21ST CENTURY HOLDING CO
Form 10-K
March 30, 2006

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
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, 2005
or
o 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 (State or other jurisdiction of incorporation or organization)	65-0248866 (I.R.S. Employer Identification No)

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yesý No o
Indicate by check mark whether the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No ý
Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý
Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yesý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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. ý
Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.
Large accelerated filer o Accelerated filer o Non-accelerated filer ý
Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). YesoNo ý
The aggregate market value of the Registrant's voting common stock held by non-affiliates, based on the stock price at the last business day of the second quarter of 2005 was $64,370,378. As of March 28, 2006, the total number of shares outstanding of Registrant's common stock was 7,353,038.

DOCUMENTS INCORPORATED BY REFERENCE

21st Century Holding Company's definitive proxy statement for its 2006 annual meeting of shareholders will be filed with the SEC not later than 120 days after the end of the fiscal year covered by this report on Form 10-K pursuant to General Instruction G (3) of the Form 10-K**.** Information from such definitive proxy statement will be incorporated by reference into Part III, Items 10, 11, 12,13 and 14 hereof.

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PART I .

ITEM 1. BUSINESS

SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report on Form 10-K, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements generally are identified by words “believes,” “project,” “expects,” “anticipates,” “estimates,” “intends,” “strategy,” “plan,” “may,” “will,” “would,” “will be,” “will continue,” “will likely resu expressions, Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. A detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in the section entitled “Risk Factors” beginning on page 23 of this Annual Report. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

GENERAL

21st Century Holding Company (“21st Century,” “we,” “us”) is an insurance holding company, which, through our subsidiaries and our contractual relationships with our independent agents and general agents, controls substantially all aspects of the insurance underwriting, distribution and claims process. We are authorized to underwrite personal automobile insurance, commercial general liability insurance, homeowners’ property and casualty insurance and mobile home property and casualty insurance in various states with various lines of authority through our wholly owned subsidiaries, Federated National Insurance Company (“Federated National”) and American Vehicle Insurance Company (“American Vehicle”).

Federated National is authorized to underwrite personal automobile insurance, homeowners’ property and casualty insurance and mobile home property and casualty insurance in Florida as an admitted carrier. American Vehicle is authorized to underwrite personal and commercial automobile insurance and commercial general liability insurance in Florida as an admitted carrier. In addition, American Vehicle is authorized to underwrite commercial general liability insurance in Georgia, Kentucky, South Carolina and Virginia as a surplus lines carrier and in Texas, Louisiana and Alabama as an admitted carrier. American Vehicle operations in Florida, Georgia and Louisiana are on-going. American Vehicle operations in Texas, Alabama, Kentucky, South Carolina and Virginia are expected to begin this year. American Vehicle has pending applications, in various stages of approval, to be authorized as a surplus lines carrier in the states of Connecticut, Illinois, Missouri, Nevada, New Mexico, West Virginia, California and Arkansas.

During the year ended December 31, 2005, 63.4%, 17.3 %, 18.9 % and 0.4 % of the premiums we underwrote were for homeowners’ property and casualty insurance, non-standard personal automobile insurance, commercial general liability insurance, and mobile home property and casualty insurance, respectively. During the year ended December 31, 2004, 62.0%, 24.1%, 12.4 % and 1.5% of the premiums we underwrote were for homeowners’ property and casualty insurance, personal automobile insurance, commercial general liability insurance, and mobile home property and casualty insurance, respectively. We internally process claims made by our own and third-party insureds through our wholly owned claims adjusting company, Superior Adjusting, Inc. (“Superior”). We also offer premium financing to our own and third-party insureds through our wholly owned subsidiary, Federated Premium Finance, Inc. (“Federated Premium”).

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

RECENT DEVELOPMENTS

Impact of 2005 -2006 Hurricane Season

From June through October 2005, the State of Florida experienced four hurricanes, Dennis, Katrina, Rita and Wilma. Since then, we have been receiving and processing claims made under our homeowners' and mobile home owners' policies, a process that is expected to continue into the second quarter of 2006. One of the Company's subsidiaries, Federated National, incurred significant losses relative to its homeowners' insurance line of business. As of December 31, 2005, and relative to the 2005 hurricane season, approximately 12,500 policyholders filed hurricane-related claims totaling an estimated $155.5 million, of which we estimate that our share of the costs associated with these hurricanes to be approximately $8.9 million, net of reinsurance recoveries.

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

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

Maximum coverage afforded from the combined policies of our FHCF and excess of loss policies in effect for varying dates from June 1, 2005 to June 30, 2006 total approximately $194.8 million. FHCF will retain approximately $131.0 million, our excess of loss reinsurance policies will retain $64.0 million, and the Company will retain the first $3 million of insurable losses for two events. For events beyond the second largest catastrophic event during the policy term, FHCF coverage attaches after the Company and its excess of loss reinsured collective retention of approximately $15.0 million. Additionally, unused coverage from our excess of loss reinsurance treaties may be carried forward.

The FHCF treaty provides protection for 90% of losses and LAE and attaches at approximately $43.0 million. This treaty inures to the benefit of our excess of loss treaty and expires on June 1, 2006

Impact of 2004 -2005 Hurricane Season

In August and September 2004, the State of Florida experienced four hurricanes, Charley, Frances, Ivan and Jeanne. Since then, we have been receiving and processing claims made under our homeowners' and mobile home owners' policies, a process that is substantially complete. The same subsidiary as noted above, Federated National, incurred significant losses relative to its homeowners' insurance line of business. As of December 31, 2005, and relative to the 2004 hurricane season, approximately 9,000 policyholders filed hurricane-related claims totaling an estimated $143.7 million, of which we estimate that our share of the costs associated with these hurricanes to be approximately $54.0 million, net of reinsurance recoveries.

We had a reinsurance structure that was a combination of private reinsurance and the FHCF. For each catastrophic occurrence, the excess of loss treaty insured us for $24 million with the Company retaining the first $10 million of losses and LAE. There are two layers involved with our excess of loss reinsurance treaties, the $24 million is considered the first layer. The treaty had a provision which, for an additional prorated premium would insure us for another $24 million of losses and LAE for a subsequent occurrence with the Company retaining the first $10 million in losses and LAE. As a result of the losses and LAE incurred in connection with the Hurricanes Charles and Frances the Company has exhausted its recoveries of $48 million under the terms of this treaty.

The second layer of our excess of loss treaty insures us for an additional $34 million in excess of the $34 million first layer noted above with the same reinstatement provision. The excess of loss treaties expired on June 30, 2005 and the Company negotiated a new reinsurance treaty. Accordingly, losses and LAE incurred for Hurricanes Ivan and Jeanne and any subsequent catastrophic events through June 30, 2005, up to $34 million each, were the responsibility of the Company.

The FHCF treaty provided protection for 90% of losses and LAE and attached at approximately $36.2 million. This treaty inured to the benefit of our excess of loss treaty and expired on June 1, 2005.

For a further discussion of our reinsurance please see our section titled “REINSURANCE”

Regulatory

To retain our certificates of authority, Florida insurance laws and regulations require that our insurance company subsidiaries, Federated National and American Vehicle, maintain capital surplus equal to the greater of 10% of its liabilities or $4.0 million, as defined in the Florida Insurance Code. As of December 31, 2005, Federated National and American Vehicle were in compliance with statutory minimum capital and surplus requirement.

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The insurance companies are also required to adhere to prescribed premium-to-capital surplus ratios. As of December 31, 2005, both Federated National and American Vehicle were in compliance with the prescribed premium-to-surplus ratio.

As of December 31, 2004, American Vehicle was in compliance with the prescribed premium-to-capital surplus ratio. However, Federated National did not comply with the prescribed premium-to-capital surplus ratio as of December 31, 2004 because it had incurred losses associated with the four 2004 hurricanes. As a result of a $6.1 million capital contribution made during the first quarter of 2005 from 21st Century, Federated National's compliance with the prescribed premium-to-capital surplus ratios was restored.

During the aftermath of a hurricane, the Florida Office of Insurance Regulation ("OIR") will routinely issue emergency orders that imposed a moratorium on cancellations and non-renewals of various types of insurance coverages and require mediation to resolve disputes over personal property insurance claims. The orders also prohibit cancellations or non-renewals based solely upon claims resulting from the hurricanes.

BUSINESS STRATEGY

Although our operations have been dominated in part by the claims made in connection with the nine hurricanes that have occurred during 2004 and 2005, we expect that in 2006 we will return to a focus on the key aspects of our business strategy. We will seek continued growth of our business by capitalizing on the efficiencies of our business model and by:

· expanding the commercial general liability insurance product into additional states. In addition to our ongoing operations already underway in Florida, Georgia and Louisiana, we have obtained licenses to underwrite and sell commercial general liability insurance in Alabama, Texas, Kentucky, South Carolina and Virginia. Although we have not yet begun operation in these states, our operations are expected to begin in 2006;

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

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

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

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

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

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

INSURANCE OPERATIONS AND RELATED SERVICES

General

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

Federated National is authorized to underwrite personal automobile insurance, homeowners' property and casualty insurance and mobile home property and casualty insurance in Florida as an admitted carrier. American Vehicle is authorized to underwrite personal and commercial automobile insurance and commercial general liability insurance in Florida as an admitted carrier.

In addition, American Vehicle is authorized to underwrite commercial general liability insurance in Georgia, Kentucky, South Carolina and Virginia as a surplus lines carrier and in Texas, Louisiana and Alabama as an admitted carrier.

