment policy limits investment in non-investment grade fixed maturity securities (including high-yield bonds), and limits total investments in preferred stock, common stock and mortgage notes receivable. The Company also complies with applicable laws and regulations, which further restrict the type, quality and concentration of investments. In general, these laws and regulations permit investments, within specified limits and subject to certain qualifications, in Federal, state and municipal obligations, corporate bonds, preferred and common equity securities and real estate mortgages.

The Company's investment policy is established by its Board of Directors or Investment Committee and is reviewed on a regular basis. Pursuant to this investment policy, as of December 31, 2002, approximately 97.3% of the Company's investments were in fixed income securities and short-term investments, which are considered to be available for sale, based upon the Company's intent at the time of purchase. Fixed maturities are considered available for sale and are marked to market. The Company may in the future also consider fixed maturities to be held to maturity and carried at amortized cost. The Company does not use any material swaps, options, futures or forward contracts to hedge or enhance its investment portfolio.

The Company's investment portfolio is managed by the Company's Investment Committee consisting of the Company's President and two directors, in accordance with guidelines established by the Florida Department of Financial Services.

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

	YEARS ENDED DECEMBER 31, 2002	2001
	(DOLLARS IN THOUSANDS	
Interest on fixed maturities	$ 1,190	$ 485
Dividends on equity securities	18	13
Interest on short-term investments	59	559
Other	17	39
Total investment income	1,284	1,096
Investment expense	(30)	(29)
Net investment income	$ 1,254	$ 1,067
Net realized gain (loss)	$(1,370)	$(2,912)

The following table summarizes, by type, the investments of the Company as of December 31, 2002.

	CARRYING AMOUNT	PERCENT OF TOTAL
	(DOLLARS IN THOUSANDS)	
Fixed maturities, at market:		
U.S. government agencies and authorities	$ 105	.41%
Obligations of states and political subdivisions	8,587	33.83%
Corporate securities	16,001	63.03%
Total fixed maturities	24,693	97.27%
Equity securities, at market	547	2.15%
Mortgage notes receivable	145	.58%
Total investments	$25,385	100.0%

Fixed maturities are carried on the Company's balance sheet at market. At December 31, 2002, fixed maturities had the following quality ratings (by Moody's Investors Service, Inc. ("Moody's") and for securities not assigned a rating by Moody's, by Standard and Poor's Corporation):

	CARRYING AMOUNT	PERCENT OF TOTAL
	(DOLLARS IN THOUSANDS)	
AAA..................	$3,048	12.3%
AA...................	4,219	17.1%
A....................	2,558	10.4%
BBB..................	12,304	49.8%
BB++.................	2,564	10.4%
Not rated............	--	--
	$24,693	100.0%

The following table summarizes, by maturity, the fixed maturities of the Company as of December 31, 2002.

	CARRYING AMOUNT	PERCENT OF TOTAL
	(DOLLARS IN THOUSANDS)	
Matures In:		
One year or less....................................	$ 1,358	6.0%
One year to five years..............................	13,213	54.0%
Five years to 10 years..............................	7,590	30.0%
More than 10 years..................................	2,532	10.0%
Total fixed maturities..........................	$24,693	100.0%

At December 31, 2002, the weighted average maturity of the fixed maturities portfolio was approximately 4.5 years.

The following table provides information about the Company's financial instruments as of December 31, 2002 that are sensitive to changes in interest rates. The table presents principal cash flows and the related weighted average interest rate by expected maturity date:

	2003	2004	2005	2006	20
			(dollars in thousan		
Principal amount by expected maturity:					
U.S. government agencies and authorities	$ --	$ 100	$ --	$ --	$
Obligations of states and political subdivisions	100	--	425	--	
Corporate securities	2,250	5,720	4,507	3,700	5
Collateralized mortgage obligations	--	--	--	--	
Equity securities, at market	--	--	--	--	
Mortgage notes receivable	7	7	8	9	
Total investments	$2,357	$5,827	$4,940	$3,709	$ 5

Weighted average interest rate by expected maturity:					
U.S. government agencies and authorities	--%	5.88%	--%	--%	
Obligations of states and political subdivisions	4.60	--	5.00	--	
Corporate securities	5.72	6.36	6.49	6.66	5.
Collateralized mortgage obligations	--	--	--	--	
Equity securities, at market	--	--	--	--	
Mortgage notes receivable	8.50	8.50	8.50	8.50	8.
Total investments	5.68%	6.36%	6.37%	6.66%	5.

32

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

21ST CENTURY HOLDING COMPANY AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Independent Auditors' Reports...
Consolidated Balance Sheets
as of December 31, 2002 and 2001...
Consolidated Statements of Operations
For the years ended December 31, 2002, 2001 and 2000...
Consolidated Statements of Changes in Shareholders' Equity and Comprehensive Income (Loss)
For the years ended December 31, 2002, 2001 and 2000...
Consolidated Statements of Cash Flows
For the years ended December 31, 2002, 2001 and 2000...
Notes to Consolidated Financial Statements...

33

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of
21st Century Holding Company:

We have audited the accompanying consolidated balance sheet of 21st Century Holding Company and Subsidiaries ("the Company" and a Florida Corporation) as of December 31, 2002, and the related consolidated statement of operations, changes in shareholders' equity and comprehensive income (loss) and cash flow for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a

test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of 21st Century Holding Company and Subsidiaries as of December 31, 2002, and the result of their operations and their cash flow for the year then ended in conformity with accounting principles generally accepted in the United States of America.

De MEO, YOUNG, McGRATH

Boca Raton, Florida,
March 30, 2003.

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of
21st Century Holding Company:

We have audited the accompanying consolidated balance sheet of 21st Century Holding Company and Subsidiaries ("the Company" and a Florida corporation) as of December 31, 2001, and the related consolidated statements of operations, changes in shareholders' equity and comprehensive income and cash flows for the years ended December 31, 2001 and 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of 21st Century Holding Company and Subsidiaries as of December 31, 2001, and the results of their operations and their cash flows for the years ended December 31, 2001 and 2000, in conformity with accounting principles generally accepted in the United States of America.

McKEAN, PAUL, CHRYCY, FLETCHER & CO.

Plantation, Florida,
March 29, 2002.

21ST CENTURY HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2002 AND 2001

	2002	200
ASSETS		
Investments		
Fixed maturities, available for sale, at fair value	$ 24,693,047	$ 16,71
Equity securities	539,706	19
Mortgage loans	145,043	60
Total investments	25,377,796	17,50
Cash and cash equivalents	4,478,383	2,15
Finance contracts, consumer loans and pay advances receivable, net of allowance for credit losses of $404,356 in 2002 and $723,756 in 2001	7,217,873	10,81
Prepaid reinsurance premiums	11,251,193	5,55
Premiums receivable, net of allowance for credit losses of $201,000 and $235,000, respectively	8,373,104	1,56
Reinsurance recoverable, net	7,856,972	7,05
Deferred acquisition costs, net	7,721	1
Income taxes recoverable	--	44
Deferred income taxes	2,691,309	2,25
Property, plant and equipment, net	4,819,617	5,08
Goodwill, net	1,789,353	1,78
Other assets	1,454,690	2,00
Total assets	$ 75,318,011	$ 56,22
LIABILITIES AND SHAREHOLDERS' EQUITY		
Unpaid losses and loss adjustment expenses	$ 16,983,756	$ 11,00
Unearned premiums	28,934,486	14,95
Premium deposits	655,713	1,13
Revolving credit outstanding	4,312,420	6,67
Bank overdraft	844,947	3,52
Unearned commissions	18,721	1,19
Income taxes payable	1,676,020	
Accounts payable and accrued expenses	3,746,030	2,93
Drafts payable to insurance companies	48,254	60
Total liabilities	57,220,347	42,01
Commitments and contingencies		
Shareholders' equity:		
Common stock of $0.01 par value. Authorized 25,000,000 shares; issued 3,411,667 and 3,410,667 shares respectively; Outstanding 2,990,201 and 3,030,001 shares, respectively	34,117	3
Additional paid-in capital	12,855,543	12,83
Accumulated other comprehensive deficit	(227,091)	(21
Retained earnings	6,521,027	2,40
Treasury stock, 421,466 and 380,666 shares, respectively, at cost ...	(1,085,932)	(84
Total shareholders' equity	18,097,664	14,20
Total liabilities and shareholders' equity	$ 75,318,011	$ 56,22

See accompanying notes to consolidated financial statements.

21ST CENTURY HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

	2002	2001	
Revenue:			
Gross premiums written	$ 63,036,468	$ 34,271,338	$ 3
Gross premiums ceded	(25,286,828)	(12,789,404)	(
Net premiums written	37,749,640	21,481,934	2
Decrease (increase) in unearned premiums, net of prepaid reinsurance premiums	(8,356,636)	(1,226,373)	(
Net premiums earned	29,393,004	20,255,561	2
Commission income	1,905,936	2,828,779	
Finance revenue	4,452,626	5,267,523	
Managing general agent fees	1,970,226	5,871,388	
Net investment income	1,253,765	1,066,641	
Net realized investment gains (losses)	(1,369,961)	(2,911,658)	
Other income	2,973,949	3,098,332	
Total revenue	40,579,545	35,476,566	3
Expenses:			
Losses and loss adjustment expenses	15,987,125	16,154,902	1
Operating and underwriting expenses	10,778,990	11,644,183	1
Salaries and wages	8,004,694	8,478,771	
Amortization of deferred acquisition costs, net	(2,064,314)	1,467,238	
Amortization of goodwill	--	540,010	
Total expenses	32,706,495	38,285,104	3
Income (loss) before provision for income tax expense and extraordinary gain	7,873,050	(2,808,538)	
(Provision) benefit for income tax expense	(3,302,849)	630,553	
Net income (loss) before extraordinary gain	4,570,201	(2,177,985)	
Extraordinary gain	--	1,185,895	
Net income (loss)	$ 4,570,201	$ (992,090)	$
Basic net income (loss) per share before extraordinary gain	$ 1.52	$ (0.69)	$
Extraordinary gain	--	0.38	

Basic net income (loss) per share	$ 1.52	$ (0.31)	$

See accompanying notes to consolidated financial statements.

21ST CENTURY HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
AND COMPREHENSIVE INCOME (LOSS)
YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

DESCRIPTION	Comprehensive Income	Common Stock	Paid-In Capital	Additional Comprehensive Deficit	Accumulat Other Retaine Earning
Balance as of December 31, 1999	--	33,700	12,690,087	(1,244,830)	4,297,
Net loss	$ (522,874)	--	--	--	(522,
Cash dividends	--	--	--	--	(133,
Acquisition of common shares	--	--	--	--	
Stock issued	--	407	204,543	--	
Net unrealized change in investments, net of tax effect of $33,530	(55,574)	--	--	(55,574)	
Comprehensive loss	$ (578,448)				
Balance as of December 31, 2000		34,107	12,894,630	(1,300,404)	3,642,
Net loss	$ (992,090)	--	--	--	(992,
Cash dividends	--	--	--	--	(249,
Acquisition of common shares	--	--	--	--	
Stock issued to employees ..	--	--	(78,814)	--	
Stock option expense	--	--	17,330	--	
Net unrealized change in investments, net of tax effect of $784,079	1,082,267	--	--	1,082,267	
Comprehensive income	$ 90,177				
Balance as of December 31, 2001		$ 34,107	$ 12,833,146	$ (218,137)	$ 2,400,
Net Income	$ 4,570,201	--	--	--	4,570,
Cash dividends	--	--	--	--	(449,
Acquisition of common shares	--	--	--	--	
Stock issued to employees ...	--	10	990	--	
Stock option expense	--	--	21,407	--	
Net unrealized change in					

investments, net of tax effect of $4,613	(8,954)	--	--	(8,954)	
Comprehensive income	$ 4,561,247				
Balance as of December 31, 2002		$ 34,117	$ 12,855,543	$ (227,091)	$ 6,521,

See accompanying notes to consolidated financial statements.

