21ST CENTURY HOLDING CO
Form 10-Q/A
August 28, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q/A
AMENDMENT NO. 1

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2003

OR

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

FOR THE TRANSITION PERIOD FROM __________ TO ______________.

Commission file number 0-2500111

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

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

4161 N.W. 5th Street, Plantation, FL 33317
(Address of principal executive offices) (Zip Code)

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

(Former name, former address and former fiscal year, if changed since last report)

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

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

Common Stock, $.01 par value - 3,043,828 shares outstanding as of May 13, 2003.

21ST CENTURY HOLDING COMPANY

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PART I - FINANCIAL INFORMATION

ITEM I. FINANCIAL STATEMENTS (UNAUDITED)

21ST CENTURY HOLDING COMPANY
CONSOLIDATED BALANCE SHEETS

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ASSETS

Investments
Fixed maturities, available for sale, at fair value
Equity securities
Mortgage loans

Total investments

Cash and cash equivalents
Finance contracts, net of allowance for credit losses of $369,546 in 2003 and $404,356 in 2002
Prepaid reinsurance premiums
Premiums receivable, net of allowance for credit losses of $283,000 and $210,000, respectively
Reinsurance recoverable, net
Deferred acquisition costs, net
Income taxes recoverable
Deferred income taxes
Property, plant and equipment, net
Goodwill, net
Other assets

Total assets

LIABILITIES AND SHAREHOLDERS' EQUITY

Unpaid losses and loss adjustment expenses
Unearned premiums
Premiums deposits
Revolving credit outstanding
Bank overdraft
Unearned commissions
Income taxes payable
Accounts payable and accrued expenses
Drafts payable to insurance companies

Total liabilities

Commitments and contingencies

Shareholders' equity:
Common stock of $0.01 par value. Authorized 25,000,000 shares; issued 3,435,667 and 3,411,667 shares, respectively; Outstanding 3,012,201 and 2,990,201 shares, respectively
Additional paid-in capital
Accumulated other comprehensive income (deficit)
Retained earnings
Treasury stock, 423,466 and 421,466 shares, respectively, at cost

Total shareholders' equity

Total liabilities and shareholder's equity

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	THREE MONTHS ENDED MA	
	2003	20
Revenue:		
Gross premium written	$ 16,611,980	$ 13,0
Gross premium ceded	(4,398,875)	(5,8
Net premiums written	12,213,105	7,1
Decrease in unearned premiums, net of prepaid reinsurance premiums	(1,756,161)	(1,7
Net premiums earned	10,456,944	5,4
Commission income	433,039	4
Finance revenue	1,127,826	1,0
Managing general agent fees	632,547	9
Net investment income	365,205	3
Net realized investments gains	350,882	
Other income	1,495,567	1,2
Total revenue	14,862,010	9,5
Expenses:		
Loss and loss adjustment expenses	6,787,709	3,1
Operating and underwriting expenses	2,681,278	2,8
Salaries and wages	2,146,335	2,0
Amortization of deferred acquisition costs, net	(360,181)	(
Total expenses	11,255,141	7,9
Income before provision for income tax expense	3,606,869	1,5
Provision for income tax expense	1,298,468	5
Net income	$ 2,308,401	$ 9
Basic net income per share	$ 0.77	$
Weighted average number of common shares outstanding and Weighted average number of common shares outstanding (assuming dilution)	3,004,620	3,0
Dividends paid per common share	$ 0.06	$

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Cash flow from operating activities:
- Net income (loss)
- Adjustments to reconcile net income to net cash (used in) provided by operating activities:
  - Amortization (accretion) of investment premium (discount), net
  - Depreciation and amortization of property plant and equipment
  - Deferred income tax expense
  - Net realized investment (gains) losses
  - Amortization of deferred acquisition costs, net
  - Provision for credit losses, net
  - Provision for uncollectible premiums receivable
  - Other
  - Changes in operating assets and liabilities:
    - Premiums receivable
    - Prepaid reinsurance premiums
    - Reinsurance recoverable, net
    - Deferred acquisition costs, net
    - Goodwill
    - Other assets
    - Unpaid losses and loss adjusting expenses
    - Unearned premiums
    - Premium deposits
    - Unearned commissions
    - Income taxes payable
    - Accounts payable and accrued expenses
    - Drafts payable to insurance companies