American Vehicle has pending applications, in various stages of approval, to be authorized as either an admitted carrier or surplus lines carrier in the states of California and Arkansas.

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

	Years Ended December 31,					
	2005		2004		2003	
	Premium	Percent	Premium	Percent	Premium	Percent
			(Dollars in Thousands)			
Gross written premiums:						
Automobile	$ 20,665	17.3%	$ 24,239	24.1%	$ 49,298	67.5%
Homeowners'	75,741	63.4%	62,400	62.0%	16,804	23.0%
Mobile Home	441	0.4%	1,513	1.5%	1,739	2.4%
Commercial General Liability	22,593	18.9%	12,510	12.4%	5,151	7.1%
Total gross written premiums	$ 119,440	100.0%	$ 100,662	100.0%	$ 72,992	100.0%
Ceded premiums:						
Automobile	$ (5)	0.0%	$ (992)	-6.4%	$ 19,498	88.3%
Homeowners'	31,111	99.0%	14,932	96.4%	$ 2,593	11.7%
Mobile Home	308	1.0%	1,546	10.0%	—	0.0%
Commercial General Liability	—	0.0%	—	0.0%	—	0.0%
Total ceded premiums	$ 31,414	100.0%	$ 15,486	100.0%	$ 22,091	100.0%
Net written premiums						
Automobile	$ 20,669	23.4%	$ 25,231	29.6%	$ 29,800	58.6%
Homeowners'	44,631	50.7%	47,468	55.7%	14,211	27.9%
Mobile Home	133	0.2%	(33)	0.0%	1,739	3.4%
Commercial General Liability	22,593	25.7%	12,510	14.7%	5,151	10.1%
Total net written premiums	$ 88,026	100.0%	$ 85,176	100.0%	$ 50,901	100.0%

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

Homeowners' and Mobile Homeowners'

We underwrite homeowners' insurance principally in South and Central Florida. Homeowners' insurance generally protects an owner of real and personal property against covered causes of loss to that property. Limits on homeowners' insurance are generally significantly higher than those for mobile homes, but typically provide for deductibles and other restrictive terms. Our property insurance products typically provide maximum coverage in the amount of $500,000, with the average policy limit being approximately $900,000. The approximate average premium on the policies currently in force is approximately $1,849, as compared to $1,571 for 2004, and the typical deductible is $1,000 for non-hurricane-related claims and generally 2% of the coverage amount for the structure for hurricane-related claims.

We underwrite homeowners’ insurance for mobile homes, principally in Central and Northern Florida, where we believe that the risk of catastrophe loss from hurricanes is in a typical year less than in other areas of the state. Mobile homeowners’ insurance generally involves the potential for above-average loss exposure, as compared to homeowners’ insurance. In the absence of major catastrophe losses, however, loss exposure is limited because premiums usually are at higher rates than those charged for non-mobile home property and casualty insurance. Additionally, our property lines for mobile homes typically provide maximum coverage in the amount of $30,000, with the average policy limit being approximately $60,000. In addition, we presently limit our mobile home coverage to no more than 10% of our underwriting exposure. The approximate average premium on the policies currently in force is approximately $346, as compared to $315 for 2004. The typical non-hurricane deductible is $500 and the typical hurricane deductible is 2% of the coverage amount for the structure.

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Federated National incurred significant losses relative to its homeowner's and mobile homeowners' insurance lines of business as a result of the three of the five Florida hurricanes in 2005. Approximately 12,500 policyholders are expected to file hurricane-related claims totaling an estimated $155.5 million, of which we estimate that our share of the costs associated with these hurricanes will be approximately $8.9 million, net of reinsurance recoveries. Federated National also incurred significant losses relative to its homeowner's and mobile homeowners' insurance lines of business as a result of the four Florida hurricanes in 2004. Approximately 9,000 policyholders have filed hurricane-related claims totaling an estimated $143.8 million, of which we estimate that our share of the costs associated with these hurricanes will be approximately $54.0 million, net of reinsurance recoveries. For a further discussion of our reinsurance please see our section titled "REINSURANCE"

We continue to evaluate the premium rates that our property insurance policyholders are charged and have implemented an average rate increase of 14.9% and 22.4% for new and renewal policies in effect as of varying dates in December 2005 and December 2004, respectively. The December 2005 rate increase is subject to approval by the Florida OIR. There can be no assurances that our most recent requested rate increase will be approved.

Commercial General Liability

We underwrite commercial general liability insurance for approximately 250 classes of artisan contracting trades (excluding home-builders and developers) and for certain special events. The limits of liability range from $100,000 per occurrence and $200,000 policy aggregate to $1 million per occurrence and $2 million policy aggregate. We market the commercial general liability insurance products through a limited number of general agencies unaffiliated with the Company. The average annual premium on policies, with deductibles of $250 to $500 per claim, and currently in force is approximately $763, as compared to $648 for 2004, as of the year ended December 31, 2005 and 2004, respectively.

The following table sets forth the amounts and percentages of our gross premiums written in connection with our commercial general liability program by state:

	2005		2004		2003	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
			(Dollars in Thousands)			
State						
Florida	$ 18,293	81.0%	$ 10,727	85.7%	$ 5,067	98.4%
Georgia	1,258	5.5%	793	6.4%	84	1.6%
Lousiania	3,042	13.5%	990	7.9%	—	0.0%
Total	$ 22,593	100.0%	$ 12,510	100.0%	$ 5,151	100.0%

Personal Automobile

Personal automobile insurance markets can be divided into two categories, Standard Automobile and Nonstandard Automobile. Standard personal automobile insurance is principally provided to insureds who present an average risk profile in terms of driving record, vehicle type and other factors. Nonstandard personal automobile insurance is principally provided to insureds who are unable to obtain standard insurance coverage because of their driving record, age, vehicle type or other factors, including market conditions.

Limits on standard personal automobile insurance are generally significantly higher than those for nonstandard coverage, but typically provide for deductibles and other restrictive terms. Underwriting criteria for standard coverage has become more restrictive, thereby requiring more insureds to seek nonstandard coverage and contributing to the increase in the size of the nonstandard automobile market. Nonstandard automobile insurance, however, generally involves the potential for increased loss exposure and higher claims experience. Loss exposure is mitigated because premiums usually are written at higher rates than those written for standard insurance coverage.

Both of our insurance subsidiaries currently underwrite nonstandard personal automobile insurance only in Florida, where the minimum limits are $10,000 per individual, $20,000 per accident for bodily injury, $10,000 per accident for property damage and comprehensive, and $50,000 for collision. The average annual premium on policies currently in force is approximately $954, as compared to $1,057 for 2004, and the nonstandard personal automobile insurance lines represent approximately 99.8% and 98.8% of our written premiums for personal automobile insurance as of the year ended December 31, 2005 and 2004, respectively. Both Federated National and American Vehicle underwrite this coverage on primarily an annual basis and to a much lesser extent on a semi-annual basis.

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

Federated National underwrites standard personal automobile insurance policies providing coverage no higher than $100,000 per individual, $300,000 per accident for bodily injury, $50,000 per accident for property damage and comprehensive and collision up to $50,000 per accident, with deductibles ranging from $200 to $1,000. The average premium on the policies currently in force is approximately $1,203, as compared to $1,402 for 2004, and represented approximately 0.2% of our written premiums for personal automobile insurance as of the year ended December 31, 2005. The Company is currently filing for additional rate increase on the personal automobile line of business.

Flood

We write flood insurance through the National Flood Insurance Program (“NFIP”). We write the policy for the NFIP, which assumes 100% of the flood risk while we retain a commission for our service. The average flood policy premium is $300 with limits up to $250,000. Commissions in connection with this program totaled $0.2 million, 0.3 million and 0.03 million as of December 31, 2005, 2004 and 2003, respectively.

Assurance MGA

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

Superior

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

Federated Premium

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

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

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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,					
	2005		2004		2003	
	Premium	Percent	Premium	Percent	Premium	Percent
	(Dollars in Thousands)					
Federated National	$ 6,893	21.5%	$ 11,510	34.0%	$ 19,227	49.9%
American Vehicle	14,946	46.7%	9,390	27.8%	15,519	40.3%
Other insurers	10,186	31.8%	12,925	38.2%	3,767	9.8%
Total	$ 32,025	100.0%	$ 33,825	100.0%	$ 38,513	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 Westchester Premium Acceptance Corporation ("WPAC") (a wholly-owned subsidiary of FlatIron), which gives WPAC the right to sell or assign these contracts receivable. Federated Premium, which services these contracts, has recorded transactions under the Revolving Agreement as secured borrowings. Outstanding borrowings under the Revolving Agreement as of December 31, 2005 and 2004 were approximately $0.2 million and $2.1 million., respectively.

Finance contracts receivable decreased $1.0 million, or 11.8%, to $7.3 million as of December 31, 2005, as compared to $8.3 million as of December 31, 2004. We anticipate a continued decline in the short-term in connection with premiums financed contracts. The Company anticipates continued use of the direct bill feature associated with the two insurance companies and their automobile lines of business.

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

Discontinued Operations

Tax Preparation Services and Ancillary Services

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

Franchise Operations

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

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

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

MARKETING AND DISTRIBUTION

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

As a result of this sale, we are focusing our marketing efforts on continuing to expand our distribution network and market our products and services in other regions of Florida and other states by establishing relationships with additional independent agents and general agents. As this occurs, we will seek to replicate our distribution network in those states. There can be no assurance, however, that we will be able to obtain the required regulatory approvals to offer additional insurance products or expand into states other than Florida, Georgia , Kentucky, Louisiana and Texas.