21ST CENTURY HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

	2002	200
Cash flow from operating activities:		
Net income (loss)	$ 4,570,201	$ (99
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Amortization (accretion) of investment premium (discount), net .	84,360	(5
Depreciation and amortization of property plant and equipment ..	376,516	39
Amortization of goodwill	--	54
Deferred income tax expense	(1,107,092)	(13
Net realized investment (gains) losses	1,369,961	2,91
Amortization of deferred acquisition costs, net	(2,064,314)	1,46
Provision for credit losses, net	1,036,092	2,50
Provision for uncollectible premiums receivable	33,663	42
Extraordinary Gain	--	(1,18
Other	30,207	3
Changes in operating assets and liabilities:		
Premiums receivable	(6,845,853)	(1,73
Prepaid reinsurance premiums	(5,691,284)	(2,63
Reinsurance recoverable, net	(803,643)	(3,91
Deferred acquisition costs, net	2,068,545	(28
Other assets	992,645	(55
Unpaid losses and loss adjustment expenses	5,978,419	1,13
Unearned premiums	13,983,258	1,91
Premium deposits	(478,264)	75
Unearned commissions	(2,080,087)	(40
Income taxes payable	1,907,042	
Accounts payable and accrued expenses	2,157,566	(94
Drafts payable to insurance companies	(552,498)	(18
Net cash (used in) provided by operating activities	14,965,440	(94
Cash flow from investing activities:		
Proceeds from sale of investment securities available for sale	41,293,545	62,41
Purchases of investment securities available for sale	(51,088,365)	(59,71
Finance contracts receivable, consumer loans and pay advances receivable	2,559,916	47

Mortgage loans	(10,000)	(45
Sale of and collection of mortgage loans	461,314	23
Purchases of property and equipment	(308,936)	(15
Net cash used in acquisitions	199,687	(30
Net cash provided by (used in) investing activities	(6,892,839)	2,50
Cash flow from financing activities:		
Bank overdraft	(2,677,565)	30
Dividends paid	(449,475)	(18
Purchases of treasury stock	(253,446)	(74
Repayment of indebtedness	--	
Revolving credit outstanding	(2,364,397)	(1,41
Net cash (used in) provided by financing activities	(5,744,883)	(2,03
Net (decrease) increase in cash and cash equivalents	2,327,718	(47
Cash and cash equivalents at beginning of year	2,150,665	2,62
Cash and cash equivalents at end of year	$ 4,478,383	$ 2,15
Supplemental disclosure of cash flow information: Cash paid (received) during the year for:		
Interest	$ 354,572	$ 59
Income taxes	$ 1,565,069	$ (91
Non-cash investing and financing activities:		
Accrued dividend payable	$ 179,947	$ 6
Stock issued to employees	$ 7,800	$ 18
Stock received for sale of agency	$ --	$ 4
Notes receivable, net of deferred gains, received for sales of agencies	$ (35,523)	$ 46
Shares issued for settlement of note payable	$ --	$

See accompanying notes to consolidated financial statements.

39

(1) ORGANIZATION AND BUSINESS

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

The Company is a vertically integrated insurance holding company, which, through its subsidiaries, controls substantially all aspects of the insurance underwriting, distribution and the claims process. The Company underwrites personal automobile insurance, homeowners insurance and mobile home property and casualty insurance in the State of Florida through its wholly-owned subsidiaries, Federated National Insurance Company ("Federated National") and

American Vehicle Insurance Company ("American Vehicle"). The Company internally processes claims made by its own and third party insureds through a wholly-owned claims adjusting company, Superior Adjusting, Inc. ("Superior"). The Company also offers premium financing to its own and third-party insureds through its wholly-owned subsidiary, Federated Premium Finance, Inc. ("Federated Premium").

The Company markets and distributes its own and third-party insurers' products and its other services primarily in South Florida, through a network of 23 agencies, owned by Federated Agency Group, Inc. ("Federated Agency Group"), a wholly-owned subsidiary, 40 franchised agencies and approximately 125 independent agents. The Company, through its wholly-owned subsidiary, FedUSA, Inc. ("FedUSA"), franchises agencies under the FedUSA name. As of December 31, 2002, franchises were granted for 40 Fed USA agencies, of which 34 were operating. The Company intends to focus its future expansion efforts for its agency network on franchised agencies.

The Company offers income tax preparation software and service through Express Tax Service, Inc. ("Express Tax"), an 80% owned subsidiary, as well as franchise opportunities for these services through EXPRESSTAX Franchise Corporation ("EXPRESSTAX"), a wholly-owned subsidiary of Express Tax. As of December 31, 2002, 136 EXPRESSTAX franchises had been granted in nine states.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES

(a) CASH AND CASH EQUIVALENTS

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

(b) INVESTMENTS

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

A decline in the fair value of an available-for-sale security below cost that is deemed other than temporary results in a charge to income, resulting in the establishment of a new cost basis for the security. For the year ended December 31, 2002, the unrealized losses for declines in fair market value deemed to be other than temporary were $2.0 million and are reported as a component of net realized investment gains (losses) on the consolidated statements of operations. For the years ended December 31, 2001 and 2000, there were no unrealized losses deemed to be other than temporary.

Premiums and discounts are amortized or accreted, respectively, over the life of the related fixed maturity security as an adjustment to yield using a method that approximates the effective interest method. Dividends and interest income are recognized when earned. Realized gains and losses are included in earnings and are derived using the specific-identification method for determining the cost of securities sold.

(c) PREMIUM REVENUE

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

(d) DEFERRED ACQUISITION COSTS

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

An analysis of deferred acquisition costs follows:

	YEAR ENDED DECEMBER 31,		
	2002	2001	2000
Balance, beginning of period	$ 11,952	$ 1,192,260	$ (10,243)
Acquisition costs deferred	(2,068,545)	286,930	2,876,257
Amortized to expense during period	2,064,314	(1,467,238)	(1,673,754)
Balance, end of period	$ 7,721	$ 11,952	$ 1,192,260

(e) PREMIUM DEPOSITS

Premium deposits represent premiums received on policies not yet written. The Company takes approximately 30 working days to write the policy from the date the cash and policy application are received.

(f) UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

Unpaid losses and loss adjustment expenses are provided for through the establishment of liabilities in amounts estimated to cover incurred losses and loss adjustment expenses. Such liabilities are determined based upon the Company's assessment of claims pending and the development of prior years' loss liability. These amounts include liabilities based upon individual case estimates for reported losses and loss adjustment expenses and estimates of such amounts that are incurred but not reported. Changes in the estimated liability are charged or credited to operations as the estimates are revised. Unpaid losses and loss adjustment expenses are reported net of estimates for salvage and subrogation recoveries, which totaled approximately $550,000, $544,000 and $559,000, net of reinsurance, at December 31, 2002, 2001 and 2000, respectively.

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

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

The Company does not discount unpaid losses and loss adjustment expenses for financial statement purposes.

(g) COMMISSION INCOME

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

41

(h) FINANCE REVENUE

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

(i) CREDIT LOSSES

Provisions for credit losses are charged to operations in amounts sufficient to maintain the allowance for credit losses at a level considered adequate to cover anticipated losses. Generally, accounts that are over 90 days old are written off to the allowance for credit losses.

The activity in the allowance for credit losses for premiums receivable was as follows for the years ended December 31, 2002, 2001 and 2000:

	2002	2001	2000
Allowance for credit losses at beginning of year	$ 235,000	$ 325,000	$ 50,000
Additions charged to bad debt expense	34,710	421,349	432,052
Write-downs charged against the allowance	(68,710)	(511,349)	(157,052)
Allowance for credit losses at end of year	$ 201,000	$ 235,000	$ 325,000

See Note 4 for the activity in the allowance for credit losses for finance contracts and pay advances receivable.

(j) MANAGING GENERAL AGENT FEES

If substantially all the costs associated with the MGA contract are incurred during the underwriting process, then the MGA fees and the related acquisition costs are recognized at the time the policy is underwritten, net of estimated cancellations. If the MGA contract requires significant involvement subsequent to the completion of the underwriting process, then the MGA fees and

related acquisition costs are deferred and recognized over the life of the policy.

(k) POLICY FEES

Policy fees represent a $25 non-refundable application fee for insurance coverage, which is intended to reimburse the Company for the costs incurred to underwrite the policy. The fees and related costs are recognized when the policy is underwritten. These underwriting costs are not included as a component of deferred acquisition costs.

(l) REINSURANCE

The Company recognizes the income and expense on reinsurance contracts principally on a pro-rata basis over the life of the policies covered under the reinsurance agreements. The Company is reinsured under separate reinsurance agreements for the different lines of business underwritten. Reinsurance contracts do not relieve the Company from its obligations to policyholders. The Company continually monitors its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. The Company only cedes risks to reinsurers whom the Company believes to be financially sound. At December 31, 2002, all reinsurance recoverables are considered collectible.

(m) INCOME TAXES

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

(n) CONTINGENT REINSURANCE COMMISSION

The Company's reinsurance contracts provide ceding commissions for premiums written which are subject to adjustment. The amount of ceding commissions is determined by the loss experience for the reinsurance agreement term. The reinsurer provides commissions on a sliding scale with maximum and minimum achievable levels. The reinsurer provides the Company with the provisional commissions. The Company has recognized the commissions based on the current loss experience for the policy year premiums. This results in establishing a liability for the excess of provisional commissions retained compared to amounts recognized, which is subject to variation until the ultimate loss experience is determinable. For the years ended December 31, 2002 and December 31, 2001, respectively, there were $369,000 and $42,000 of contingent ceding commissions recognized.

(o) CONCENTRATION OF CREDIT RISK

Financial instruments, which potentially expose the Company to concentrations of credit risk consist primarily of investments, premiums receivable, amounts due from reinsurers on paid and unpaid losses, and finance contracts, consumer loans and pay advances receivable. The Company has not experienced significant losses related to premiums receivable from individual policyholders or groups of policyholders in a particular industry or geographic

area. The Company has not experienced significant losses related to consumer loans or pay advances receivable. Management believes no credit risk beyond the amounts provided for collection losses is inherent in the Company's premiums receivable or finance contracts, consumer loans and pay advances receivable. In order to reduce credit risk for amounts due from reinsurers, the Company seeks to do business with financially sound reinsurance companies and regularly reviews the financial strength of all reinsurers used.