Net cash provided by operating activities

Cash flow from investing activities:
- Proceeds from sale of investment securities available for sale
- Purchases of investment securities available for sale
- Finance contracts receivable, consumer loans and pay advances receivable
- Sale of and collection of mortgage loans
- Purchases of property and equipment
- Net cash used in acquisitions
- Proceeds from sale of assets

Net cash used in investing activities

Cash flow from financing activities:
- Bank overdraft
- Dividends paid
- Purchases of treasury stock
- Revolving credit outstanding

Net cash used in financing activities

Net (decrease) increase in cash and cash equivalents
Cash and cash equivalents at beginning of period

Cash and cash equivalents at end of period

Supplemental disclosure of cash flow information: Cash paid during the period for:

Interest

Income taxes

Non-cash investing and financing activities:

Accrued dividends payable

Notes receivable, net of deferred gains, received for sale of agencies

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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21ST CENTURY HOLDING COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) ORGANIZATION AND BUSINESS

The accompanying unaudited consolidated financial statements of 21st Century Holding Company (the "Company") have been prepared in accordance with generally accepted accounting principles ("GAAP") for interim financial information and with the instructions for Form 10-Q and Rule 10-01 of Regulation S-X. These financial statements do not include all information and notes required by GAAP for complete financial statements, and should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2002. The December 31, 2002 year-end balance sheet data was derived from audited financial statements but does not include all disclosures required by GAAP. The financial information furnished reflects all adjustments, consisting only of normal recurring accruals, which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented. The results of operations are not necessarily indicative of results of operations, which may be achieved in the future.

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

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

23 agencies, owned by Federated Agency Group, Inc. ("Federated Agency Group"), a wholly-owned subsidiary, 42 franchised agencies and approximately 125 independent agents. The Company, through its wholly-owned subsidiary, FedUSA, Inc. ("FedUSA"), franchises agencies under the FedUSA name. As of March 31, 2003, franchises were granted for 42 Fed USA agencies, of which 36 were operating. The Company intends to focus its future expansion efforts for its agency network on franchised agencies.

The Company offers income tax preparation, electronic tax filing services, and income tax preparation software and service through Express Tax Service, Inc., ("Express Tax"), an 80%-owned subsidiary, as well as franchise opportunities for these services through EXPRESSTAX Franchise Corporation ("EXPRESSTAX"), a wholly-owned subsidiary of Express Tax. As of June 30, 2003 there were 141 EXPRESSTAX franchises granted in ten states. Revenue is generated through franchise sales, collection of royalties on tax preparation fees, incentives from business partners as well as fees from the preparation of income tax returns and bank related products. In addition, Express Tax offers tax preparation services through more than 500 licensees nationwide, acting as sales representatives of Express Tax.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES

(A) CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results inevitably will differ from those estimates, and such differences may be material to the financial statements.

The most significant accounting estimates inherent in the preparation of the Company's financial statements include estimates associated with management's evaluation of the determination of liability for unpaid losses and loss adjustment expense ("LAE") and the recoverability of goodwill. In addition, significant estimates form the basis for the Company's reserves with respect to finance contracts, premiums receivable, deferred income taxes and the related valuation allowance, deferred policy acquisition costs and loss contingencies. Various assumptions and other factors underlie the determination of these significant estimates. The process of determining significant estimates is fact specific and takes into account factors such as historical experience, as well as current and expected economic conditions. Management periodically re-evaluates these significant factors and makes adjustments where facts and circumstances dictate.

(B) IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS

In July 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No.146, "Accounting for Costs Associated with Exit or Disposal Activities." Statement of Financial Accounting Standard No. 146 supersedes Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." Statement of Financial Accounting Standard No. 146 requires that, in certain instances, costs

associated with an exit or disposal plan be recognized when incurred rather than at the date of a commitment to an exit or disposal plan. Statement of Financial Accounting Standard No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The adoption of Statement of Financial Accounting Standard No. 146 has no effect on the Company's financial statements.

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

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

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

(C) EARNINGS PER SHARE

Basic earnings per share ("Basic EPS") is computed by dividing net income by the weighted average number of common shares outstanding during each period presented. Diluted earnings per share ("Diluted EPS") is computed by dividing net income by the weighted average number of common stock and common stock equivalents during the period presented; outstanding warrants and stock options are considered common stock equivalents and are included in the calculation using the treasury stock method. Diluted EPS for the year ended December 31, 2002 excluded the impact of warrants and stock options as their effect would have been anti-dilutive.