Our agents have the authority to sell and bind insurance coverage in accordance with procedures established by Assurance MGA. Assurance MGA reviews all coverage bound by the agents promptly and generally accepts all coverage that falls within stated underwriting criteria. For automobile and commercial general liability policies, Assurance MGA also has the right, within a period of 60 days from a policy's inception, to cancel any policy, upon 45 days' notice, even if the risk falls within our underwriting criteria.

Except for the periods as defined by the Florida OIR, following specific hurricanes when they issue emergency orders to imposed a moratorium on cancellations and non-renewals of various types of insurance coverages, our homeowners' and mobile home policies as underwritten by Assurance MGA provided for the right, within a period of 90 days from a policy's inception, of Assurance MGA to cancel any policy upon 25 days' notice or after 90 days from policy inception with 95 days' notice, even if the risk falls within our underwriting criteria.

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

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

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

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	Years Ended December 31,					
	2005		2004		2003	
	Premium	Percent	Premium	Percent	Premium	Percent
			(Dollars in Thousands)			
Company-owned agencies	$ —	0.0%	$ 11,421	11.4%	$ 22,320	30.6%
Franchised agencies	—	0.0%	7,999	7.9%	11,630	15.9%
Independent agencies	119,440	100.0%	81,242	80.7%	39,041	53.5%
Total	$ 119,440	100.0%	$ 100,662	100.0%	$ 72,991	100.0%

REINSURANCE

We follow industry practice of reinsuring a portion of our risks and paying for that protection based upon premiums received on all policies subject to such reinsurance. Reinsurance involves an insurance company transferring or "ceding" all or a portion of its exposure on insurance underwritten by it to another insurer, known as a "reinsurer.” The 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.

There are three general types of reinsurance products, quota-share, excess of loss and facultative. Each of these reinsurance products can be applied to any line of primary insurance business. Quota-share reinsurance contemplates that the reinsurer assumes a portion of the exposure in return for a portion, or quota share, of the premium, and may pay the ceding company a commission based upon the amount of insurance ceded. Excess loss reinsurance contemplates the exchange of an insurance premium for coverage against a primary loss that exceeds a predetermined level over a preset period of time, generally, but not necessarily, a year. Finally, facultative reinsurance contemplates the payment of an insurance premium for coverage against a very specific risk or policy.

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

In addition to the excess of loss reinsurance policies (described above), we continue to participate in the FHCF to protect our interest in the insurable risks associated with our homeowner and mobile home owner insurance products. For the first two events, FHCF coverage begins after the Company’s retention of $3.0 million and its excess of loss reinsures retention of approximately $40.3 million.

Maximum coverage afforded from the combined policies of our FHCF and excess of loss policies in effect for varying dates from June 1, 2005 to June 30, 2006 total approximately $194.8 million. FHCF will retain approximately $131.0 million, our excess of loss reinsurance policies will retain $64.0 million, and the Company will retain the first $3 million of insurable losses for two events. For events beyond the second largest catastrophic event during the policy term, FHCF coverage attaches after the Company and its excess of loss reinsures collective retention of approximately $15.0 million. Additionally, unused coverage from our excess of loss reinsurance treaties may be carried forward and totals $20.0 million. However, loss and LAE incurred up to approximately $15.0 million for each hurricane subsequent to the October 2005 Hurricane Wilma and through June 30, 2006 and deemed to be a catastrophic event would be the responsibility of the Company. To date, no such catastrophic events have occurred.

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

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2005 Hurricanes	Claim Count		Gross Losses		Reinsurance Recoveries		Net Losses
			(Dollars in millions)				
Dennis (July 10)	322	$	2.7	$	0.0	$	2.7
Katrina (August 25)	2,076		14.6		11.6		3.0
Rita (September 20)	24		0.2		—		0.2
Wilma (October 24)	10,039		138.0		135.0		3.0
Total Loss Estimate	12,461	$	155.5	$	146.6	$	8.9

In August and September 2004, the State of Florida experienced four hurricanes, Charley, Frances, Ivan and Jeanne. One of our subsidiaries, Federated National, incurred significant losses relative to its homeowners' and mobile homeowners' insurance lines of business. As of December 31, 2005, approximately 9,000 policyholders have filed hurricane-related claims totaling an estimated $143.7 million, of which we estimate that our share of the costs associated with these hurricanes will be approximately $54 million, net of reinsurance recoveries.

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

Maximum coverage afforded from the combined policies of our FHCF and excess of loss policies in effect for varying dates from June 1, 2004 to June 30, 2005 totaled approximately $200.0 million, during which time we retained the first $10 million of insurable losses on each event. as illustrated in the accompanying table.

2004 Hurricanes	Claim Count		Gross Losses		Reinsurance Recoveries		Net Losses
			(Dollars in millions)				
Charley (August 13)	2,565	$	59.5	$	49.5	$	10.0
Frances (September 3)	3,805		50.2		40.2		10.0
Ivan (September 14)	1,065		21.0		—		21.0
Jeanne (September 25)	1,548		13.0		—		13.0
Total Loss Estimate	8,983	$	143.7	$	89.7	$	54.0

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

We continue to participate in the FHCF and we subscribe to an excess of loss reinsurance policy to protect our interest in the insurable risks associated with our homeowner and mobile home owner insurance products. Our amount of reinsurance coverage continues to be determined by subjecting our homeowner and mobile homeowner exposures to statistical forecasting models that are designed to quantify a catastrophic event in terms of the frequency of a storm occurring once in every "n" years. Our reinsurance coverage contemplated a catastrophic event occurring once every 100 years.

We are selective in choosing a reinsurer and consider numerous factors, the most important of which is the financial stability of the reinsurer, their history of responding to claims and their overall reputation. In an effort to minimize our exposure to the insolvency of a reinsurer, we evaluate the acceptability and review the financial condition of the reinsurer at least annually. Our current policy is to use only reinsurers that have an A.M. Best rating of “A” (Excellent) or better. There can be no assurance that a reinsurer will remain “A” or better through to the term of the policy.

The Company’s reinsurance for automobile insurance was ceded with Transatlantic Reinsurance Company (“Transatlantic”), an A+ rated reinsurance company. During 2004, Federated National did not reinsure any of its automobile insurance. In 2003 and 2002, Federated National ceded 40% of its automobile premiums written and losses incurred to Transatlantic. Beginning in November 2001, and continuing through December 31, 2003, American Vehicle reinsured all of its automobile insurance with Transatlantic at various levels. During 2005 and 2004 American Vehicle did not reinsure any of its insurance products.

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The automobile quota-share reinsurance treaties for 2003 include loss corridors with varying layers of coverage based on ultimate incurred loss ratio results whereby the two insurance companies will retain 100% of the losses between incurred loss ratios of 66% and 86% for policies with an effective date of 2003. Despite the loss corridor, the reinsurer assumes significant insurance risk under the reinsured portions of the underlying insurance contracts and it is reasonably possible that the reinsurer may realize a significant loss from the transaction. Our ultimate incurred loss ratios for these treaties as of December 31, 2005 are estimated to be 66.6% and 74.5% for Federated National and American Vehicle, respectively.

During 2005, Federated National entered into a 100% quota-share agreement with its affiliate American Vehicle. The agreement ceded 100% of its premium and losses on all policies with an effective date between July 1, 2005 and December 31, 2005. For presentation purposes, and in accordance with the principles of consolidation, the agreements between the two affiliated insurance companies has been eliminated.

LIABILITY FOR UNPAID LOSSES AND LAE

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

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

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

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

The estimates of the liability for unpaid losses and LAE are subject to the effect of trends in claims severity and frequency and are continually reviewed. As part of this process, we review historical data and consider various factors, including known and anticipated legal developments, changes in social attitudes, inflation and economic conditions. As experience develops and other data become available, these estimates are revised, as required, resulting in increases or decreases to the existing liability for unpaid losses and LAE. Adjustments are reflected in results of operations in the period in which they are made and the liabilities may deviate substantially from prior estimates. Among our classes of insurance, the automobile and homeowners’ liability claims historically tend to have longer time lapses between the occurrence of the event, the reporting of the claim and the final settlement, than do automobile physical damage and homeowners’ property claims. Liability claims often involve parties filing suit and therefore may result in litigation. By comparison, property damage claims tend to be reported in a relatively shorter period of time and settled in a shorter time frame with less occurrence of litigation.

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

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

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	For the years ending December 31,		
	2005	2004	2003
	(Dollars in Thousands)		
Balance at January 1:	$ 46,571	$ 22,656	$ 16,984
Less reinsurance recoverables	(9,415)	(7,847)	(7,848)
Net balance at January 1	$ 37,156	$ 14,809	$ 9,136
Incurred related to:			
Current year	$ 42,242	$ 76,423	$ 26,275
Prior years	6,094	(1,430)	1,234
Total incurred	$ 48,336	$ 74,993	$ 27,509
Paid related to:			
Current year	$ 25,749	$ 42,304	$ 14,204
Prior years	34,125	10,342	7,632
Total paid	$ 59,874	$ 52,646	$ 21,836
Net balance at year-end	$ 25,619	$ 37,156	$ 14,809
Plus reinsurance recoverables	128,420	9,415	7,847
Balance at year-end	$ 154,039	$ 46,571	$ 22,656

As shown above, and as a result of our review of liability for losses and LAE, which includes a re-evaluation of the adequacy of reserve levels for prior year's claims, we increased the liability for losses and LAE for claims occurring in prior years by $6.1 million for the year ended December 31, 2005 and we decreased the liability for losses and LAE for claims occurring in prior years by $1.4 million for the year ended December 31, 2004. We increased the liability by $1.2 million for the year ended December 31, 2003 relating to loss and LAE occurring in years prior to 2003.