(p) ACCOUNTING CHANGES

In June 2000, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities -- an amendment of Financial Accounting Standards Board Statement No. 133," which because of the Company's early adoption of Statement of Financial Accounting Standard No. 133, was effective for all fiscal quarters beginning after June 15, 2000. This statement amends the accounting and reporting standards of Statement of Financial Accounting Standard No. 133 for certain derivative instruments and certain hedging activities. Because the Company has limited involvement with derivative financial instruments and does not engage in the derivative market for hedging purposes, the adoption of Statement of Financial Accounting Standard No. 138 did not have a material effect on the Company's financial statements.

Effective January 1, 2000, the Company adopted Statement of Position 98-7, "Deposit Accounting: Accounting for Insurance and Reinsurance Contracts That Do Not Transfer Insurance Risk." The Statement of Position provides guidance on accounting for insurance and reinsurance contracts that do not transfer insurance risk. All of the Company's reinsurance agreements are risk-transferring arrangements, accounted for according to Statement of Financial Accounting Standard No. 113, "Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts." The adoption of Statement of Position 98-7 had no effect on the Company's financial statements.

Effective July 1, 2000, the Company adopted Financial Accounting Standards Board Interpretation No. 44, "Accounting for Certain Transactions Including Stock Compensation (an Interpretation of Accounting Principles Board Opinion No. 25)." Financial Accounting Standards Board Interpretation No. 44 clarifies the application of Accounting Principles Board Opinion No. 25 for only certain issues, such as: (a) the definition of employee for purposes of applying Accounting Principles Board Opinion No. 25; (b) the criteria for determining whether a plan qualifies as a noncompensatory plan; (c) the accounting consequence of various modifications to the terms of a previously fixed stock option or award; and (d) the accounting for an exchange of stock compensation awards in a business combination. The adoption of Financial Accounting Standards Board Interpretation No. 44 did not have a material effect on the Company's financial statements.

Effective December 31, 2000, the Company adopted Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements." The Staff Accounting Bulletin summarizes the SEC staff's views on applying accounting principles generally accepted in the United States to the recognition of revenue in financial statements. The adoption of Staff Accounting Bulletin No. 101 had no effect on the Company's financial statements.

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 141, "Business Combinations," which became effective January 1, 2002. Statement of Financial Accounting Standard No. 141 requires all business combinations initiated after September 30, 2001 to be accounted for using the purchase method. Additionally, Statement of Financial Accounting Standard No. 141 requires an acquired intangible asset, whenever acquired, to be recognized separately from goodwill if the benefit of the intangible asset is obtained through contractual or other legal rights or if the

intangible asset can be sold, transferred, licensed, rented, or exchanged, regardless of the acquirer's intent to do so.

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 142 "Goodwill and Other Intangible Assets," which became effective January 1, 2002. Statement of Financial Accounting Standard No. 142 eliminates the amortization of goodwill over its estimated useful life, but requires goodwill to be subject to at least an annual assessment for impairment by applying a fair-value-based test. See footnote (t) GOODWILL for additional information. Upon adoption of Financial Accounting Standards No.142 January 1, 2002, the Company ceased amortization of goodwill.

43

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 143, "Accounting for Asset Retirement Obligations," which became effective for fiscal years beginning after June 15, 2002. Statement of Financial Accounting Standard No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible, long-lived assets and the associated asset retirement costs. Adoption of this statement has had no material effect on the Company's financial statements.

In October 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which became effective for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years. Statement of Financial Accounting Standard No. 144 revises and clarifies the existing professional guidance addressing: (a) recognition and measurement of the impairment of long-lived assets to be held and used; (b) the measurement of long-lived assets to be disposed of by sale; and (c) the reporting of discontinued operations and components of an entity that either has been disposed of (by sale, by abandonment, or in a distribution to owners) or is classified as held for sale. The adoption of Statement of Financial Accounting Standard No. 144 had no effect on the Company's financial statements.

In April 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 145, "Rescission of Financial Accounting Standards Board Statements No. 4, 44 and 64, Amendment of Financial Accounting Standards Board Statement No. 13, and Technical Corrections," which became effective for fiscal years beginning after May 15, 2002. The rescission of Statement of Financial Accounting Standard No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and Statement of Financial Accounting Standard No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements," which had amended Statement of Financial Accounting Standard No. 4, will affect income statement classification of gains and losses from extinguishment of debt. Statement of Financial Accounting Standard No. 4 required material gains and losses from extinguishment of debt to be classified as extraordinary items. Under Statement of Financial Accounting Standard No. 145, extinguishment of debt is now considered a risk management strategy by the reporting enterprise, and the Financial Accounting Standards Board does not believe it should be considered extraordinary under the criteria in Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations--Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," unless the debt extinguishment meets the unusual-in-nature and infrequency-of-occurrence criteria in Accounting Principles Board Opinion No. 30. The Company has not yet determined the impact that the adoption of this statement will have on the Company's financial statements.

In July 2002, the Financial Accounting Standards Board issued Statement

of Financial Accounting Standard No.146, "Accounting for Costs Associated with Exit or Disposal Activities." Statement of Financial Accounting Standard No. 146 supersedes Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." Statement of Financial Accounting Standard No. 146 requires that, in certain instances, costs associated with an exit or disposal plan be recognized when incurred rather than at the date of a commitment to an exit or disposal plan. Statement of Financial Accounting Standard No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The Company has not yet determined the impact that the adoption of this statement will have on the financial statements.

In October 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 147, "Acquisitions of Certain Financial Institutions," which clarifies the accounting treatment for acquisitions of financial institutions. In addition, this Statement amends Statement of Financial Accounting Standard No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," to include in its scope long-term customer-relationship intangible assets of financial institutions such as depositor- and borrower-relationship intangible assets and credit cardholder intangible assets. Statement of Financial Accounting Standard No. 147 is effective on October 1, 2002. The adoption of Statement of Financial Accounting Standard No. 147 will have no effect on the Company's financial statements.

In December 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," which amended Statement of Financial Accounting Standard No. 123, "Accounting for Stock-Based Compensation." The new standard provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation.

Additionally, the statement amends the disclosure requirements of Statement of Financial Accounting Standard No. 123 to require prominent disclosures in the annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. This statement is effective for financial statements for fiscal years ending after December 15, 2002. In compliance with Statement of Financial Accounting Standard No. 148, the Company has elected to continue to follow the intrinsic value method in accounting for the Company's stock-based employee compensation arrangement as defined by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and have made the applicable disclosures in the "Stock-Based Compensation" section, see Note 16.

(q) USE OF ESTIMATES

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

Similar to other property and casualty insurers, the Company's liability for unpaid losses and loss adjustment expenses, although supported by actuarial projections and other data is ultimately based on management's reasoned expectations of future events. Although considerable variability is inherent in these estimates, management believes that this liability is adequate. Estimates are reviewed regularly and adjusted as necessary. Such adjustments are reflected in current operations. In addition, the realization of

the Company's deferred income tax assets is dependent on generating sufficient future taxable income. It is reasonably possible that the expectations associated with these accounts could change in the near term and that the effect of such changes could be material to the Consolidated Financial Statements.

(r) NATURE OF OPERATIONS

The following is a description of the most significant risks facing the Company and how it mitigates those risks:

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

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

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

(s) FAIR VALUE

The fair value of the Company's investments are estimated based on prices published by financial services or quotations received from securities dealers and is reflective of the interest rate environment that existed as of the close of business on December 31, 2002 and 2001. Changes in interest rates subsequent to December 31, 2002 may affect the fair value of the Company's investments. Refer to Note 3(a) for details.

The carrying amounts for the following financial instrument categories approximate their fair values at December 31, 2002 and 2001 because of their short-term nature: cash and cash equivalents, premiums receivable, finance contracts, consumer loans and pay advance receivable, due from reinsurers, drafts payable to insurance companies, revolving credit outstanding, bank overdraft, and accounts payable and accrued expenses.

The fair value of mortgage loans is estimated using the present value of future cash flows based on the market rate for similar types of loans. Carrying value approximates market value as rates used are commensurate with market rate.

(t) GOODWILL

In July 2001, the FASB issued SFAS 141 "Business Combinations," effective for all business combinations initiated after June 30, 2001, and SFAS 142 "Accounting for Goodwill and Other Intangible Assets," effective for fiscal years beginning after December 15, 2001. SFAS 141 requires the purchase method

of accounting be used for all business combinations. Goodwill and indefinite-lived intangible assets will remain on the balance sheet and not be amortized. Intangible assets with a definite life will continue to be amortized over their estimated useful lives. SFAS 142 establishes a new method of testing goodwill for impairment. On an annual basis, and when there is reason to suspect that their values may have been diminished or impaired, these assets must be tested for impairment. The amount of goodwill determined to be impaired will be expensed to current operations. Prior to the adoption of SFAS 141 and 142, goodwill was amortized on a straight-line basis for financial statement purposes over periods ranging from 10 to 20 years. Periodic reviews of the recoverability of goodwill were performed by assessing undiscounted cash flows of future operations.

Amortization of goodwill was $-0- for 2002, compared to $540,010 in 2001 and $606,653 in 2000. The decrease is the result of no longer amortizing goodwill, subsequent to the adoption of SFAS 142.

Goodwill is stated separately on the balance sheet and totaled $1,789,353 at December 31, 2002 and 2001, net of $1,725,622 of accumulated amortization. Goodwill relates to the Company's insurance segment. Impairment testing was performed during the fourth quarter of 2002, pursuant to the requirements of SFAS 142. Based upon this valuation analysis, goodwill does not appear to be impaired. Impairment testing will continue to be performed on no less than an annual basis, or when there is reason to suspect the value of these assets has diminished or is impaired.

Below is a calculation of the pro forma effects of eliminating the amortization of goodwill for each of the years in the three-year period ended December 31, 2002.

	For the Year Ended December 31		
	2002	2001	2000
Reported net income (loss)	$4,570,201	$ (992,090)	$ (522,874)
Add back: goodwill amortization	--	540,010	606,653
Adjusted net income (loss)	$4,570,201	$ (452,080)	$ 83,779
BASIC EARNINGS PER SHARE:			
Reported net income	$ 1.52	$ (0.31)	$ (0.15)
Goodwill amortization	--	0.14	0.18
Adjusted net income	$ 1.52	$ (0.17)	$ 0.03

(u) STOCK OPTION PLAN

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

SFAS No. 123, "Accounting for Stock-Based Compensation," establishes accounting and disclosure requirements using a fair value-based method of

accounting for stock-based employee compensation plans.

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

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

(v) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation on property, plant and equipment is calculated on a straight-line basis over the following estimated useful lives: building and improvements - 30 years and furniture and fixtures 7 years. The Company capitalizes an expenditure in excess of $500 if the asset is expected to have a useful life greater than one year. The carrying value of property, plant and equipment is periodically reviewed by the Company based on the expected future undiscounted operating cash flows of the related item. Based upon its most recent analysis, the Company believes that no impairment of property, plant and equipment exists at December 31, 2002.

46

(w) RECLASSIFICATIONS

Certain 2001 and 2000 financial statement amounts have been reclassified to conform with 2002 presentation.