(D) RECLASSIFICATIONS

Certain amounts in 2002 financial statements have been reclassified to conform with 2003 presentation.

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21ST CENTURY HOLDING COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(3) REVOLVING CREDIT OUTSTANDING

Federated Premium's operations are funded by a revolving loan agreement ("Revolving Agreement"). The Revolving Agreement is structured as a sale of contracts receivable under a sale and assignment agreement with the lender, which gives the lender the right to sell or assign these contracts receivable. Federated Premium, which services these contracts, has recorded transactions under the Revolving Agreement as secured borrowings. The Revolving Agreement, which was amended and revised in September 2001, allowed for a maximum credit commitment of $7.0 million plus an initial additional amount of $700,000 for the transition from September 30, 2001 when the previous agreement expired. The line declined by $100,000 each month beginning November 1, 2001. In September 2002, the line was amended and revised allowing for a maximum credit commitment of $4.0 million. The credit commitment was reduced by the lender, primarily due to the AM Best ratings of third-party insurance carriers for which the Company was financing policies at the time. Simultaneously, the Company ceased financing policies underwritten by third-party insurance carriers and implemented the Company's newly developed direct bill program. The Company believes that these changes decreased credit risks and made the Company's reliance on the higher credit commitment previously offered by the lender unnecessary.

By financing policies underwritten only by its own insurance carriers, the Company believes that its credit risks are reduced because it can more securely rely on the underwriting processes of its own insurance carriers. Furthermore, the direct bill program enables the Company to closely manage its risk while providing credit to its insureds. Direct billing is where the insurance company accepts from the insured, as a receivable, a promise to pay the premium, as opposed to requiring the full amount of the policy, either directly from the insured or from a premium finance company. The Company's underwriting standards require a down payment and subsequent monthly payments sufficient to create "policyholder's equity," or unearned premium, in the policy. The equity in the policy is collateral for the extension of credit to the insured. Through the Company's monitoring systems, the Company tracks delinquent payments and, in accordance with the terms of the extension of credit, cancels the policy before the policyholder's equity is extinguished. If any excess premium remains after cancellation of the policy and deduction of applicable penalties, this excess is refunded to the policyholder.

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

The Company's effective interest rate on this line of credit, based on the Company's average outstanding borrowings under the Revolving Agreement, was 6.23% and 7.84% for the years ended December 31, 2002 and 2001, respectively. Currently, the effective rate of interest for this arrangement is approximately 5.5%. The Revolving Agreement contains various operating and financial covenants, with which the Company was in compliance at March 31, 2003 and December 31, 2002. The Revolving Agreement, as amended, expires September 30, 2004. Outstanding borrowings under the Revolving Agreement as of March 31, 2003 and December 31, 2002 were approximately $4.1 million and $4.3 million, respectively. Outstanding borrowings in excess of the $4.0 million commitment totaled $122,645 and $312,420 for March 31, 2003 and December 31, 2002, respectively and are permissible by reason of a compensating cash balance held for the benefit of FPF, Inc. Interest expense on this revolving credit line for the first quarter of 2003 and the year ended December 31, 2002 totaled approximately $55,000 and $342,000, respectively.

(4) COMMITMENTS AND CONTINGENCIES

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

In June 2000, a lawsuit was filed against the Company and its directors and executive officers seeking compensatory damages in an undisclosed amount on the basis of allegations that the Company's amended registration statement dated November 4, 1998 was inaccurate and misleading concerning the manner in which the Company recognized ceded insurance commission income, in violation of Sections 11 and 15 of the Securities Act of 1933 and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. Specifically, the plaintiffs allege that the Company recognized ceded commission income on a written basis, rather than amortized on a pro rata basis. The plaintiffs allege that this was contrary to the Statement of Financial Accounting Concepts Nos. 1, 2 and 5. The Company has since accounted for ceded commission on a pro rata basis and has done so since these matters were brought to the Company's attention in 1998. Nevertheless, the Company believes that the lawsuit is without merit and is vigorously defending the action, as the Company reasonably relied upon outside subject matter experts to make these determinations at the time. The lawsuit was filed in the United States District Court for the Southern District of New York and seeks class action status. The plaintiff class purportedly includes purchasers of the Company's common stock between November 5, 1998 and August 13, 1999. The Court recently denied the Company's Motion to Dismiss the plaintiffs' First Amended Complaint and the Company filed an Answer and Affirmative Defenses.