During the year ended December 31, 2005, we increased incurred losses and LAE for claims in connection with the four hurricanes in 2004 by approximately $10.6 million and decreased the incurred loss and LAE in connection with our automobile and commercial general liability lines of business by $4.5 million. There can be no assurance concerning future adjustments of reserves, positive or negative, for claims incurred through December 31, 2005.

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

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

	As of December 31,	
	2005	2004
Transatlantic Reinsurance Company (A+ A.M. Best Rated):		
Unearned premiums	$ —	$ 2,559
Reinsurance recoverable on paid losses and LAE	96,283	1,661,751
Unpaid losses and LAE	732,206	2,507,403
	$ 828,489	$ 4,171,713

Amounts due from reinsurers consisted of amounts related to:				
Unpaid losses and LAE	$	732,206	$	2,507,403
Reinsurance recoverable on paid losses and LAE		96,283		1,661,751
Reinsurance receivable		453		11,301
	$	828,942	$	4,180,455

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In addition to our reinsurance recoverable from our automobile reinsurers, we also have reinsurance recoveries due from our catastrophic reinsurance companies. These reinsurance recoveries relate to Hurricane Katrina and Hurricane Wilma from 2005 and to the four hurricanes that occurred in August and September of 2004. The following table presents total unpaid loss and LAE, net, and total reinsurance recoverables due from our catastrophic reinsurers as shown in our consolidated financial statements.

	As of December 31,	
	2005	2004
Catastrophe Excess of Loss (Various participants) and Florida Hurricane Catastrophe Fund:		
Reinsurance recoverable on paid LAE	$ 18,820,712	$ 18,191,799
Unpaid losses and LAE	127,685,575	6,907,390
	$ 146,506,287	$ 25,099,189
Amounts due from reinsurers consisted of amounts related to:		
Unpaid losses and LAE	$ 127,685,575	$ 6,907,390
Reinsurance recoverable on paid LAE	18,820,712	18,191,799
Reinsurance receivable (payable)	(10,047,585)	(3,371,458)
	$ 136,458,702	$ 21,727,731

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The following table presents the liability for unpaid losses and LAE for the years ended December 31, 1996 through 2005 and does not distinguish between catastrophic and non-catastrophic events. 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,									
	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
	Dollars in Thousands									
Balance Sheet Liability	$ 25,621	$ 37,156	$ 14,809	$ 9,136	$ 6,207	$ 6,976	$ 4,428	$ 5,366	$ 4,635	$ 4,532
Cumulative paid as of:										
One year later		35,128	9,969	7,622	5,296	8,228	4,289	3,460	2,694	2,850
Two years later			12,016	9,401	7,222	9,568	5,799	4,499	3,533	3,539
Three years later				9,945	7,711	10,101	6,328	5,111	3,972	3,882
Four years later					7,953	10,352	6,408	5,387	4,241	4,107
Five years later						10,476	6,542	5,227	4,325	4,223
Six years later							6,563	5,216	4,121	4,262
Seven years later								5,220	4,035	3,985
Eight years later									4,034	3,746
Nine years later										3,746
Re-estimated net liability as of:										
End of year	$ 25,621	$ 37,156	$ 14,809	$ 9,136	$ 6,207	$ 6,976	$ 4,428	$ 5,366	$ 4,635	$ 4,532
One year later		44,179	14,256	10,897	6,954	9,445	5,872	4,676	4,360	4,332
Two years later			14,318	10,625	7,842	10,200	6,284	5,157	4,063	4,255

Three years later			11,236	8,069	10,425	6,605	5,352	4,314	4,102
Four years later				8,312	10,616	6,561	5,515	4,386	4,304
Five years later					10,782	6,664	5,384	4,395	4,321
Six years later						6,644	5,396	4,277	4,321
Seven years later							5,400	4,284	4,189
Eight years later								4,282	4,191
Nine years later									4,191
Cumulative redundancy (deficiency)	$ (7,023)	$ 490	$ (2,100)	$ (2,105)	$ (3,806)	$ (2,216)	$ (34)	$ 353	$ 341
Cumulative redundancy (-) deficiency as a % of reserves originally established	-18.9%	3.3%	-23.0%	-33.9%	-54.6%	-50.0%	-0.6%	7.6%	7.5%

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.

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As noted above we experienced a $7.0 million dollar cumulative deficiency recognized during the year ended December 31, 2005 in connection with the re-estimation of all loss that occurred during the year ended December 31, 2004. When bifurcated between catastrophic losses and non-catastrophic losses, the 2004 cumulative deficiency reflects gross catastrophic losses in connection with the four hurricanes of 2004 totaling $10.6 million netted against a cumulative redundancy in connection with our automobile and commercial general liability lines of business totaling $3.7 million.

The table below sets forth the differences between loss and LAE reserves as disclosed for GAAP basis compared to Statutory Accounting Principles ("SAP") basis of presentation for the years ended 2005 and 2004.

	Years Ended December 31,			
		2005		2004
GAAP basis Loss and LAE reserves	$	154,039	$	46,571
Less unpaid Losses and LAE ceded		128,418		9,415
Balance Sheet Liability		25,621		37,156
Add Insurance Apportionment Plan		112		234
SAP basis Loss and LAE reserves	$	25,733	$	37,390

The table below sets forth the differences between loss and LAE incurred as disclosed for GAAP basis compared to SAP basis presentation for the years ended 2005, 2004 and 2003

	Years Ended December 31,					
		2005		2004		2003
	(Dollars in Thousands)					
GAAP basis Loss and LAE incurred	$	48,339	$	74,993	$	27,509
Intercompany adjusting and other expenses		7,450		5,597		3,579
Insurance apportionment plan		235		185		1,940
SAP basis Loss and LAE incurred	$	56,024	$	80,775	$	33,028

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 2005, 2004 and 2003. The ratios, inclusive of unallocated loss adjustment expenses ("ULAE"), are shown in the table below, and are computed based upon SAP.

	Years Ended December 31,		
	2005	2004	2003
Loss Ratio	67.5%	117.7%	67.4%
Expense Ratio	36.3%	23.1%	25.7%
Combined Ratio	103.8%	140.8%	93.1%

The 40.40% decrease in the SAP loss ratio from 2005 to 2004 in part reflects our experience relating to risk management techniques.

Main factors for the improved non-catastrophic ratios between 2005 and 2004 include, but are not limited to the termination of unprofitable agency relations, increased scrutiny over fraudulently asserted claims, streamlined paperless claims processing system, new claims management supervision, in house legal counsel, as well as overall stricter underwriting guidelines.

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

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The following table reflects the distinction between non-catastrophic and catastrophic losses incurred during the year ended December 31, 2005.

		Non-Catastrophic experience	Catastrophic experience (Dollars in millions)	Total
Net Written Premiums	(a)	$ 86,365	$ 1,662	$ 88,026
Net Earned Premiums	(b)	$ 79,610	$ 3,353	$ 82,962
Net Incurred Losses & LAE	(c)	$ 36,770	$ 19,254	$ 56,024
Net Underwriting Expense	(d)	$ 31,646	$ 351	$ 31,997
Loss Ratio	(c/b)	46.2%	574.2%	67.5%
Expense Ratio	(d/a)	36.6%	21.1%	36.3%
Combined Ratio		82.8%	595.4%	103.8%

COMPETITION

We operate in highly competitive markets and face competition from both national and regional insurance companies, many of whom are larger and have greater financial and other resources, have better A.M. Best ratings and offer more diversified insurance coverage. Our competitors include companies which market their products through agents, as well as companies which sell insurance directly to their customers. Large national writers may have certain competitive advantages over agency writers, including increased name recognition, increased loyalty of their customer base and reduced policy acquisition costs. We may also face competition from new or temporary entrants in our niche markets. In some cases, such entrants may, because of inexperience, desire for new business or other reasons, price their insurance below ours. Although our pricing is inevitably influenced to some degree by that of our competitors, we believe that it is generally not in our best interest to compete solely on price. We compete on the basis of underwriting criteria, our distribution network and superior service to our agents and insureds.

With respect to automobile insurance in Florida, we compete with more than 100 companies, which underwrite personal automobile insurance. Comparable companies which compete with us in the personal automobile insurance market include Affirmative Insurance Holdings, Inc., which recently acquired our non-standard automobile agency business in Florida, U.S. Security Insurance Company, United Automobile Insurance Company, Direct General Insurance Company and Security National Insurance Company, as well as major insurers such as Progressive Casualty Insurance Company.

Comparable companies which compete with us in the homeowners’ market include Allstate Insurance Company, State Farm Insurance Company, Florida Family Insurance Company, Florida Select Insurance Company, Atlantic Preferred Insurance Company and Vanguard Insurance Company.

Comparable companies which compete with us in the general liability insurance market include Century Surety Insurance Company, Atlantic Casualty Insurance Company, Colony Insurance Company and Burlington/First Financial Insurance Companies.

Competition could have a material adverse effect on our business, results of operations and financial condition.