(3) INVESTMENTS

(a) FIXED MATURITIES AND EQUITY SECURITIES

The following table shows the realized gains (losses) for fixed and equity securities for the year ended December 31, 2002:

Year ended December 31, 2002	Realized Gains/Losses	Fair Value at Sale
Realized gains:		
Fixed securities	$ 34,035	$ 8,692,369
Equity securities	--	--
Total realized gains	$ 34,035	$ 8,692,369

Realized losses:

Fixed securities	$ 241,580	$16,000,678
Equity securities	24,159	539,706
Total realized losses	$ 265,739	$16,540,384
Net realized losses on investments	$ 231,704	$25,232,753

A summary of the amortized cost, estimated fair value, gross unrealized gains and losses of fixed maturities and equity securities at December 31, 2002 and 2001 is as follows:

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	E FA
DECEMBER 31, 2002				
Fixed Maturities:				
U. S. Government obligations	$ 104,731	$ 425	$ --	$
Obligations of states and political subdivisions	8,553,603	33,610	--	8
Corporate securities	16,242,258	--	241,580	16
	$24,900,592	$ 34,035	$ 241,580	$24
Equity securities - preferred stocks	$ 208,316	$ --	$ 316	$
common stocks ..	355,549	--	23,843	
	$ 563,865	$ --	$ 24,159	$
DECEMBER 31, 2001				
Fixed Maturities:				
Mortgage-backed securities	$ 152,569	$ --	$ 9,794	$
U. S. Government obligations	2,604,780	25,144	--	2
Obligations of states and political subdivisions	6,122,521	--	136,017	5
Corporate securities	8,035,773	--	81,655	7
	$16,915,643	$ 25,144	$ 227,466	$16
Equity securities - preferred stocks	$ 208,316	$ --	$ 15,816	$

Below is a summary of fixed maturities at December 31, 2002 and 2001 by contractual or expected maturity periods. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	DECEMBER 31, 2002		DECEMBER 31, 2001	
	AMORTIZED COST	ESTIMATED FAIR VALUE	AMORTIZED COST	ESTIMATE FAIR VAL
Due in one year or less	$ 1,355,968	$ 1,358,268	$ 430,713	$ 434,
Due after one year through five years	13,490,634	13,213,114	7,399,113	7,406,
Due after five years through ten years	7,470,221	7,589,673	3,701,348	3,642,
Due after ten years	2,581,221	2,531,992	5,384,469	5,229,
	$24,898,044	$24,693,047	$16,915,643	$16,713,

Political subdivision bonds with an amortized cost of approximately $100,756 and a fair market value of approximately $101,385 were on deposit with the Florida Department of Financial Services as of December 31, 2002, as required by law.

A summary of the sources of net investment income follows:

	YEARS ENDED DECEMBER 31,		
	2002	2001	2000
Fixed maturities	$ 1,189,683	$ 484,913	$ 551,973
Equity securities	18,009	13,301	44,343
Cash and cash equivalents	59,182	559,017	646,780
Other	17,328	38,390	10,459
Total investment income	1,284,202	1,095,621	1,253,555
Less investment expenses	(30,437)	(28,980)	(28,142)
Net investment income	$ 1,253,765	$ 1,066,641	$ 1,225,413

Proceeds from sales of fixed maturities and equity securities for the years ending December 31, 2002, 2001 and 2000 were $41,293,545, $62,419,076 and $49,110,449, respectively.

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

	YEARS ENDED DECEMBER 31,		
	2002	2001	20
Net realized gains (losses):			
Fixed maturities	$(1,389,860)*	$ 173,294	$ (
Equity securities	19,899	(3,084,952)	(
Total	$(1,369,961)	$(2,911,658)	$ (1

* Includes a $2,000,000 impairment loss

Change in net unrealized losses:			
Fixed maturities	$ (12,124)	$ 156,042	$ 1,1
Equity securities	(1,443)	1,710,304	(1,2
Total	$ (13,567)	$ 1,866,346	$ (

(b)......MORTGAGE LOANS

	2002	2001	2000
Mortgage receivable January 1	$ 601,601	$ 385,024	$ 119,304
New mortgages	--	450,000	272,773
Principle payments	(456,558)	(233,423)	(7,053)
Mortgage receivable December 31	$ 145,043	$ 601,601	$ 385,024

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

(4) FINANCE CONTRACTS, CONSUMER LOANS AND PAY ADVANCES RECEIVABLE

Below is a summary of the components of the finance contracts consumer loans and pay advances receivable balance:

	DECEMBER 31, 2002	2001
Finance contracts receivable	$7,776,553	$11,678,176
Pay advances receivable	--	322,763
	7,776,553	12,000,939
Less: Unearned income	(154,324)	(463,302)
Allowance for credit losses	(404,356)	(723,756)
Finance contracts, consumer loans and pay advances receivable, net	$7,217,873	$10,813,881

The activity in the allowance for credit losses was as follows for the years ended December 31, 2002, 2001 and 2000:

2002	2001

Allowance for credit losses at beginning of year	$ 723,756	$ 832,231
Additions charged to bad debt expense	1,036,092	2,506,757
Write-downs charged against the allowance	(1,355,492)	(2,615,232)
Allowance for credit losses at end of year	$ 404,356	$ 723,756

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

(5) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at December 31, 2002 and 2001 consist of the following:

	2002	2001
Land	$ 787,144	$ 917,369
Building and Improvements	3,775,208	3,643,515
Furniture and Fixtures	1,729,033	1,633,994
	6,291,385	6,194,878
Accumulated Depreciation	(1,471,768)	(1,107,994)
	$ 4,819,617	$ 5,086,884

Depreciation of property, plant, and equipment was $376,516, $396,047 and $323,743 during 2002, 2001 and 2000, respectively.

(6) REINSURANCE

The Company reinsures (cedes) a portion of its written premiums on a quota-share basis to nonaffiliated insurance companies in order to limit its loss exposure. The Company also maintains coverages to limit losses from large exposures, which the Company believes are adequate for its current volume. To the extent that reinsuring companies are unable to meet their obligations assumed under the reinsurance agreements, the Company remains primarily liable to its policyholders.

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

	YEAR ENDED DECEMBER 31	
	2002	2001
Premiums written:		
Direct	$ 63,036,468	$ 34,271,338
Ceded	(25,286,828)	(12,789,404)
	$ 37,749,640	$ 21,481,934
Premiums earned:		
Direct	$ 48,988,774	$ 32,358,300

Ceded	(19,595,770)	(12,102,739)
	$ 29,393,004	$ 20,255,561
Losses and loss adjustment expenses incurred:		
Direct	$ 29,776,770	$ 29,064,763
Ceded	(13,789,645)	(12,909,861)
	$ 15,987,125	$ 16,154,902

	AS OF DECEMBER 31, 2002	2001
Unpaid losses and loss adjustment expenses, net:		
Direct	$ 16,983,756	$ 11,005,337
Ceded	7,847,421	(4,798,556)
	$ 9,136,335	$ 6,206,781
Unearned premiums:		
Direct	$ 28,934,486	$ 14,951,228
Ceded	11,251,193	(5,559,909)
	$ 17,683,293	$ 9,391,319

The Company received approximately $6.8 million, $3.8 million and $2.3 million in commissions on premiums ceded during the years ended December 31, 2002, 2001 and 2000, respectively. Had all of the Company's reinsurance agreements been canceled at December 31, 2002, the Company would have returned a total of approximately $3.3 million in reinsurance commissions to its reinsurers; in turn, its reinsurers would have returned approximately $11.2 million in unearned premiums to the Company.

At December 31, 2002 and 2001, the Company had an unsecured aggregate recoverable for paid and unpaid losses and loss adjustment expenses and unearned premiums with the following reinsurers:

	DECEMBER 31, 2002	20
Transatlantic Reinsurance Company (A++ A.M. Best Rated):		
Unearned premiums	$ 11,251,193	$ 5,5
Reinsurance recoverable on paid losses and loss adjustment expenses	3,266,549	4,1
Unpaid losses and loss adjustment expenses	7,847,421	4,7
	$ 22,365,163	$ 14,5

Amounts due from reinsurers consisted of amounts related to:

Unpaid losses and loss adjustment expenses	$ 7,847,255	$ 4,7
Reinsurance recoverable on paid losses and loss adjustment expenses	3,266,715	4,1
Reinsurance payable	(3,984,895)	(1,9
	$ 7,129,075	$ 7,0

(7) UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

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

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

	DECEMBER 31,		
	2002	2001	2000
Balance at January 1	$ 11,005,337	$ 9,765,848	$ 6,314,307
Less reinsurance recoverables	(4,798,556)	(2,789,619)	(1,886,226)
Net balance at January 1	$ 6,206,781	$ 6,976,229	$ 4,428,081
Incurred related to:			
Current year	$ 15,896,251	$ 13,586,426	$ 13,545,562
Prior years	90,874	2,568,476	1,444,556
Total incurred	$ 15,987,125	$ 16,154,902	$ 14,990,118
Paid related to:			
Current year	$ 8,149,079	$ 8,768,672	$ 8,012,742
Prior years	4,908,492	8,259,045	4,429,228
Total paid	$ 13,057,571	$ 17,027,717	$ 12,441,970
Balance, American Vehicle, at acquisition	$ --	$ 103,367	$ --
Net balance at year end	$ 9,136,335	$ 6,206,781	$ 6,976,229
Plus reinsurance recoverables	7,847,421	4,798,556	2,789,619
Balance at year end	$ 16,983,756	$ 11,005,337	$ 9,765,848

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

As a result of the Company's review of its liability for losses and LAE, which includes a re-evaluation of the adequacy of reserve levels for prior year's claims, the Company increased its liability for loss and LAE for claims occurring in prior years by $90,874 for the year ended December 31, 2002, increased its liability for loss and LAE for claims occurring in prior years by $2,568,000 for the year ended December 31, 2001, and increased its liability for loss and LAE for claims occurring in prior years by $1,445,000 for the year ended December 31, 2000. The adjustments in the liability were primarily attributable to loss development with respect to the Company's personal automobile insurance program. There can be no assurance concerning future adjustments of reserves, positive or negative, for claims through December 31, 2002.