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

The Company, as a direct premium writer in the State of Florida, is required to participate in certain insurer solvency pools under Florida Statutes Section 631.57(3)(a). Participation in these pools is based on the Company's written premiums by line of business to total premiums written statewide by all insurers. Participation may result in assessments against the Company. The Company was assessed $258,000 and $203,000 for the years ended December 31, 2002 and 2001, respectively. Should there be a 2003 assessment, the Company is generally notified in December. During 2002, the Company recovered $180,000 of the 2001 assessment and is entitled to recover all of these assessments as permitted by the State of Florida through policy surcharges in 2003. During the first six months of 2003, the Company has recovered the balance of the 2001 assessment and has recovered $92,000 of the 2002 assessment.

Federated National and American Vehicle are also required to participate in an insurance apportionment plan under Florida Statutes Section 627.351 referred to as a Joint Underwriting Association Plan ("JUA Plan"). The

JUA Plan provides for the equitable apportionment of any profits realized, or losses and expenses incurred, among participating insurers. In the event of an underwriting deficit incurred by the JUA Plan which is not recovered through the policyholders in the JUA Plan, such deficit shall be recovered from the companies participating in the JUA Plan in the proportion that the net direct written premiums of each such member during the preceding calendar year bear to the aggregate net direct premiums written in this state by all members of the joint underwriting JUA Plan.

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

(5) COMPREHENSIVE INCOME

For the three months ended March 31, 2003 and 2002, comprehensive income consisted of the following:

	2003	2002
Net income	$2,308,401	$ 991,370
Change in net unrealized gain (losses) on investments held for sale, net of income taxes	376,150	(543,926)
Comprehensive income	$2,684,551	$ 447,444

(6) SEGMENT INFORMATION

The Company and its subsidiaries operate principally in two business segments consisting of insurance and financing. The insurance segment consists of underwriting through Federated National and American Vehicle, managing general agent operations through Assurance Managing General Agents, Inc. ("Assurance MGA"), claims processing through Superior, and marketing and distribution through Federated Agency Group. The insurance segment sells personal automobile, flood insurance and homeowner and mobile home property and casualty insurance and includes substantially all aspects of the insurance, distribution and claims process. The financing segment consists of premium financing through Federated Premium. The financing segment provides premium financing to the Company's insureds and is marketed through the Company's distribution network of Company-owned agencies and franchised agents.

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

Operating segments that are not individually reportable, based on the extent of the current operations in such segments, are included in the "All Other" category. The "All Other" category currently includes the operations of 21st Century Holding Company, franchise operations and income tax return preparation.

Information regarding components of operations for the three-month period ending March 31, 2003 and 2002 follows:

	2003	2002
TOTAL REVENUE		
Insurance segment	$ 15,449,365	$ 8,187,365
Financing segment	679,814	1,000,764
All other	1,184,760	1,213,452
Total operating segments	17,313,939	10,401,581
Intercompany eliminations	(2,451,929)	(894,581)
Total revenues	$ 14,862,010	$ 9,507,000
EARNINGS BEFORE INCOME TAXES		
Insurance segment	$ 3,121,270	$ 401,414
Financing segment	198,673	159,234
All other	286,926	983,588
Total Earnings before Income Taxes	$ 3,606,869	$ 1,544,236

Information regarding total assets as of March 31, 2003 and December 31, 2002 follows:

	2003	2002
TOTAL ASSETS		
Insurance segment	$ 73,491,480	$ 66,663,775
Finance segment	6,955,089	7,548,841
All other	2,816,451	3,003,827
Total Operating Segments	83,263,020	77,216,443
Intercompany eliminations	(1,950,794)	(1,898,432)
Total Assets	$ 81,312,226	$ 75,318,011

(7) REINSURANCE AGREEMENTS

The quota-share reinsurance treaties include loss corridors with varying layers of coverage based on ultimate incurred loss ratio results. Additionally, the most current of these treaties contain conversion features that may diminish the Company's ability to collect for loss experience at the

election of the reinsurer for loss experience between 66% and 86%. Despite the conversion features, 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.

The Company also participates in the Florida Hurricane Catastrophe Fund to protect its interest in insurable risks associated with its homeowner and mobile home owner policies against catastrophic losses. Additionally, the Company has purchased "Excess of Loss" insurance to further protect itself from potential catastrophic events.

ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

FORWARD-LOOKING STATEMENTS

Statements in this report that are not historical fact are "forward-looking" statements that are subject to certain risks and uncertainties that could cause actual events and results to differ materially from those discussed herein. Without limiting the generality of the foregoing, words such as "may," "will," "expect," "believe," "anticipate," "intend," "could," "would," "estimate," or "continue," or the negative other variations thereof or other comparable terminology, are intended to identify forward-looking statements. The risks and uncertainties include, without limitation, uncertainties related to estimates, assumptions and projections generally; inflation and other changes in economic conditions (including changes in interest rates and financial markets); pricing competition and other initiatives by competitors; ability to obtain regulatory approval for requested rate changes and the timing thereof; legislative and regulatory developments; the outcome of litigation pending against the Company; risks related to the nature of the Company's business; dependence on investment income and the composition of the Company's investment portfolio; the adequacy of its liability for loss and loss adjustment expense ("LAE"); insurance agents; claims experience; ratings by industry services; catastrophe losses; reliance on key personnel; weather conditions (including the severity and frequency of storms, hurricanes, tornadoes and hail); changes in driving patterns and loss trends; acts of war and terrorist activities; courts decisions and trends in litigation and health care and auto repair costs; and other matters described from time to time by the Company in this report and its other filings with the SEC. You are cautioned not to place reliance on these forward-looking statements, which are valid only as of the date they were made. The Company undertakes no obligation to update or revise any forward-looking statements to reflect new information or the occurrence of unanticipated events or otherwise. In addition, readers should be aware that generally accepted accounting principles prescribe when a company may reserve for particular risks, including litigation exposures. Accordingly, results for a given reporting period could be significantly affected if and when a reserve is established for a major contingency. Reported results may therefore appear to be volatile in certain accounting periods.

OVERVIEW

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

wholly-owned subsidiary, Federated Premium.

The Company markets and distributes its own and third-party insurers' products and its other services primarily in South Florida, through a network of 23 agencies, owned by Federated Agency Group, a wholly-owned subsidiary, 42 franchised agencies and approximately 125 independent agents. The Company, through its wholly-owned subsidiary, FedUSA, franchises agencies under the FedUSA name. As of March 31, 2003, franchises were granted for 42 Fed USA agencies, of which 36 were operating. The Company intends to focus its future expansion efforts for its agency network on franchised agencies.

The Company offers income tax preparation, electronic tax filing services, and income tax preparation software and service through Express Tax Service, Inc., ("Express Tax"), an 80%-owned subsidiary, as well as franchise opportunities for these services through EXPRESSTAX Franchise Corporation ("EXPRESSTAX"), a wholly-owned subsidiary of Express Tax. As of June 30, 2003 there were 141 EXPRESSTAX franchises granted in ten states. Revenue is generated through franchise sales, collection of royalties on tax preparation fees, incentives from business partners as well as fees from the preparation of income tax returns and bank related products. In addition, Express Tax offers tax preparation services through more than 500 licensees nationwide, acting as sales representatives of Express Tax.

The Company believes that it can be distinguished from its competitors because it generates revenue from substantially all aspects of the insurance underwriting, distribution and claims process. The Company provides quality service to both its agents and insureds by utilizing an integrated computer system, which links the Company's insurance and service entities. The Company's computer and software systems allow for automated premium quotation, policy issuance, billing, payment and claims processing and enables the Company to continuously monitor substantially all aspects of its business. Using these systems, the Company's agents can access a customer's driving record, quote a premium, offer premium financing and, if requested, generate a policy on-site. The Company believes that these systems have facilitated its ability to market and underwrite insurance products on a cost-efficient basis, allow Company-owned and franchised agencies to be a "one stop" shop for insurance, tax preparation and other services, and enhance the Company's ability to expand in Florida and to other states.

The Company's primary products are standard and nonstandard personal automobile insurance. The former is principally provided to insureds who present an average risk profile in terms of payment history, driving record, vehicle and other factors. The latter is principally provided to insureds who are unable to obtain preferred or standard insurance coverage because of their payment history, driving record, age, vehicle type or other factors, including market conditions for preferred or standard risks. The Company's experience has been that Underwriting criteria in the industry generally for standard insurance coverage have become more restrictive, thereby requiring more drivers to seek coverage in the nonstandard automobile insurance market. The Company believes that these factors have contributed to an increase in the size of the nonstandard personal automobile insurance market. Additionally other insurance products offered include property insurance for the home and mobile home and, in June of 2003, the Company plans to launch a new general liability insurance product designed for the small artisan.