REGULATION

General

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

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

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

Most states require licensure or regulatory approval prior to the marketing of new insurance products. Typically, licensure review is comprehensive and includes a review of a company's business plan, solvency, reinsurance, character of our 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. In accordance with the National Association of Insurance Commissioners ("NAIC") the Florida OIR intends to comply with recent initiatives recommending that all insurance companies under the same insurance holding company registration statement be subjected to concurrent triennial examinations. Accordingly, both Federated National and American Vehicle are scheduled for a triennial examination during 2006. The last regulatory examination conducted by the OIR on Federated National covered the three-year period ended on December 31, 2004. The last regulatory examination of American Vehicle covered the three-year period ended on December 31, 2002. No material deficiencies were found during either of the regulatory examinations.

Federated National and American Vehicle are scheduled to have its statutorily required triennial examination during 2006. American Vehicle's examination will be for the three years ended December 31, 2005 and Federated National's will be for the one year ended December 13, 2005. Subsequent to the 2005 examination, both American Vehicle and Federated National will be scheduled for concurrent triennial examinations. Both of these examinations are to be performed by the Florida OIR.

Federated National's 2004 regularly scheduled statutory triennial examination during 2005 for the three years ended December 31, 2004 as performed by the Florida OIR resulted in no corrective orders being issued. We may be the subject of additional targeted examinations or analysis. These examinations or analysis may result in one or more corrective orders being issued by the Florida OIR.

In some instances, various states routinely require deposits of assets for the protection of policyholders either in those states or for all policyholders. As an example, the Florida OIR requires Federated National and American Vehicle to have securities with a fair value of $1.0 million. As of December 31, 2005, Federated National and American Vehicle held investment securities with a fair value of approximately $999,880, each as deposits with the State of Florida. Additionally, as of December 31, 2005, American Vehicle has a $100,000 deposit with the State of Louisiana and a

$400,000 deposit in connection with its license in Alabama.

Restrictions in Payments of Dividends by Domestic Insurance Companies

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 OIR 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 OIR (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 OIR 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 OIR or (ii) 30 days after the Florida OIR has received notice of such dividend or distribution and has not disapproved it within such time.

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Under these laws, based on their respective 2005 surplus and income, Federated National and American Vehicle would not be permitted to pay dividends in 2005. No dividends were paid by Federated National or American Vehicle in 2004, 2003 or 2002, and none are anticipated in 2006. Although we believe that amounts required to meet our financial and operating obligations will be available from sources other than dividends from our insurance subsidiaries, there can be no assurance in this regard. Further, there can be no assurance that, if requested, the Florida OIR will allow any dividends in excess of the amount available, to be paid by Federated National and American Vehicle to us in the future. The maximum dividends permitted by state law are not necessarily indicative of an insurer's actual ability to pay dividends or other distributions to a parent company, which also may be constrained by business and regulatory considerations, such as the impact of dividends on capital surplus, which could affect an insurer's competitive position, the amount of premiums that can be written and the ability to pay future dividends. Further, state insurance laws and regulations require that the statutory capital surplus of an insurance company following any dividend or distribution by it be reasonable in relation to its outstanding liabilities and adequate for its financial needs.

While (Assurance MGA, Superior and any other affiliate), 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).

NAIC Risk Based Capital Requirements

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

Based upon the 2005 statutory financial statements for American Vehicle, statutory surplus exceeded all regulatory action levels established by the NAIC's risk-based capital requirements. Based upon the 2005 statutory financial statements for Federated National, statutory surplus did not exceed company action levels established by the NAIC. Federated National's results require us to submit a plan containing corrective actions. Federated National has not submitted its plan for corrective action yet, however we will submit a plan during the second quarter of 2006. We do not anticipate significant regulatory action in connection with Federated National's 2005 Risk Base Capital ("RBC") results.

Based on Risk Based Capital requirements, the extent of regulatory intervention and action increases as the ratio of an insurer's statutory surplus to its Authorized Control Level ("ACL"), as calculated under the NAIC's requirements, decreases. The first action level, the Company Action Level, requires an insurer to submit a plan of corrective actions to the insurance regulators if statutory surplus falls below 200.0% of the ACL amount. The second action level, the Regulatory Action Level, requires an insurer to submit a plan containing corrective actions and permits the insurance regulators to perform an examination or other analysis and issue a corrective order if statutory surplus falls below 150.0% of the ACL amount. The Authorized Control Level, the third action level, allows the regulators to rehabilitate or liquidate an insurer in addition to the aforementioned actions if statutory surplus falls below the ACL amount. The fourth action level is the Mandatory Control Level, which requires the regulators to rehabilitate or liquidate the insurer if statutory surplus falls below 70.0% of the ACL amount. Federated National's ratio of statutory surplus to its ACL was 154.0 %, 125.5% and 434.2% at December 31, 2005, 2004 and 2003, respectively. American Vehicle's ratio of statutory surplus to its ACL was 329.7%, 545.1% and 585.2% at December 31, 2005, 2004 and 2003, respectively.

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NAIC Insurance Regulatory Information Systems Ratios

The NAIC has also developed Insurance Regulatory Information Systems ("IRIS") ratios to assist state insurance departments 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, 2005, Federated National was outside NAIC's usual ranges with respect to its IRIS tests on six out of thirteen ratios. With the exception of one of these test results, all of test results can be attributed to the significant degradation of policyholders' surplus stemming from the losses incurred in its homeowners' line of business as a result of the five hurricanes in 2005 and the four hurricanes in 2004. Although there was only modest improvement with respect to our 2005 IRIS test results as compared to 2004 results, management's attention to risk retention techniques in connection with the five Florida hurricanes during 2005 was the major reason for improvement in an otherwise adverse year for property insurers.

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

As of December 31, 2005, American Vehicle was outside NAIC's usual ranges for two out of thirteen ratios. The first ratio relates to a larger than anticipated change in net writings, the second ratio relates to a modestly higher ratio of Gross Agents' Balances due to the Company over the Policyholder Surplus. These Gross Agent Balances are all less than ninety days old.

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

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

Insurance Holding Company Regulation

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

Common Stock will be presumed to have acquired control of Federated National and American Vehicle unless the Florida OIR, upon application, determines otherwise.

Finance Company Regulation

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

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Underwriting and Marketing Restrictions

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

Legislation

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

Industry Ratings Services

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

EMPLOYEES

As of December 31, 2005, we had approximately 135 employees, including three executive officers. We are not a party to any collective bargaining agreement and we have not experienced work stoppages or strikes as a result of labor disputes. We consider relations with our employees to be satisfactory.

SENIOR MANAGEMENT

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

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

Kent M. Linder assumed the position of Chief Operating Officer of 21st Century in September 2003 and was designated an executive officer by our Board of Directors in March 2005. Prior to this position, Mr. Linder served 21st Century as Director of Franchise Development from January 2001 to July 2003 and previous to that as the President of

Federated Agency Group from December 1998 to January 2001. Prior to joining our management team, Mr. Linder owned and operated a group of 18 insurance agencies in the Orlando, Florida area. Mr. Linder acquired his management experience while spending 12 years with United Parcel Service, in which he served in various management positions. Mr. Linder holds a bachelor's degree from the University of South Florida in Finance and is a licensed 220 property and casualty agent and 215 life agent. Mr. Linder resigned his position as Chief Operating Officer effective January 31, 2006 subject to a separation agreement executed and filed with the Securities and Exchange Commission. There were no disagreements in connection with Mr. Linder's separation.

ITEM 1A RISK FACTORS

We are subject to certain risks in our business operations which are described below. Careful consideration of these risks should be made before making an investment decision. The risks and uncertainties described below are not the only ones facing 21st Century. Additional risks and uncertainties not presently known or that are currently deemed immaterial may also impair our business operations.

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Risks Related to Our Business

The State of Florida, where our headquarters and a substantial portion of our policies are located, has experienced nine hurricanes since August 2004 through October 2005 and it has affected our financial results.

We write insurance policies that cover automobile owners, homeowners' and business owners for losses that result from, among other things, catastrophes. Catastrophic losses can be caused by hurricanes, tropical storms, tornadoes, wind, hail, fires, riots and explosions, and their incidence and severity are inherently unpredictable. The extent of losses from a catastrophe is a function of two factors: the total amount of the insurance company's exposure in the area affected by the event and the severity of the event. Our policyholders are currently concentrated in South and Central Florida, which is especially subject to adverse weather conditions such as hurricanes and tropical storms.

During the past two years, the State of Florida has experienced nine hurricanes. One of our subsidiaries, Federated National, incurred significant losses relative to its homeowners' and mobile homeowners' insurance lines of business in connection with these catastrophic weather events. The table below illustrates the magnitude of each storm both gross and net of our reinsurance arrangements.

Hurricane	Estimated Claim Count	Gross Losses	Reinsurance Recoveries	Net Losses
		(Dollars in Millions)		
Charley (August 13, 2004)	2,565	$ 59	$ 49	$ 10
Frances (September 3, 2004)	3,805	50	40	10
Ivan (September 14, 2004)	1,065	21	—	21
Jeanne (September 25, 2004)	1,548	13	—	13
Arlene (June 7, 2005)	—	—	—	—
Dennis (July 10, 2005)	322	3	—	3
Katrina (August 25, 2005)	2,076	15	12	3
Rita (September 20, 2005)	24	—	—	—
Wilma (October 24, 2005)	10,039	138	135	3
Total Loss Estimate	21,444.0	$ 299.3	$ 236.3	$ 63.0

Please refer to the preceding section title REINSURANCE for a detailed discussion regarding our reinsurance treaties.