(8) REVOLVING CREDIT OUTSTANDING

Federated Premium's operations are funded by a revolving loan agreement ("Revolving Agreement") with FlatIron Funding Company LLC ("FlatIron"). The Revolving Agreement is structured as a sale of contracts receivable under a sale and assignment agreement with FPF, Inc. (a wholly-owned subsidiary of FlatIron), which gives FPF, Inc. 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. The Revolving Agreement, which was amended and revised in September 2001, allowed for a maximum credit commitment of $7.0 million plus an initial additional amount of $700,000 for the transition from September 30, 2001 when the previous agreement expired. The line declined by $100,000 each month beginning November 1, 2001. In September 2002 the line was amended and revised allowing for a maximum credit commitment of $4.0 million. The maximum credit commitment under the revolving loan agreement was reduced by FlatIron due to the A.M. Best ratings of third party insurance carriers for which the Company was financing policies at the time. Simultaneously, the Company ceased financing policies underwritten by third party insurance carriers altogether and began financing only those policies underwritten by the Company's insurance carriers. Additionally, the Company implemented a direct bill program for policies underwritten by the Company's carriers. These changes markedly decreased credit risks and made the Company's reliance on the higher credit commitment previously offered by FlatIron unnecessary. Direct billing is where the insurance company accepts from the insured, as a receivable, a promise to pay the premium, as opposed to requiring the full amount of the policy, either directly from the insured or from a premium finance company. The amount of FPF's advance is subject to availability under a borrowing base calculation, with maximum advances outstanding not to exceed the maximum credit commitment. The annual interest rate on advances under the Revolving Agreement is the prime rate plus additional interest varying from 1.25% to 3.25% based on the prior month's ratio of contracts receivable related to insurance companies with an A. M. Best rating of B or worse to total contracts receivable. The Revolving Agreement contains various operating and financial covenants, with which the Company was in compliance at December 31, 2002 and 2001. The Revolving Agreement, as amended, expires September 30, 2004. Outstanding borrowings under the Revolving Agreement as of December 31, 2002 and 2001 were approximately $4.3 million and $6.7 million, respectively. Outstanding borrowings in excess of the $4.0 million commitment totaled $312,420 and are permissible by reason of a compensating cash balance of $352,433 held for the benefit of FPF, Inc. Interest expense on this revolving credit line for the years ended December 31, 2002, 2001 and 2000 totaled approximately $342,000, $592,000 and $643,000, respectively.

(9) INCOME TAXES

A summary of the provision for income tax expense (benefit) for the years ended December 31, 2002, 2001 and 2000 is as follows:

	2002	2001	200
Federal:			
Current................................	$3,323,281	$(453,263)	$ 583
Deferred...............................	(453,708)	(103,197)	(1,001
	2,869,573	(556,460)	(417
State:			
Current................................	510,941	(56,428)	126
Deferred...............................	(77,665)	(17,665)	(171
	433,276	(74,093)	(44
	$3,302,849	$(630,553)	$ (462

The actual income tax expense (benefit) differs from the "expected" income tax expense (benefit) for the years ended December 31, 2002, 2001 and 2000 (computed by applying the combined applicable effective federal and state tax rates to income (loss) before provision for income tax expense (benefit)) as follows:

	2002	2001	200
Computed "expected" tax (benefit), at federal rate	$ 2,437,254	$ (954,903)	$ (33
State tax, net of federal deduction benefit	443,276	(48,901)	(2
Tax-exempt interest	(95,564)	(125,321)	(15
Amortization of goodwill	54,641	55,335	6
Dividend received deduction	(5,205)	(4,522)	(1
Valuation allowance for capital loss carry forward	256,083	482,491	
Other, net	212,364	(34,732)	1
Income tax expense (benefit), as reported	$ 3,302,849	$ (630,553)	$ (46

51

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's net deferred tax asset as of December 31, 2002 and 2001 are as follows:

	DECEMBER 31,	
	2002	20
Deferred tax assets:		
Unpaid losses and loss adjustment expenses	$ 265,695	$ 2

Unearned premiums	1,330,845	7
Unrealized loss on investment securities	85,454	
Allowance for credit losses	227,795	3
Unearned Commissions	333,941	7
Goodwill	190,315	2
Unearned adjusting income	40,640	
Capital loss carryforward - Impairment loss	752,600	
Capital loss carryforward	405,746	4
Total gross deferred tax assets	3,633,031	2,7
Deferred tax liabilities:		
Prepaid Florida Hurricane Catastrophe Fund	(169,335)	
Deferred acquisition costs, net	(2,905)	
Depreciation	(30,908)	(
Total gross deferred tax liabilities	(203,148)	(
Valuation for deferred tax asset	(738,574)	(4
Net deferred tax asset	$ 2,691,309	$ 2,2

In assessing the net realizable value of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. At December 31, 2002 and 2001, based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences with the exception of the capital loss carryforward, for which a reserve has been provided as of December 31, 2002.

(10) REGULATORY REQUIREMENTS AND RESTRICTIONS

To retain its certificate of authority, the Florida Insurance Code (the "Code") requires that Federated National and American Vehicle maintain capital and surplus equal to the greater of 10 percent of its liabilities or the statutory minimum capital and surplus requirement of $3.0 million as defined in the Code. In 2002, 2001 and 2000, Federated National and American Vehicle were required to have capital surplus of $3.25 million, $3.0 million and $2.75 million, each, respectively. At December 31, 2002, 2001 and 2000, Federated National's capital surplus was $9.2 million, $5.7 million and $6.2 million, respectively. At December 31, 2002 and 2001, American Vehicle had capital surplus of $4.0 million and $3.1 million, respectively. Further, the Companies were also required to adhere to a prescribed net premium-to-surplus ratio. For the year ended December 31, 2002, both Companies were in compliance with this requirement.

As of December 31, 2002, to meet regulatory requirements, the Company had bonds with a carrying value of approximately $1,994,000 pledged to the Insurance Commissioner of the State of Florida.

Under Florida law, a domestic insurer may not pay any dividend or distribute cash or other property to its shareholders except out of that part of its available and accumulated capital surplus funds which is derived from realized net operating profits on its business and net realized capital gains. A

Florida domestic insurer may not make dividend payments or distributions to shareholders without prior approval of the Florida Department of Financial Services if the dividend or distribution would exceed the larger of (i) the lesser of (a) 10 percent of capital surplus (b) net income, not including realized capital gains, plus a two-year carryforward, (ii) 10 percent of capital surplus with dividends payable constrained to unassigned funds minus 25 percent of unrealized capital gains of (iii) the lesser of (a) 10 percent of capital surplus or (b) net investment income plus a three-year carryfoward with dividends payable constrained to unassigned funds minus 25 percent of unrealized capital gains. Alternatively, a Florida domestic insurer may pay a dividend or distribution without the prior written approval of the Florida Department of Financial Services (i) if the dividend is equal to or less than the greater of (a) 10 percent of the insurer's capital surplus as regards policyholders derived from realized net operating profits on its business and net realized capital gains or (b) the insurer's entire net operating profits and realized net capital gains derived during the immediately preceding calendar year, (ii) the insurer will have policyholder capital surplus equal to or exceeding 115 percent of the minimum required statutory capital surplus after the dividend or distribution, (iii) the insurer files a notice of the dividend or distribution with the

Florida Department of Financial Services at least ten business days prior to the dividend payment or distribution and (iv) the notice includes a certification by an officer of the insurer attesting that, after the payment of the dividend or distribution, the insurer will have at least 115 percent of required statutory capital surplus as to policyholders. Except as provided above, a Florida domiciled insurer may only pay a dividend or make a distribution (i) subject to prior approval by the Florida Department of Financial Services or (ii) 30 days after the Florida Department of Financial Services has received notice of such dividend or distribution and has not disapproved it within such time. No dividends were declared or paid in 2002, 2001 or 2000.

Under these laws, Federated National would be permitted to pay dividends of approximately $142,000 to the Company in 2003, and American Vehicle would be permitted to pay $9,000 in dividends in 2003. Dividends in excess of this amount require approval by the Florida Department of Financial Services. There can be no assurance that, if requested, the Florida Department of Financial Services will allow any dividends in excess of this amount to be paid by Federated National.

The Company is required to comply with NAIC RBC requirements. RBC is a method of measuring the amount of capital appropriate for an insurance company to support its overall business operations in light of its size and risk profile. NAIC's RBC standards are used by regulators to determine appropriate regulatory actions relating to insurers who show signs of weak or deteriorating condition. As of December 31, 2002, based on calculations using the appropriate NAIC formula, both Federated National's and American Vehicle's total adjusted capital are in excess of ratios, which would require any form of regulatory action.

The NAIC has also developed IRIS ratios to assist state insurance Department of Financial Services in identifying companies, which may be developing performance or solvency problems, as signaled by significant changes in the companies' operations. Such changes may not necessarily result from any problems with an insurance company, but may merely indicate changes in certain ratios outside the ranges defined as normal by the NAIC. When an insurance company has four or more ratios falling outside "usual ranges," state regulators may investigate to determine the reasons for the variance and whether corrective action is warranted. As of December 31, 2002, Federated National was outside

NAIC's usual ranges with respect to its IRIS tests on 7 out of 12 ratios. Federated National was not in the "usual ranges" primarily because of the loss stemming from its other than temporary write down of the WorldCom bonds and because of the short fall in Federated National's loss and LAE reserves in 2000 and 1999. IRIS ratios in excess of "usual ranges" relative to surplus growth stemmed from the Company's infusion of $2.1 million into Federated National. Federated National has carefully reviewed its loss and LAE reserves and management believes that such reserves at December 31, 2002 are adequate. American Vehicle was outside NAIC's usual ranges on six ratios primarily because American Vehicle was in operation for the entire year 2002 as compared to 2001 when it resumed business in November. Prior to 2001 American Vehicle had not written insurance policies since 1997 and was under capitalized. Management does not currently believe that the Florida Department of Financial Services will take any significant action with respect to Federated National or American Vehicle regarding the IRIS ratios, although there can be no assurance that will be the case.

Generally accepted accounting principles differ in some respects from reporting practices prescribed or permitted by the Florida Department of Financial Services. Federated National's statutory capital and surplus was $9.2 million and $5.7 million as of December 31, 2002 and 2001, respectively. Federated National's statutory net loss was $2.1 million and $1.4 million for the years ended December 31, 2001 and 2000, respectively. Statutory non-admitted assets were approximately $45,000 and $395,000 as of December 31, 2002 and 2001, respectively. American Vehicle's statutory capital and surplus was $4.0 million and $3.1 million as of December 31, 2002 and 2001, respectively, and its statutory net income was $135,000 and $64,000 for the years ended December 31, 2002 and 2001, respectively. Statutory non-admitted assets were approximately $16,000 and $13,000 as of December 31, 2002 and 2001, respectively.

(11) COMMITMENTS AND CONTINGENCIES

In June 2000, a lawsuit was filed against the Company and its directors and executive officers seeking compensatory damages in an undisclosed amount on the basis of allegations that the Company's amended registration statement dated November 4, 1998 was inaccurate and misleading concerning the manner in which the Company 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. Specifically, the plaintiffs allege that the Company recognized ceded commission income on a written basis, rather than amortized on a pro rata basis. The plaintiffs allege that this was contrary to the Statement of Financial Accounting Concepts Nos. 1, 2 and 5. The Company has since accounted for ceded commission on a pro rata basis and has done so since these matters were brought to the Company's attention in 1998. Nevertheless, the Company believes that the lawsuit is without merit and is vigorously defending the action, as the Company reasonably relied upon outside subject matter experts to make these determinations at the time. The lawsuit was filed in the United States District Court for the Southern District of New York and seeks class action status. The plaintiff class purportedly includes purchasers of the Company's common stock between November 5, 1998 and August 13, 1999. The Court recently denied the Company's Motion to Dismiss the plaintiffs' First Amended Complaint and the Company filed an Answer and Affirmative Defenses.