The Company currently underwrites and sells insurance only in Florida; however, the Company intends to expand to other selected states. American

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

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

ANALYSIS OF FINANCIAL CONDITION
AS OF MARCH 31, 2003 AS COMPARED TO DECEMBER 31, 2002

INVESTMENTS. Investments increased $1.5 million, or 5.7%, to $26.8 million as of March 31, 2003 as compared to $25.4 million as of December 31, 2002. This increase in investments is the result of an increase in premiums written discussed below.

FINANCE CONTRACTS. Finance contracts decreased $505,000, or 0.07%, to $6.7 million as of March 31, 2003 from $7.2 million as of December 31, 2002. The decline in contracts receivable is due to the direct-bill feature offered by the insurance companies wherein the policyholder can renew and pay premiums directly to the Federated National and American Vehicle.

PREPAID REINSURANCE PREMIUMS. Prepaid reinsurance premiums decreased $1.4 million, or 12.2%, to $9.9 million as of March 31, 2003 from $11.3 million as of December 31, 2002 The decrease is the result a decrease in Federated National's ceded quota-share reinsurance on automobile insurance from 40% of premiums written in 2002 to 30% for premiums written in 2003. American Vehicle also reduced its ceded quota-share reinsurance from 70% of its premiums written to 40% effective November 1, 2002.

REINSURANCE RECOVERABLE. Reinsurance recoverable increased $3.3 million to $11.1 million as of March 31, 2003 from $7.9 million as of December 31, 2002. This increase is the result of the timing of settlements between the Company and its reinsurer. All amounts are considered current.

DEFERRED ACQUISITION COSTS, NET. Deferred acquisition costs increased from $7,721 as of December 31, 2002 to $433,487 as of March 31, 2003. Included in the December 31, 2002 balance were deferred commissions of $3.0 million offset by unearned ceded commissions of $3.0 million. As of March 31, 2003, deferred commissions were $74,000 offset by unearned ceded commissions of $500,000. Deferred commissions increased due to the increase in premiums. The increase in unearned ceded commissions is related to the decline of Federated National's and American Vehicle's 2003 reinsurance cession treaties.

UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES. Unpaid loss and loss adjustment expenses increased $4.6 million from $17.0 million as of December 31, 2002 to $21.6 as of March 31, 2003. The increase is due to first quarter loss reserve strengthening and to the timing of claim payments issued.

PREMIUM DEPOSITS. Premium deposits represent premiums collected in advance of the policy's effective date of coverage and are generally associated with the home and mobile home insurance policies. Premium deposits increased from

$656,000 as of December 31, 2002 to $1.1 million as of March 31, 2003.

RESULTS OF OPERATIONS
THREE MONTHS ENDED MARCH 31, 2003 COMPARED TO THREE MONTHS ENDED MARCH 31, 2002

GROSS PREMIUMS WRITTEN. Gross premiums written increased $3.5 million, or 27%, to $16.6 million for the three months ended March 31, 2003 as compared to $13.1 million for the comparable period in 2002. $1.4 million of this increase is attributable to American Vehicle which was acquired in August 2001. Federated National's automobile premiums written also increased by $1.4 million and its homeowner premiums written increased by $681,000 as compared to March 31, 2002.

GROSS PREMIUMS CEDED. Gross premiums ceded decreased $1.5 million to $4.4 million for the three months ended March 31, 2003, from $5.9 million for the three months ended March 31, 2002. The decrease is primarily due to the decline in the Company's ceded quota-share reinsurance on automobile insurance.

DECREASED UNEARNED PREMIUMS, NET OF PREPAID REINSURANCE PREMIUMS. The decrease in unearned premiums, net of prepaid reinsurance premiums was $1.7 million for the three months ended March 31, 2002 as compared to a decrease of $1.7 million for the three months ended March 31, 2003 as well. The decline is a function of the increase in written premiums and declining ceded reinsurance quota-share percentages.

MGA FEES. MGA fees decreased $326,000 to $633,000 for the three-month period ended March 31, 2003 from $959,000 for the same period in 2002. The decrease is due to commissions earned from a nonaffiliated insurance company during the first quarter of 2002.

NET REALIZED INVESTMENT GAINS. The Company experienced net realized gains of $351,000 for the three-month period ended March 31, 2003 compared to realized gains of $54,000 for the same period in 2002. Realized gains or losses are primarily a function of the bond and equity markets. There can be no assurance that the Company will record gains in the future.