Although we follow the industry practice of reinsuring a portion of our risks, our costs of obtaining reinsurance have increased and we may not be able to successfully alleviate risk through reinsurance arrangements.

We have a reinsurance structure that is a combination of private reinsurance and the FHCF. Our reinsurance structure is comprised of several reinsurance companies with varying levels of participation providing coverage for loss and LAE at pre-established minimum and maximum amounts. Losses incurred in connection with a catastrophic event below the minimum and above the maximum are the responsibility of Federated National.

As a result of the hurricanes experienced in Florida over the past two years, we continue to review, and may determine to modify, our reinsurance structure.

Although the occurrence of hurricanes hitting Florida has increased during the past two years, some weather analysts believe that we have entered a period of greater hurricane activity while others suggest a diminished expectation for the near future. To address this risk, we are exploring alternatives to reduce our exposure to these types of storms. Although these measures may increase operating expenses, management believes that they will assist us in protecting long-term profitability, although there can be no assurances that will be the case.

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The insolvency of our primary reinsurer or any of our other current or future reinsurers, or their inability otherwise to pay claims, would increase the claims that we must pay, thereby significantly harming our results of operations. In addition, prevailing market conditions have limited the availability and increased the cost of reinsurance, which may have the effect of increased costs and reduced profitability.

We may experience financial exposure from climate change.

Our financial exposure from climate change is most notably associated with losses in connection with the occurrence of hurricanes striking Florida. We mitigate the risk of financial exposure from climate change by restrictive underwriting criteria, sensitivity to geographic concentrations and reinsurance.

Restrictive underwriting criteria can include, but are not limited to, higher premiums, higher deductibles and more specifically excluded policy risks such as fences and screened in enclosures. New technological advances in computer generated geographical mapping afford us an enhanced perspective as to geographic concentrations of policyholders and proximity to flood prone areas. Our amount of maximum reinsurance coverage is determined by subjecting our homeowner and mobile homeowner exposures to statistical forecasting models that are designed to quantify a catastrophic event in terms of the frequency of a storm occurring once in every "n" years. Our reinsurance coverage contemplated a catastrophic event occurring once every 100 years. Our amount of losses retained (our deductible) in connection with a catastrophic event is determined by market capacity, pricing conditions and surplus preservation.

Our loss reserves may be inadequate to cover our actual liability for losses, causing our results of operations to be adversely affected.

We maintain reserves to cover our estimated ultimate liabilities for loss and LAE. These reserves are estimates based on historical data and statistical projections of what we believe the settlement and administration of claims will cost based on facts and circumstances then known to us. Actual loss and LAE reserves, however, may vary significantly from our estimates.

Factors that affect unpaid loss and LAE include the estimates made on a claim-by-claim basis known as "case reserves" coupled with bulk estimates known as "incurred by not reported." Periodic estimates by management of the ultimate costs required to settle all claim files are based on our analysis of historical data and estimations of the impact of numerous factors such as (i) per claim information; (ii) company and industry historical loss experience; (iii) legislative enactments, judicial decisions, legal developments in the awarding of damages, and changes in political attitudes; and (iv) trends in general economic conditions, including the effects of inflation. Management revises its estimates based on the results of its analysis. This process assumes that past experience, adjusted for the effects of current developments and anticipated trends, is an appropriate basis for estimating the ultimate settlement of all claims. There is no precise method for subsequently evaluating the impact of any specific factor on the adequacy of the reserves, because the eventual redundancy or deficiency is affected by multiple factors.

Because of the uncertainties that surround estimated loss reserves, we cannot be certain that our reserves will be adequate to cover our actual losses. If our reserves for unpaid losses and LAE are less than actual losses and LAE, we will be required to increase our reserves with a corresponding reduction in our net income in the period in which the deficiency is identified. Future loss experience substantially in excess of our reserves for unpaid losses and LAE could substantially harm our results of operations and financial condition.

The failure of any of the loss limitation methods we employ could have a material adverse effect on our financial condition or our results of operations.

Various provisions of our policies, such as limitations or exclusions from coverage which have been negotiated to limit our risks, may not be enforceable in the manner we intend. At the present time we employ a variety of endorsements to our policies that limit exposure to known risks, including but not limited to exclusions relating to types of vehicles we insure, specific artisan activities and homes in close proximity to the coast line.

In addition, the policies we issue contain conditions requiring the prompt reporting of claims to us and our right to decline coverage in the event of a violation of that condition. While our insurance product exclusions and limitations reduce the loss exposure to us and help eliminate known exposures to certain risks, it is possible that a court or regulatory authority could nullify or void an exclusion or legislation could be enacted modifying or barring the use of such endorsements and limitations in a way that would adversely effect our loss experience, which could have a material adverse effect on our financial condition or results of operations.

The effects of emerging claim and coverage issues on our business are uncertain.

As industry practices and legal, judicial, social and other conditions change, unexpected and unintended issues related to claims and coverage may emerge. These issues may adversely affect our business by either extending coverage beyond our underwriting intent or by increasing the number or size of claims. In some instances, these changes may not become apparent until some time after we have issued insurance contracts that are affected by the changes. As a result, the full extent of liability under our insurance contracts may not be known for many years after a contract is issued.

Our failure to pay claims accurately could adversely affect our business, financial results and capital requirements.

We must accurately evaluate and pay claims that are made under our policies. Many factors affect our ability to pay claims accurately, including the training and experience of our claims representatives, the culture of our claims organization and the effectiveness of our management, our ability to develop or select and implement appropriate procedures and systems to support our claims functions and other factors. Our failure to pay claims accurately could lead to material litigation, undermine our reputation in the marketplace, impair our image and negatively affect our financial results.

In addition, if we do not train new claims adjusting employees effectively or if we lose a significant number of experienced claims adjusting employees, our claims department's ability to handle an increasing workload as we grow could be adversely affected. In addition to potentially requiring that growth be slowed in the affected markets, we could suffer decreased quality of claims work, which in turn could lower our operating margins.

If we are unable to continue our growth because our capital must be used to pay greater than anticipated claims, our financial results may suffer.

We have grown rapidly over the last few years. Our future growth will depend on our ability to expand the types of insurance products we offer and the geographic markets in which we do business both balanced by the business risks we chose to assume and cede. We believe that our company is sufficiently capitalized to operate our business as it now exists and as we currently plan to expand it. Our existing sources of funds include possible sales of our investment securities, our revolving loan from Flatiron and our earnings from operations and investments. Unexpected catastrophic events in our market areas, such as the hurricanes experienced in Florida, have resulted and will result in greater claims losses than anticipated, which could require us to limit or halt our growth while we redeploy our capital to pay these unanticipated claims unless we are able to raise additional capital or increase our earnings in our other divisions.

We may require additional capital in the future which may not be available or only available on unfavorable terms.

Our future capital requirements depend on many factors, including our ability to write new business successfully and to establish premium rates and reserves at levels sufficient to cover losses. To the extent that our present capital is insufficient to meet future operating requirements and/or cover losses, we may need to raise additional funds through financings or curtail our growth. Based on our current operating plan, we believe current capital together with our anticipated retained earnings, will support our operations without the need to raise additional capital. However, we cannot provide any assurance in that regard, since many factors will affect our capital needs and their amount and timing, including our growth and profitability, our claims experience, and the availability of reinsurance, as well as possible acquisition opportunities, market disruptions and other unforeseeable developments. If we had to raise additional capital, equity or debt financing may not be available at all or may be available only on terms that are not favorable to us. In the case of equity financings, dilution to our stockholders could result, and in any case such securities may have rights, preferences and privileges that are senior to those of the shares offered hereby. If we cannot obtain adequate capital on favorable terms or at all, our business, financial condition or results of operations could be materially adversely affected.

We are subject to significant government regulation, which can limit our growth and increase our expenses, thereby reducing our earnings.

We are subject to laws and regulations in Florida, our state of domicile, and in Georgia, Louisiana, Kentucky, Virginia, Alabama and Texas, states in which we have been authorized to do business, and will be subject to the laws of any other state in which we conduct business in the future. These laws and regulations cover all aspects of our business and are generally designed to protect the interests of insurance policyholders. For example, these laws and regulations relate to licensing requirements, authorized lines of business, capital surplus requirements, allowable rates and forms, investment parameters, underwriting limitations, restrictions on transactions with affiliates, dividend limitations, changes in control, market conduct, and limitations on premium financing service charges. The cost to monitor and comply with these laws and regulations adds significantly to our cost of doing business. Further, if we do not comply with the laws and regulations applicable to us, we may be subject to sanctions or monetary penalties by the applicable insurance regulator.

Our insurance companies are subject to minimum capital and surplus requirements, and our failure to meet these requirements could subject us to regulatory action.

Our insurance companies are subject to risk-based capital standards and other minimum capital and surplus requirements imposed under applicable state laws, including the laws of their state of domicile, Florida. The risk-based capital standards, based upon the Risk-Based Capital Model Act adopted by the NAIC require our insurance companies to report their results of risk-based capital calculations to state departments of insurance and the NAIC. These risk-based capital standards provide for different levels of regulatory attention depending upon the ratio of an insurance company's total adjusted capital, as calculated in accordance with NAIC guidelines, to its authorized control level risk-based capital. Authorized control level risk-based capital is the number determined by applying the NAIC's risk-based capital formula, which measures the minimum amount of capital that an insurance company needs to support its overall business operations.