53

Prior to its acquisition by the Company in 2001, American Vehicle was involved in litigation with a former officer and director. The litigation was adjudicated and American Vehicle, among others, was found liable and paid the final judgment. A petition was filed seeking costs of $136,000 and appellate

attorneys fees in excess of $2.0 million for fees American Vehicle's previous owners have agreed to indemnify the Company against any such fees and costs and, the $500,000 purchase price for American Vehicle is held in escrow pending settlement of the fees and costs issued. On February 26, 2003, the 11th Judicial Circuit in Miami, Florida entered an amended final judgment awarding the plaintiffs $1,140,387 in attorney fees and costs. Both parties are appealing this judgment. Management anticipates that there will be no costs associated with the settlement of this case, consequently, no liability for fees and costs have been accrued.

The Company is involved in other claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations, or liquidity.

The Company, as a direct premium writer in the State of Florida, is required to participate in certain insurer solvency pools under Florida Statutes 631.57(3)(a). Participation in these pools is based on the Company's written premium by line of business to total premiums written statewide by all insurers. Participation may result in assessments against the Company. The Company was assessed $258,000 and $203,000, for the years ended December 31, 2002 and 2001, respectively. During 2002 the Company recovered $180,000 of the 2001 assessment and is entitled to recover all of these assessments as permitted by the state of Florida through policy surcharges in 2003. For the years ended December 31, 2000 and 1999, no amounts were assessed against the Company.

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

No assessments by have been incurred by either insurance company through the date of issuance of this report.

(12) LEASES

The Company leases office space under various lease agreements with expiration dates through September 2016. Rental expense associated with operating leases is charged to expense in the period incurred. Rental expenses for 2002, 2001 and 2000 were approximately $756,000, $797,000 and $962,000, respectively, and are included in operating and underwriting expenses in the accompanying consolidated statements of operations.

At December 31, 2002, the minimum aggregate rental commitments are as follows:

FISCAL YEAR	LEASES
2003	$ 371,433
2004	250,693
2005	159,249
2006	67,885
Thereafter	236,547
Total	$1,085,807

(13) RELATED PARTY TRANSACTIONS

One of the Company's directors is a partner at a law firm that handles the Company's claims litigation. Fees paid to this law firm amounted to approximately $266,000, $530,000 and $533,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

In September 2002, one of the Company's directors, who is also on the Investment Committee, began to oversee an investment account for the Company. Commission fees paid to this director in 2002 totaled $1,250.

Mortgage loan receivables in the amount of $227,391 as of December 31, 2000, represent secured loans to relatives of an officer of the Company.

(14) NET INCOME (LOSS) PER SHARE

Net income (loss) per share is computed by dividing net income (loss) by the weighted average number of shares of common stock and common stock equivalents outstanding during the periods presented. Options granted in accordance with the Company's stock option plan are anti-dilutive and are not taken into account in the computation.

At December 31, 2002, 2001 and 2000, warrants issued to two employees to purchase 62,500 shares of common stock at $9 per share were outstanding. At December 31, 2002, 2001 and 2000, warrants sold as part of an underwriting agreement at a price of $0.0001 per warrant, entitling the holder to purchase 125,000 shares of common stock at $10.86 per share, were outstanding. All of these potential common shares were excluded from the computation of net income (loss) per share for 2002, 2001 and 2000 because their inclusion would have an anti-dilutive effect.

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

	INCOME (LOSS) (NUMERATOR)	SHARE (DENOMINATOR)	PER-SHARE AMOUNT
For the year ended December 31, 2002:			
Basic net (loss) per share	$ 4,570,201	3,005,626	$ 1.52
For the year ended December 31, 2001:			
Basic net (loss) per share	$ (992,090)	3,153,640	$ (0.31)
For the year ended December 31, 2000:			
Basic net (loss) per share	$ (522,874)	3,375,498	$ (0.15)

(15) 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, claims processing through Superior Adjusting and marketing and distribution through Federated Agency

Group, franchised agencies and independent agents. The insurance segment sells primarily standard and nonstandard personal automobile insurance, as well as homeowners and mobile home property and casualty insurance, and includes substantially all aspects of the insurance, distribution and claims process. The financing segment consists of premium financing through Federated Premium Finance. The financing segment provides premium financing to the Company's insureds, and is marketed through the Company's distribution network of Company-owned agencies and franchised 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 not allocated to business segments. Transactions between reportable segments are accounted for at fair value.

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

Information regarding components of operations for the years ended December 31, 2002, 2001 and 2000 follows:

	2002	2001	2000
TOTAL REVENUES			
Insurance Segment			
Earned Premiums	$ 29,393,004	$ 20,255,561	$ 20,321,
Investment Income (Loss)	1,253,215	(1,368,347)	499,
Adjusting Income	2,886,838	2,605,893	1,858,
MGA Fee Income	1,970,226	5,843,078	5,410,
Commission Income	2,568,600	5,524,379	6,355,
Other Income	812,622	342,044	142,
Total Insurance Revenue	38,884,505	33,202,608	34,587,
Financing Segment:			
Premium finance income	3,657,942	4,503,994	4,575,
Consumer loan interest	--	35,340	334,
Pay advance interest	56,584	567,233	783,
Miscellaneous Income	--	(15,885)	15,
Total Financing Revenues	3,714,526	5,090,682	5,709,
All Other	2,938,991	1,332,819	2,140,
Total Operating Segments	45,538,022	39,626,109	42,437,
Intercompany Eliminations	(4,958,477)	(4,149,543)	(4,883,
Total Revenues	$ 40,579,545	$ 35,476,566	$ 37,553,
EARNINGS (LOSS) BEFORE INCOME TAXES			
Insurance Segment	$ 6,104,883	$ (4,813,846)	$ (2,495,
Financing Segment	1,421,302	723,505	1,165,
All Other	346,865	1,281,803	344,
Total Operating Segments	7,873,050	(2,808,538)	(985,
Intercompany Eliminations	--	--	
Total Earnings (Loss) before Income Taxes	$ 7,873,050	$ (2,808,538)	$ (985,

Information regarding total assets as of December 31, 2002 and 2001 follows:

TOTAL ASSETS	2002	2001
Insurance Segment	$ 66,663,775	$ 42,016,846
Finance Segment	7,548,841	10,556,012
All Others	3,003,827	3,633,623
Total Operating Segments	77,216,443	56,206,481
Intercompany Eliminations	(1,898,432)	22,096
Total Assets	$ 75,318,011	$ 56,228,577

Supplemental segment information as of and for the year ended December 31, 2002, 2001 and 2000 follows:

	2002	2001	200
Deferred Policy Acquisition Costs - Insurance Segment	$ 7,721	$ 11,952	$ 1,1
Reserves for Unpaid Claims and Claim Adjustment Expense - Insurance Segment	16,983,756	11,005,337	9,7
Unearned Premiums- Insurance Segment	28,934,486	14,951,228	13,0
Earned Premiums- Insurance Segment	29,393,004	20,255,561	20,3
Net Investment Income (Loss)			
Insurance Segment	(116,196)	(1,368,347)	4
Other	--	(476,670)	6
Total Net Investment Income (Loss)	(116,196)	(1,845,017)	1,1
Claims and Adjustment Expenses Incurred Related to Current Years- Insurance Segment	15,896,251	13,586,426	13,5
Claims and Adjustment Expenses Incurred Related to Prior Years- Insurance Segment	90,874	2,568,476	1,4
Amortization of Deferred Acquisition Costs			
Insurance Segment	4,450,127	4,210,523	4,6
Financing Segment	213,326	406,088	6
Eliminations	(2,060,818)	(3,149,373)	(3,6
Total Amortization of Deferred Acquisition Costs	(2,064,314)	1,467,238	1,6
Paid Claims and Claim Adjustment Expense- Insurance Segment	13,057,569	17,013,886	12,4
Net Premiums Written- Insurance Segment	37,749,640	21,481,934	24,4

(16) STOCK COMPENSATION PLANS

On December 1998, the Company issued warrants to two employees to

purchase 62,500 shares of common stock of the Company at $9 per share. The warrants vested immediately and are exercisable between December 1999 and December 2004, at which time if they have not been exercised, they will be canceled. The estimated fair value of these warrants at the date issued was approximately $226,000 using a Black-Scholes option pricing model and assumptions similar to those used for valuing the Company's stock options as described below. As of December 31, 2002, no warrants have been exercised.

The Company implemented a stock option plan in November 1998 that provides for the granting of stock options to officers, key employees and consultants. The objectives of this plan includes attracting and retaining the best personnel, providing for additional performance incentives, and promoting the success of the Company 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, the Company is authorized to grant options to purchase up to 600,000 common shares, and, as of December 31, 2002, the Company had granted options to purchase 534,338 shares.

In 2001, the Company implemented a franchisee stock option plan that provides for the granting of stock options to individuals purchasing Company owned agencies which are then converted to franchised agencies. The purpose of the plan is to advance the interests of the Company 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, the Company is authorized to grant options to purchase up to 689,000 common shares, and, as of December 31, 2002, the Company had granted options to purchase 78,155 shares.

56

In 2002, the Company implemented its 2002 Option Plan. The purpose of this Plan is to advance the interests of the Company, by providing an additional incentive to attract, retain and motivate highly qualified and competent persons who are key to the Company, including key employees, consultants, independent contractors, Officers and Directors, upon whose efforts and judgment the success of the Company and its Subsidiaries is largely dependent, by authorizing the grant of options to purchase Common Stock of the Company to persons who are eligible to participate hereunder, thereby encouraging stock ownership in the Company 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 1,200,000 common shares, and, as of December 31, 2002, the Company had granted options to purchase 727,000 shares.

Activity in the Company's stock option plans for the period from January 1, 2000 to December 31, 2002 is summarized below:

	1998 PLAN		2001 FRANCHISE PLAN		2002
	Number of Shares	Weighted Avg. Option Exercise Price	Number of Shares	Weighted Avg. Option Exercise Price	Number of Shares

Outstanding at December 31, 1999	472,510	$10			
Granted	136,500	$10			
Exercised	--				
Canceled	(121,039)	$10			
Outstanding at December 31, 2000	487,971	$10	--		
Granted	20,000	$10	83,830	$10	
Exercised	--		--		
Canceled	(95,399)	$10	--		
Outstanding at December 31, 2001	412,572	$10	83,830	$10	
Granted	228,265	$10	--		783,000
Exercised	(1,000)	$10	--		--
Canceled	(105,499)	$10	(5,675)	$10	(56,000
Outstanding at December 31, 2002	534,338	$10	78,155	$10	727,000

Options outstanding as of December 31, 2002 are exercisable as follows:

	1998 PLAN		2001 FRANCHISE PLAN		20
Options Exercisable at:	Number of Shares	Weighted Avg. Option Exercise Price	Number of Shares	Weighted Avg. Option Exercise Price	Number of Shar
2002	291,509	$10	7,815		--
2003	84,991	$10	6,016	$10	143,000
2004	64,705	$10	6,915	$10	143,000
2005	48,316	$10	6,916	$10	143,000
2006	44,817	$10	6,915	$10	143,000
Thereafter	--	--	43,578	$10	155,000
	534,338	$10	78,155	$10	727,000

The Company continues to account for stock-based compensation using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, under which no compensation cost for stock options is recognized for stock option awards granted to employees at or above fair market value. Had compensation expense for the Company's stock compensation plan 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 (loss) and net income (loss) per share would have been reduced (increased) to the pro forma amounts indicated below. Additional stock option awards are anticipated in future years.

Net income (loss)	2002	2001	2000
As reported	$4,570,201	$(992,090)	$(522,874)
Pro forma	$2,819,673	$(1,181,855)	$(741,191)
Net income (loss) per share			
As reported	$1.52	$(0.31)	$(0.15)
Pro forma	$0.94	$(0.37)	$(0.22)

The weighted average fair value of options granted during 2002, 2001 and 2000 estimated on the date of grant using the Black-Scholes option-pricing model was $2.17 to $8.06 in 2002; $2.38 to $2.92 in 2001; and $2.79 to $6.23 in 2000. The fair value of options granted is estimated on the date of grant using the following assumptions:

	2002	2001	2000
Dividend yield	.073%-3.50%	2.68%-3.20%	0.00%
Expected volatility	120.22%	136%-152%	73%-93%
Risk-free interest rate	4.49%-5.82%	4.89%-5.29%	5.75%
Expected life (in years)	4.83-7.02	10	10

Summary information about the Company's stock options outstanding at December 31, 2002:

	Range of Exercise Price	Outstanding at 12/31/02	Weighted Average Contractual Periods in Years	Weig Ave Exercis
1998 Plan	$10.00	534,338	7.2	$1
2001 Franchise Plan	$10.00	78,155	7.5	$1
2002 Plan	$12.50-$13.75	727,000	5.4	$1

(17) EMPLOYEE BENEFIT PLAN

The Company has established a profit sharing plan under Section 401(k) of the Internal Revenue Code. This plan allows eligible employees to contribute up to 15 percent of their compensation on a pre-tax basis, not to exceed statutory limits. For the years ended December 31, 2002 and 2001, the Company did not contribute to the plan. For the year ended December 31, 2000, the Company declared a discretionary match of 50 percent of the first 6 percent of the employees' contribution. Such matching Company contributions are vested incrementally over five years. The charge to operations for the Company's matching contribution was approximately $143,000 in 2000.

(18) ACQUISITIONS

In August 2001, the Company purchased all of the outstanding stock and all of the outstanding surplus notes of American Vehicle for $500,000 in cash. In addition, the Company agreed to pay two executives of American Vehicle a finders' fee of $400,000 over a period of three years. Income and expenses of American Vehicle beginning September 1, 2001 are included in the Company's Consolidated Statements of Operations. The fair value of the net assets (which consisted primarily of marketable securities) of American Vehicle at the date of acquisition was approximately $2.1 million. In accordance with SFAS No. 141, Business Combinations, the excess of the fair value of the net assets purchased over the purchase price has been reported as an extraordinary gain in the accompanying Consolidated Statements of Operations.

American Vehicle was organized and incorporated as a multi-line property and casualty insurance company and primarily wrote nonstandard private passenger automobile liability and physical damage coverage. Pursuant to a

January 8, 1998, consent order entered into with the Florida Department of Financial Services, American Vehicle ceased writing new or renewal business and pursuant to an additional consent order, the Company had been placed in Administrative Supervision effective March 2, 2001. Pursuant to a third consent order as of August 30, 2001, the two previous consent orders were vacated and the Florida Department of Financial Services approved this acquisition. Also, pursuant to the third consent order, American Vehicle is not allowed to pay dividends for three years without the Florida Department of Financial Services approval and all contracts with affiliates must also be approved by the Florida Department of Financial Services.

The Consolidated Balance Sheet at December 31, 2001 includes the balance sheet of American Vehicle. The Consolidated Statements of Operations for the year ended December 31, 2001 and the Consolidated Statement of Cash Flow for the year ended December 31, 2001 include American Vehicle from the acquisition date (August 30, 2001) through December 31, 2001.

Unaudited pro forma results of operations giving effect to the acquisition as of the beginning of each year presented are as follows:

	2001	2000
Revenue	$35,545,435	$37,813,233
Income before extraordinary gain	(2,270,396)	(637,823
Extraordinary gain	1,185,895	1,185,895
Net income	(1,084,501)	548,072
Earnings (loss) per share and earnings (loss) per share assuming dilution		
Net income (loss) before extraordinary gain	$(0.72)	$(0.19
Extraordinary gain	0.38	0.35
Net income (loss)	(0.34)	0.16

The above pro forma information is not necessarily indicative of the results of operations that would have occurred had the acquisition taken place as of the beginning of each period reported, or of results, which may occur in the future.

(19) COMPREHENSIVE INCOME (LOSS)

Reclassification adjustments related to the investment securities included in comprehensive income (loss) for the years ended December 31, 2002, 2001 and 2000 are as follows:

	2002	2001	2000
Unrealized holdings net gains (losses) arising during the year	$ (103,764)	$ 143,925	$ (665,931)
Reclassification adjustment for (gains) losses included in net income	90,197	1,722,421	576,827
	(13,567)	1,866,346	(89,104)
Tax effect	4,613	784,079	33,530

Net depreciation on investment securities	$ (8,954)	$ 1,082,267	$ (55,574)

(20) AUTHORIZATION OF PREFERRED STOCK

The Company's Amended and Restated Articles of Incorporation authorize the issuance of one million shares of preferred stock with designations, rights and preferences determined from time to time by its board of directors. Accordingly, the Company's board of directors is empowered, without shareholder approval, to issue preferred stock with dividends, liquidation, conversion, voting or other rights that could adversely affect the voting power or other rights of the holders of common stock. The Company has not issued preferred shares as of December 31, 2002.

(21) 21ST CENTURY HOLDING COMPANY

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

Condensed Balance Sheets

ASSETS	2002
Cash and cash equivalents	$ 22,
Investments and advances to subsidiaries	16,198,
Deferred income taxes	800,
Property, plant and equipment, net	820,
Other assets	843,
Total assets	$18,684,

LIABILITIES AND SHAREHOLDERS' EQUITY	
Bank overdraft	$11,
Other liabilities	580,
Total liabilities	591,
Shareholders' equity:	
Common stock	34,
Additional paid-in capital	12,855,
Accumulated other comprehensive deficit	(231,
Retained earnings	6,521,
Treasury stock	(1,085,
Total shareholders' equity	18,093,

Total liabilities and shareholders' equity.........................	$18,684,

Condensed Statements of Operations

	2002	
Revenue:		
Management fees from subsidiaries............................	$1,885,000	$
Equity in income (loss) of subsidiaries......................	5,605,148	(
Net investment income (loss).................................	--	
Other income...	95,283	
Total revenue..	7,585,431	
Expenses:		
Advertising..	140,287	
Salaries and wages...	457,856	
Other expenses...	733,811	
Total expenses...	1,331,954	
Income (loss) before provision for income tax expense and extraordinary gain...	6,253,477	(
Benefit (expense) for income tax..............................	(1,683,276)	
Net income (loss) before extraordinary gain................	4,570,201	(
Extraordinary gain..	--	
Net income (loss)..	$4,570,201	

Condensed Statements of Cash Flow

	2002	
Cash flow from operating activities:		
Net income (loss)..	$ 4,570,201	$
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Equity in income (loss) of subsidiaries........................	(2,505,148)	
Depreciation and amortization of property plant and equipment...	126,295	
Deferred income tax expense....................................	(497,655)	
Net realized investment (gains) losses.........................	--	
Extraordinary Gain...	--	(
Changes in operating assets and liabilities:		
Other assets...	66,220	
Other Liabilities..	(58,256)	
Net cash provided by (used in) operating activities...................	1,701,657	
Cash flow from investing activities:		
Proceeds from sale of investment securities available for sale.....	--	3

Purchases of investment securities available for sale	--	(3
Purchases of property and equipment	(13,322)	
Increased capital of subsidiaries	(3,100,000)	
Cash dividends received from subsidiaries	--	
Net cash used in acquisitions	--	
Net cash provided by (used in) investing activities	(3,113,322)	
Cash flow from financing activities:		
Bank overdraft	(72,211)	
Dividends paid	(449,475)	
Purchases of treasury stock	(245,646)	
Advances from (to) subsidiaries	2,197,493	(
Repayment of indebtedness	--	
Net cash provided by (used in) financing activities	1,430,161	(
Net (decrease) increase in cash and cash equivalents	18,496	
Cash and cash equivalents at beginning of year	3,853	
Cash and cash equivalents at end of year	$ 22,349	$

60

(22) SUBSEQUENT EVENTS

Subsequent to December 31, 2002 and the date of presentation, 26,600 options were exercised for $266,000 and two FedUSA franchise agreements were terminated.

SCHEDULE VI - SUPPLEMENTAL INFORMATION CONCERNING PROPERTY-CASUALTY INSURANCE OPERATIONS

	Loss and loss adjustment expenses - Current Year	Loss and loss adjustment expenses - Prior year	Amortization of deferred policy acquisition expenses	Paid losses and loss adjustment expenses	Net w
2002	15,896,251	90,874	(2,064,314)	13,057,571	37
2001	13,586,426	2,568,476	1,467,238	17,027,717	21
2000	13,545,562	1,444,556	1,673,754	12,441,970	24

		Reserves for losses and loss	Discount, if		

Affiliation with registrant	Deferred policy acquisition costs	adjustment expenses	any, deducted from previous column	Unearned premiums	Net
Consolidated Property and Casualty Subsidiaries					
2002	7,721	16,983,756	0	28,934,486	29
2001	11,952	11,005,337	0	14,951,228	20
2000	1,192,260	9,765,848	0	13,038,417	20

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

Previously reported on Form 8-K dated December 4, 2002, as amended.

61

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS, COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

The directors and executive officers of the Company currently are as follows:

NAME	AGE	POSITION WITH THE COMPANY
Edward J. Lawson (1)(2)	53	President, Chief Executive Officer and Director (4)
Michele V. Lawson	45	Treasurer
James DePelisi (3)	36	Director
Carl Dorf (2)	62	Director
Charles B. Hart, Jr. (1) (3)	64	Director
Bruce F. Simberg (1)(2)(3)	54	Director
Richard A. Widdicombe	44	Director; President and Chief Executive Officer of Federal National, Assurance MGA and

		American Vehicle (4)
Richard W. Wilcox	61	Director

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(1) Member of Compensation Committee.

(2) Member of Investment Committee.

(3) Member of Audit Committee.

(4) In June 2003, Mr. Widdicombe was appointed to serve as the Company's Chief Executive Officer. Accordingly, as of such date Mr. Lawson is no longer the Company's Chief Executive Officer.

EDWARD J. LAWSON co-founded the Company and has served as its President and Chief Executive Officer since inception. Mr. Lawson has more than 17 years' experience in the insurance industry, commencing with the founding of the Company's initial agency in 1983.

MICHELE V. LAWSON co-founded the Company and has served as an executive officer since inception and a director from inception until March 2003. Mrs. Lawson is currently the Company's Treasurer. Mrs. Lawson has more than 17 years' experience in the insurance industry, commencing with the founding of the Company's initial agency in 1983. Mrs. Lawson also holds a property and casualty license in Florida.

JAMES DEPELISI was appointed as a director of the Company in January 2003. In February 1998, Mr. DePelisi founded LDV Corporation, a financial advisory firm, of which he serves as President and CEO. Mr. DePelisi is also the Director of Investment Banking for Independent Securities Investment Corporation, a NASD member firm.