Any failure by one of our insurance companies to meet the applicable risk-based capital or minimum statutory capital requirements imposed by the laws of Florida or other states where we do business could subject it to further examination or corrective action imposed by state regulators, including limitations on our writing of additional business, state supervision or liquidation. As noted previously in the section titled "REGULATION" under "NAIC Risk Based Capital Requirements", Federated National, statutory surplus did not exceed company action levels established by the NAIC. Federated National's results require us to submit a plan containing corrective actions. Federated National, has not yet submitted its plan for corrective action yet, however we will submit a plan during the second quarter of 2006.

Any changes in existing risk-based capital requirements or minimum statutory capital requirements may require us to increase our statutory capital levels, which we may be unable to do.

Our revenues and operating performance may fluctuate with business cycles in the property and casualty insurance industry.

Historically, the financial performance of the property and casualty insurance industry has tended to fluctuate in cyclical patterns characterized by periods of significant competition in pricing and underwriting terms and conditions, which is known as a "soft" insurance market, followed by periods of lessened competition and increasing premium rates, which is known as a "hard" insurance market. Although an individual insurance company's financial performance is dependent on its own specific business characteristics, the profitability of most property and casualty insurance companies tends to follow this cyclical market pattern, with profitability generally increasing in hard markets and decreasing in soft markets. At present, we are beginning to experience a soft market in our automobile and commercial general liability sectors while a hard market persists in our property sector. We cannot predict, however, how long these market conditions will persist. We do not compete entirely on price or targeted market share. Our ability to compete is governed by our ability to assess and price an insurance product with an acceptable risk for obtaining profit.

We may not obtain the necessary regulatory approvals to expand the types of insurance products we offer or the states in which we operate.

We currently have applications pending in California and Missouri to underwrite and sell commercial general liability insurance. The insurance regulators in these states may request additional information, add conditions to the license that we find unacceptable, or deny our application. This would delay or prevent us from operating in that state. If we want to operate in any additional states, we must file similar applications for licenses, which we may not be successful in obtaining.

We requested that A.M. Best cease rating our insurance subsidiaries. As a result, we may be unable to write or renew desirable insurance policies or obtain adequate reinsurance, which would limit or halt our growth and harm our business.

Third-party rating agencies assess and rate the ability of insurers to pay their claims. These financial strength ratings are used by the insurance industry to assess the financial strength and quality of insurers. These ratings are based on criteria established by the rating agencies and reflect evaluations of each insurer's profitability, debt and cash levels, customer base, adequacy and soundness of reinsurance, quality and estimated market value of assets, adequacy of reserves, and management. Ratings are based upon factors of concern to agents, reinsurers and policyholders and are not directed toward the protection of investors, such as purchasers of our common stock.

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

We rely on independent agents to write our insurance policies, and if we are not able to attract and retain independent agents, our revenues would be negatively affected.

We currently market and distribute Federated National's, American Vehicle's and third-party insurers' products and our other services through contractual relationships with a network of approximately 1,500 independent agents and a selected number of general agents. Our independent agents are our primary source for our automobile and property insurance policies. Many of our competitors also rely on independent agents. As a result, we must compete with other insurers for independent agents' business. Our competitors may offer a greater variety of insurance products, lower premiums for insurance coverage, or higher commissions to their agents. If our products, pricing and commissions do not remain competitive, we may find it more difficult to attract business from independent agents to sell our products. A material reduction in the amount of our products that independent agents sell would negatively affect our revenues.

We rely on our information technology and telecommunications systems, and the failure of these systems could disrupt our operations.

Our business is highly dependent upon the successful and uninterrupted functioning of our current information technology and telecommunications systems. We rely on these systems to process new and renewal business, provide customer service, make claims payments and facilitate collections and cancellations, as well as to perform actuarial and other analytical functions necessary for pricing and product development. As a result, the failure of these systems could interrupt our operations and adversely affect our financial results.

Nonstandard automobile insurance historically has a higher frequency of claims than standard automobile insurance, thereby increasing our potential for loss exposure beyond what we would be likely to experience if we offered only standard automobile insurance.

Nonstandard automobile insurance is provided to insureds that are unable to obtain preferred or standard insurance coverage because of their payment histories, driving records, age, vehicle types, or prior claims histories. This type of automobile insurance historically has a higher frequency of claims than does preferred or standard automobile insurance policies, although the average dollar amount of the claims is usually smaller under nonstandard insurance policies. As a result, we are exposed to the possibility of increased loss exposure and higher claims experience than would be the case if we offered only standard automobile insurance.

Florida's personal injury protection insurance statute contains provisions that favor claimants, causing us to experience a higher frequency of claims than might otherwise be the case if we operated only outside of Florida.

Florida's personal injury protection insurance statute limits an insurer's ability to deny benefits for medical treatment that is unrelated to the accident, that is unnecessary, or that is fraudulent. In addition, the statute allows claimants to obtain awards for attorney's fees. Although this statute has been amended several times in recent years, primarily to address concerns over fraud, the Florida legislature has been only marginally successful in implementing effective mechanisms that allow insurers to combat fraud and other abuses. We believe that this statute contributes to a higher frequency of claims under nonstandard automobile insurance policies in Florida, as compared to claims under standard automobile insurance policies in Florida and nonstandard and standard automobile insurance polices in other states. Although we believe that we have successfully offset these higher costs with premium increases, because of competition, we may not be able to do so with as much success in the future.

Our success depends on our ability to accurately price the risks we underwrite.

The results of our operations and the financial condition of our insurance companies depend on our ability to underwrite and set premium rates accurately for a wide variety of risks. Rate adequacy is necessary to generate sufficient premiums to pay losses, LAE and underwriting expenses and to earn a profit. In order to price our products accurately, we must collect and properly analyze a substantial amount of data; develop, test and apply appropriate rating formulas; closely monitor and timely recognize changes in trends; and project both severity and frequency of losses with reasonable accuracy. Our ability to undertake these efforts successfully, and as a result price our products accurately, is subject to a number of risks and uncertainties, some of which are outside our control, including:

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- the availability of sufficient reliable data and our ability to properly analyze available data;
- the uncertainties that inherently characterize estimates and assumptions;
- our selection and application of appropriate rating and pricing techniques; and
- changes in legal standards, claim settlement practices, medical care expenses and restoration costs.

Consequently, we could under-price risks, which would negatively affect our profit margins, or we could overprice risks, which could reduce our sales volume and competitiveness. In either event, the profitability of our insurance companies could be materially and adversely affected.

Current operating resources are necessary to develop future new insurance products

We currently intend to expand our product offerings by underwriting additional insurance products and programs, and marketing them through our distribution network. Expansion of our product offerings will result in increases in expenses due to additional costs incurred in actuarial rate justifications, software and personnel. Offering additional insurance products may also require regulatory approval, further increasing our costs. There can be no assurance that we will be successful bringing new insurance products to our marketplace.

Our business strategy is to avoid competition based on price to the extent possible. This strategy, however, may result in the loss of business in the short term.

Comparable companies which compete with us in the homeowners' market include Allstate Insurance Company, State Farm Insurance Company, Florida Family Insurance Company, Florida Select Insurance Company, Atlantic Preferred Insurance Company and Vanguard Insurance Company.

Comparable companies which compete with us in the general liability insurance market include Century Surety Insurance Company, Atlantic Casualty Insurance Company, Colony Insurance Company and Burlington/First Financial Insurance Companies.

Although our pricing of our automobile insurance products is inevitably influenced to some degree by that of our competitors, we believe that it is generally not in our best interest to compete solely on price, choosing instead to compete on the basis of underwriting criteria, our distribution network, and our superior service to our agents and insureds. With respect to automobile insurance in Florida, we compete with more than 100 companies, which underwrite personal automobile insurance. Comparable companies which compete with us in the personal automobile insurance market include Affirmative Insurance Holdings, Inc., which recently acquired our non-standard automobile agency business in Florida, 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 our business, results of operations and financial condition. If we do not meet the prices offered by our competitors, we may lose business in the short term, which could also result in reduced revenues.

Our investment portfolio may suffer reduced returns or losses, which would significantly reduce our earnings.

As do other insurance companies, we depend on income from our investment portfolio for a substantial portion of our earnings. During the time that normally elapses between the receipt of insurance premiums and any payment of insurance claims, we invest the funds received, together with our other available capital, primarily in fixed-maturity investments and equity securities, in order to generate investment income.

Our investment portfolio contains interest rate sensitive instruments, such as bonds, which may be adversely affected by changes in interest rates. A significant increase in interest rates could have a material adverse effect on our financial condition or results of operations. Generally, bond prices decrease as interest rates rise. Changes in interest rates could also have an adverse effect on our investment income and results of operations. For example, if interest rates decline, investment of new premiums received and funds reinvested will earn less than expected.

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Our president and chief executive officer is key to the strategic direction of our company. If we were to lose this service our business could be harmed.

We depend and will continue to depend, on the services of our founder and principal shareholder, Edward J. Lawson, who is also our president, chairman of the board and chief executive officer. We have entered into an employment agreement with him and we maintain $3 million key man life insurance on the life of Mr. Lawson. Nevertheless, because of Mr. Lawson's role and involvement in developing and implementing our current business strategy, his loss of service could substantially harm our business.