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

CHARLES B. HART, JR. has over 40 years of experience in the insurance industry. From 1973 to 1999, Mr. Hart served as President of Public Assurance Group and as General Manager of Operations for Bristol West Insurance Services. Since 1999, Mr. Hart currently has acted as an insurance consultant.

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

62

RICHARD A. WIDDICOMBE assumed the office of President of the Company's subsidiaries, Federated National Insurance Company ("Federated National") and Assurance Managing General Agents, Inc. ("Assurance MGA") in November 1999 and American Vehicle Insurance Company ("American Vehicle") in August 2001. From 1984 to 1999, Mr. Widdicombe held various positions, most recently senior vice president, at MacNeill Group, Inc. [formerly Jardine MacNeill), a managing general agent based in Miami, Florida. Mr. Widdicombe holds his adjuster's license and CPCU designation. Mr. Widdicombe is a member of the Florida Department of Financial Services (previously Florida Department of Insurance)

Initial Disaster Assessment team.

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

Edward J. Lawson and Michele V. Lawson are husband and wife. There are no other family relationships among the Company's directors and executive officers.

COMPLIANCE WITH SECTION 16(a) OF THE SECURITIES EXCHANGE ACT OF 1934

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's executive officers, directors and holders of more than 10% of the Company's Common Stock, to file reports of ownership and changes in ownership with the Securities and Exchange Commission (the "Commission") and The NASDAQ National Market. Such persons are required to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on its review of the copies of such forms received by it, or oral or written representations from certain reporting persons, the Company believes that, with respect to the fiscal year ended December 31, 2002, all filing requirements applicable to its executive officers, directors and greater than 10% beneficial owners were complied with, with the exception of Carl Dorf's August 2002 Form 4, which was filed on September 4, 2002 and later amended due to clerical error.

ITEM 11. EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

The following compensation table sets forth, for the years ended December 31, 2002, 2001, and 2000, the cash and certain other compensation paid by the Company to the Company's CEO, who was the executive officer whose salary and bonuses exceeded $100,000 during 2002.

		ANNUAL COMPENSATION		LONG-TERM C
NAME AND PRINCIPAL POSITION	YEAR	SALARY($)	BONUS($)	SECURITIES UNDERLYING OPTION(#)
Edward J. Lawson,	2002	$156,000	0	-
President and CEO	2001	156,000	0	-
	2000	155,000	0	-

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(1) Includes $660 in contributions for Mr. Lawson to the company's 401(k) plan in 2001and $4,560 in contributions for Mr. Lawson to the Company's 401(k) plan in 2000.

OPTION GRANTS IN LAST FISCAL YEAR

The following table sets forth information concerning individual grants of stock options made during 2002 to the CEO.

	INDIVIDUAL GRANTS				POTENT AT AS STOC F
NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED (#)(1)	% OF TOTAL OPTIONS/SAR GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE OR BASE PRICE ($/SHARE)	EXPIRATION DATE	5% ($)
Edward J. Lawson	100,000	9.9%	12.50	June 4, 2008	530,445

STOCK OPTIONS HELD AT END OF 2002

The following table indicates the total number and value of exercisable and unexercisable stock options held by the CEO as of December 31, 2002. No options were exercised by the CEO.

	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR-END		VALUE OF UNE IN-THE-MONEY AT FISCAL
Name	Exercisable	Unexercisable	Exercisable(1)
Edward J. Lawson	18,250	103,750	$248,383

(1) Based on a fair market value of $13.61 per share at December 31, 2002.

EQUITY COMPENSATION PLAN INFORMATION

EQUITY COMPENSATION PLAN INFORMATION

PLAN CATEGORY	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS (a)	WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS (b)	R S
Equity compensation plans approved by security holders*	2,489,000	$11.86	
Equity compensation plans			

not approved by security holders**	62,500	$ 9.00
TOTAL	2,551,500	$11.79

* Includes options from the 1998 Stock Option Plan, 2001 Franchise Program Stock Option Plan and the 2002 Stock Option Plan.
** Includes warrants that were granted to Kent Linder and Michael Braun as part of employment agreements executed on December 9, 1998.

64

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Edward J. Lawson, the Company's President and Chief Executive Officer serves as a member of the Compensation Committee, but will resign during the 2nd Quarter of 2003. He has not participated in discussions regarding his compensation.

Bruce F. Simberg serves as member of the Compensation Committee. He is a partner of the Fort Lauderdale, Florida law firm of Conroy, Simberg, Ganon, Krevans & Abel, P.A., which renders legal services to the Company. In 2002 and 2001, the Company paid legal fees to Conroy, Simberg, Ganon, Krevans & Abel, P.A. for services rendered in the amount of $266,000 and $530,000, respectively.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information contained under the caption "Beneficial Security Ownership" appearing in the Annual Meeting Proxy Statement is incorporated by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Bruce F. Simberg, a director of the Company, is a partner of the Fort Lauderdale, Florida law firm of Conroy, Simberg, Ganon, Krevans & Abel, P.A., which renders legal services to the Company. In 2002 and 2001, the Company paid legal fees to Conroy, Simberg, Ganon, Krevans & Abel, P.A. for services rendered in the amount of $266,000 and $530,000, respectively.

In September 2002 Carl Dorf, one of the Company's directors, who is also on the Investment Committee, began to oversee an investment account for the Company. Commission fees paid to this director in 2002 totaled $1,250.

Mortgage loan receivables in the amount of $227,391 and $119,304 as of December 31, 2000 and 1999, respectively, represent fully collateralized residential mortgage loans to Christopher Lawson and Stephany Lawson, the brother and stepmother of the Company's President and Chief Executive Officer, Edward Lawson, respectively. The mortgage loans to Christopher Lawson and Stephan Lawson bore interest at the rate of 8% and 8.5% per annum, respectively. During 2002, these mortgage loans were paid off and the receivable is $0.

APPROVAL OF AFFILIATED TRANSACTIONS

The Company has adopted a policy that any transactions between the Company and its executive officers, directors, principal shareholders and their affiliates take place on an arms-length basis and require the approval of a

majority of the independent directors of the Company. The Company believes that its transactions with Bruce Simberg, Carl Dorf, Christopher Lawson and Stephany Lawson were on terms at least as favorable as those the Company could secure from a non-affiliated third party.

ITEM 14. INTERNAL CONTROLS

(a) EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

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

(b) CHANGES IN INTERNAL CONTROLS

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

PART IV

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

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

(1) Financial Statements

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

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

Independent Auditors' Report (McKean, Paul, Chrycy, Fletcher & Co.).

Consolidated Balance Sheets as of December 31, 2002 and 2001.

Consolidated Statements of Operations for the years ended December 31, 2002, 2001 and 2000.

Consolidated Statements of Shareholders' Equity and Comprehensive Income (Loss) for the years ended December 31, 2002, 2001 and 2000.

Consolidated Statements of Cash Flows for the years ended December 31, 2002, 2001 and 2000.

Notes to Consolidated Financial Statements for the years ended December 31, 2002, 2001 and 2000.

(2) Financial Statement Schedules

Schedule VI - Supplemental information concerning property-casualty insurance operations

66

(3) Exhibits

EXHIBIT	DESCRIPTION
3.1	Amended and Restated Articles of Incorporation (1)
3.2	Form of Registrant's Amended and Restated Bylaws (1)
4.1	Specimen of Common Stock Certificate (1)
4.2	Revised Representative's Warrant Agreement including form of Rep
10.1	Stock Option Plan, as amended (3)*
10.2	Employment Agreement between the Registrant and Edward J. Lawson
10.3	Employment Agreement between the Registrant and Michele V. Lawso
10.4	Form of Indemnification Agreement between the Registrant and its officers (1)*
10.5	Revolving Credit and Term Loan Agreement between FlatIron Fundin Inc., as amended (1)
10.9	Employment Agreement between Registrant and Richard A. Widdicomb
10.12	Third Modification Agreement to Revolving Credit and Term Loan A Funding Company, LLC and FPF, Inc., and Sale and Assignment Agre Premium and FPF, Inc. (5)
10.13	Fourth Modification Agreement to Revolving Credit and Term Loan Premium Finance, Inc., FlatIron Funding Company, LLC, FlatIron F Credit Company, Inc. (6)
10.14	Sale and Assignment Agreement between Federated Premium Finance,
10.15	Premium Receivable Servicing Agreement between Federated Premium Inc. (6)
10.21	First Modification Agreement between Federated Premium Finance,
10.22	General Agency Agreement dated August 1, 1998 between Federated and Assurance Managing General Agents, Inc. (8)
10.23	Managing General Agency Agreement dated September 4, 2001 betwee Insurance Company and Assurance Managing General Agents, Inc. (8
16.1	Letter from McKean, Paul, Chrycy, Fletcher & Co. (9)
21.1	Subsidiaries of the Registrant (6)
23.1	Consent of McKean, Paul, Chrycy, Fletcher & Co., Independent Cer (8)
23.2	Consent of De Meo, Young, McGrath, Independent Certified Public
31.1	Certification of Chief Executive Officer pursuant to Section 302 (8)
31.2	Certification of Chief Financial Officer pursuant to Section 302 (8)
32.1	Certification of Chief Executive Officer pursuant to Section 906

	(8)
32.2	Certification of Chief Financial Officer pursuant to Section 906 (8)
99.1	Form S-8 filed January 14, 2003 to register 1998 Stock Option Pl Franchise Program Stock Option Plan, 2002 Stock Option Plan, War Shares of Common Stock, and Warrant to Purchase 50,000 Shares of incorporated herein by reference. (10)

* MANAGEMENT COMPENSATION PLAN OR ARRANGEMENT

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

(2) Previously filed exhibit of the same number of the 1998 Annual Report on Form 10-KSB.

(3) Previously as an exhibit to the Company's 2000 Annual Meeting Proxy Statement.

(4) Previously filed exhibit of the same number of the 1999 Annual Report on Form 10-KSB.

(5) Previously filed exhibit of the same number of the 2000 Annual Report on Form 10-KSB.

(6) Previously filed exhibit of the same number of the 2001 Annual Report on Form 10-K.

(7) Previously filed exhibit of the same number of the 2002 Annual Report on Form 10-K as originally filed.

(8) Filed herewith.

(9) Previously filed exhibit of the same number of Form 8-K dated December 4, 2002.

(10) Previously filed exhibit of the same number of Form S-8, filed on January 16, 2003.

(b) REPORTS ON FORM 8-K

On December 3, 2002, the Company's Board of Directors recommended and approved the replacement of its principal accountants, McKean, Paul, Chrycy, Fletcher and Co. Also on December 3, 2002 the Board of Directors recommended and approved the replacement firm of De Meo, Young, McGrath as its independent auditors, effective December 5, 2002.

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Exchange Act of 1934, the registrant has duly caused this Form 10K/A (Amendment No. 1) to be signed on its behalf by the undersigned, thereto duly authorized.

21ST CENTURY HOLDING COMPANY

By: /s/ Richard Widdicombe

Richard Widdicombe, Chief Executive Officer

By: /s/ James G. Jennings, III

James G. Jennings, III, Chief Financial Officer
(Principal Financial and Accounting Officer)

Dated: September 2, 2003