Our success also will depend in part upon our ability to attract and retain qualified executive officers, experienced underwriting talent and other skilled employees who are knowledgeable about our business. We rely substantially upon the services of our executive management team. Although we are not aware of any planned departures or retirements, if we were to lose the services of members of our management team, our business could be adversely affected. We believe we have been successful in attracting and retaining key personnel throughout our history. We have employment agreements with James G. Jennings III, our Treasurer and Chief Financial Officer, and other members of our executive management team. We also maintain a $1 million key man life insurance policy on the life of Mr. Jennings

Risks Related to an Investment in Our Shares

The trading of our warrants may negatively affect the trading prices of our common stock if investors purchase and exercise the warrants to facilitate other trading strategies, such as short selling.

Our warrants currently trade on the NASDAQ National Market under the symbols "TCHCW" and “TCHCZ.” Each of the TCHCW warrants entitles the holders to purchase three quarters of one share of our common stock at an exercise price per whole share of $12.744 after giving effect to the September 2004 three-for-two stock split. Each of the TCHCZ warrants entitles the holders to purchase one share of our common stock at an exercise price per share of $12.750. Investors may purchase and exercise warrants to facilitate trading strategies such as short selling, which involves the sale of securities not yet owned by the seller. In a short sale, the seller must either purchase or borrow the security in order to complete the sale. If shares of our common stock received upon the exercise of warrants are used to complete short sales, this may have the effect of reducing the trading price of our common stock.

Our largest shareholders currently control approximately 16% of the voting power of our outstanding common stock, which could discourage potential acquirers and prevent changes in management.

Edward J. Lawson and Michele V. Lawson beneficially own approximately 16% of our outstanding common stock. As our largest shareholders, the Lawson’s have significant influence over the outcome of any shareholder vote. This voting power may discourage takeover attempts, changes in our officers and directors or other changes in our corporate governance that other shareholders may desire.

We have authorized but unissued preferred stock, which could affect rights of holders of common stock.

Our articles of incorporation authorize the issuance of preferred stock with designations, rights and preferences determined from time to time by our board of directors. Accordingly, our board of directors is empowered, without shareholder approval, to issue preferred stock with dividends, liquidation, conversion, voting or other rights that could adversely affect the voting power or other rights of the holders of common stock. In addition, the preferred stock could be issued as a method of discouraging a takeover attempt. Although we do not intend to issue any preferred stock at this time, we may do so in the future.

Our articles of incorporation, bylaws and Florida law may discourage takeover attempts and may result in entrenchment of management.

Our articles of incorporation and bylaws contain provisions that may discourage takeover attempts and may result in entrenchment of management.

Our board of directors is elected in classes, with only two or three of the directors elected each year. As a result, shareholders would not be able to change the membership of the board in its entirety in any one year. Shareholders would also be unable to bring about, through the election of a new board of directors, changes in our officers.

Our articles of incorporation prohibit shareholders from acting by written consent, meaning that shareholders will be required to conduct a meeting in order to vote on any proposals or take any action.

Our bylaws require at least 60 days' notice if a shareholder desires to submit a proposal for a shareholder vote or to nominate a person for election to our board of directors.

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In addition, Florida has enacted legislation that may deter or frustrate takeovers of Florida corporations, such as our company.

The Florida Control Share Act provides that shares acquired in a "control share acquisition" will not have voting rights unless the voting rights are approved by a majority of the corporation's disinterested shareholders. A "control share acquisition" is an acquisition, in whatever form, of voting power in any of the following ranges: (a) at least 20% but less than 33-1/3% of all voting power, (b) at least 33-1/3% but less than a majority of all voting power; or (c) a majority or more of all voting power.

The Florida Affiliated Transactions Act requires supermajority approval by disinterested shareholders of certain specified transactions between a public corporation and holders of more than 10% of the outstanding voting shares of the corporation (or their affiliates).

As a holding company, we depend on the earnings of our subsidiaries and their ability to pay management fees and dividends to the holding company as the primary source of our income.

We are an insurance holding company whose primary assets are the stock of our subsidiaries. Our operations, and our ability to service our debt, are limited by the earnings of our subsidiaries and their payment of their earnings to us in the form of management fees, commissions, dividends, loans, advances or the reimbursement of expenses. These payments can be made only when our subsidiaries have adequate earnings. In addition, dividend payments made to us by our insurance subsidiaries are restricted by Florida law governing the insurance industry. Generally, Florida law limits the dividends payable by insurance companies under complicated formulas based on the subsidiary's available capital and earnings.

No dividends were declared or paid by our insurance subsidiaries in 2005, 2004 or 2003. Under these laws, neither Federated National nor American Vehicle may not be permitted to pay dividends to 21st Century in 2006. Whether our subsidiaries will be able to pay dividends in 2006 depends on the results of their operations and their expected needs for capital. We do not anticipate that our subsidiaries will begin to pay dividends to the parent company during 2006.

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ITEM 2. PROPERTIES

Our executive offices are located at 3661 West Oakland Park Boulevard, Lauderdale Lakes, Florida in a 39,250 square feet office facility. All of our operations are consolidated in this facility, including our underwriting, claims, accounting and premium finance.

Effective March 1, 2005, Federated National sold its interest in the Lauderdale Lakes property to 21st Century at the property's net book value of approximately $2.9 million. Effective on or about March 1, 2006, 21st Century sold the property to an unrelated party for approximately $5.0 million cash and a $0.9 million six year 5% note. As part of the transaction, 21st Century has agreed to lease the same facilities for a six year term. Our lease for this office space expires in February 2011.

We believe that the facilities are well maintained, in substantial compliance with environmental laws and regulations, and adequately covered by insurance. We also believe that these leased facilities are not unique and could be replaced, if necessary, at the end of the lease term.

ITEM 3. LEGAL PROCEEDINGS

We are involved in various claims and legal actions arising in the ordinary course of business. Specifically, we are a party to fifteen lawsuits in connection with coverage disputes associated with claims resulting from Hurricanes Ivan and Jeanne. Hurricane Ivan occurred on September 14, 2004. Hurricane Jeanne occurred on September 25, 2004. As of December 31, 2005 the Company established reserves and charged against current operations $2.0 million to satisfy two of these suits settled in the first quarter of 2006 for approximately $1.2 million.

The outcome of the pending litigation in connection with these cases remains unclear but could have a significant negative impact on current operations once additional uncertainties become a matter of fact. These uncertainties involve the outcome of other cases involving similarly styled coverage issues involving other property insurers in various stages of discovery. Due to these uncertainties management recognizes the potentially negative outcome of this pending litigation is reasonably possible, but the ultimate financial impact is currently undeterminable.

In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial position, results of operations, or liquidity.

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

None

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PART II .

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

(a) MARKET INFORMATION

Our common stock has been listed for trading on the NASDAQ National Market under the symbol "TCHC" since November 5, 1998. For the calendar quarters indicated, the table below sets forth the high and low closing prices per share of our common stock as reported by the NASDAQ National Market.

Quarter Ended	High	Low
March 31, 2005	$ 14.75	$ 12.10
June 30, 2005	$ 15.27	$ 11.39
September 30, 2005	$ 13.64	$ 10.87
December 31, 2005	$ 17.47	$ 11.07
March 31, 2004	$ 25.00	$ 19.00
June 30, 2004	$ 23.19	$ 18.58
September 30, 2004	$ 24.84	$ 9.04
December 31, 2004	$ 14.68	$ 9.91

(b) HOLDERS

As of March 29, 2006, there were approximately 33 holders of record of our common stock. We believe that the number of beneficial owners of our common stock is in excess of 3,000.

(c) DIVIDENDS

During 2005 and 2004, we have paid quarterly dividends of $0.08 per share. In December 2005 the Board of Directors announced a $0.12 per share dividend for shareholders of record on February 1, 2006. Although we paid the $0.12 per share dividend for the first quarter of 2006, payment of dividends in the future will depend on our earnings and financial position and such other factors, as our Board of Directors deems relevant. Moreover, our ability to continue to pay dividends may be restricted by regulatory limits on the amount of dividends that Federated National and American Vehicle are permitted to pay to the parent company. All of the foregoing per-share amounts reflect our three-for-two stock split in September 2004.

(d) SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table summarizes our equity compensation plans as of December 31, 2005. All equity compensation plans are approved by stock holders.

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Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by stock holders*	931,258	$11.97	1,347,764

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

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

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ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with the consolidated financial statements and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this Annual Report on Form 10-K

(Amounts in 000's except Book value per share and EPS data)

	2005	2004	2003	2002	2001
Balance sheet data					
Total assets	$ 290,155	$ 163,601	$ 106,696	$ 75,318	$ 56,229
Investments	100,086	84,382	47,290	25,378	17,507
Finance contracts, consumer loans and pay advances receivable, net	7,313	8,289	9,892	7,218	10,814
Total liabilities	249,387	138,625	74,649	57,220	42,019
Unpaid losses and LAE	154,039	46,571	24,570	16,984	11,005
Unearned premiums	61,839	50,153	34,123	28,934	14,951
Revolving credit outstanding	197	2,149	4,099	4,312	6,677
Total shareholders' equity	40,767	24,977	32,046	18,098	14,209
Book value per share	6.02	4.13	5.89	4.03	3.13
Basic net income (loss) per share from continuing operations	$ 1.78	$ (2.33)	$ 1.96	$ 1.13	$ (0.26)
Extraordinary gain	$ —	$ —	$ —	$ —	$ 0.25
Basic net income (loss) per share from discontinued operations	$ 0.17	$ 0.47	$ (0.20)	$ (0.12)	$ (0.20)
Basic net income (loss) per share	$ 1.95	$ (1.86)	$ 1.76	$ 1.01	$ (0.21)
Fully diluted net income (loss) per share from continuing operations	$ 1.67	$ (2.33)	$		