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LOSSES AND LAE. The Company's loss ratio, as determined in accordance with GAAP, for the three-month period ended March 31, 2003 was 64.9% compared with 58.6% for the same period in 2002. Losses and LAE incurred increased $3.6 million to $6.8 million for the three-month period ended March 31, 2003 from $3.2 million for the same period in 2002. Losses and LAE, the Company's most significant expense, represent actual payments made and changes in estimated future payments to be made to or on behalf of its policyholders, including expenses required to settle claims and losses. The Company attributes the 113% increase to reserve strengthening. Loss ratios by company by major line are as follows:

	March 31, 2003	March 31, 2002
Federated National Automobile	83.5%	79.2%
Federated National Home and Mobile Home	16.8%	25.1%
American Vehicle Automobile	76.8%	77.9%

AMORTIZATION OF DEFERRED POLICY ACQUISITION COSTS. Amortization of deferred policy acquisition costs increased from a credit of $70,000 for the three-month

period ended March 31, 2002 to a credit of $360,000 for the same period in 2003. Amortization of deferred policy acquisition costs consists primarily of net commissions. The increase is due to an increase in commissions earned on reinsurance ceded.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary sources of capital are revenues generated from operations, investment income and borrowings under the Revolving Agreement, described below. Because the Company is a holding company, it is largely dependent upon dividends and fees from its subsidiaries for cash flow. Federated Premium's operations are funded by a revolving loan agreement ("Revolving Agreement") with FlatIron Funding Company LLC ("FlatIron"). The Revolving Agreement is structured as a sale of contracts receivable under a sale and assignment agreement with FPF, Inc. (a wholly-owned subsidiary of FlatIron), which gives FPF, Inc. the right to sell or assign these contracts receivable. Federated Premium, which services these contracts, has recorded transactions under the Revolving Agreement as secured borrowings. The Revolving Agreement, which was amended and revised in September 2001, allowed for a maximum credit commitment of $7.0 million plus an initial additional amount of $700,000 for the transition from September 30, 2001 when the previous agreement expired. The line declined by $100,000 each month beginning November 1, 2001. In September 2002, the line was amended and revised allowing for a maximum credit commitment of $4.0 million. The credit commitment was reduced by the lender, primarily due to the AM Best ratings of third-party insurance carriers for which the Company was financing policies at the time. Simultaneously, the Company ceased financing policies underwritten by third-party insurance carriers and implemented the Company's newly developed direct bill program. The Company believes that these changes decreased credit risks and made the Company's reliance on the higher credit commitment previously offered by the lender unnecessary.

By financing policies underwritten only by its own insurance carriers, the Company believes that its credit risks are reduced because it can more securely rely on the underwriting processes of its own insurance carriers. Furthermore, the direct bill program enables the Company to closely manage its risk while providing credit to its insureds. Direct billing is where the insurance company accepts from the insured, as a receivable, a promise to pay the premium, as opposed to requiring the full amount of the policy, either directly from the insured or from a premium finance company. The Company's underwriting standards require a down payment and subsequent monthly payments sufficient to create "policyholder's equity," or unearned premium, in the policy. The equity in the policy is collateral for the extension of credit to the insured. Through the Company's monitoring systems, the Company tracks delinquent payments and, in accordance with the terms of the extension of credit, cancels the policy before the policyholder's equity is extinguished. If any excess premium remains after cancellation of the policy and deduction of applicable penalties, this excess is refunded to the policyholder.

The annual interest rate on advances under the Revolving Agreement is the prime rate plus additional interest varying from 1.25% to 3.25% based on the prior month's ratio of contracts receivable related to insurance companies with an AM Best rating of B or worse to total contracts receivable. The Revolving Agreement contains various operating and financial covenants, with which the Company was in compliance at March 31, 2003 and December 31, 2002. The Revolving Agreement, as amended, expires September 30, 2004. Outstanding borrowings under the Revolving Agreement as of March 31, 2003 and December 31, 2002 were approximately $4.1 million and $4.3 million, respectively. Outstanding borrowings in excess of the $4.0 million commitment totaled $122,645 and $312,420 for March 31, 2003 and December 31, 2002, respectively and are permissible by reason of a compensating cash balance held for the benefit of FPF, Inc. Interest expense on this revolving credit line for the first quarter of 2003 and the year ended December 31, 2002 totaled approximately $55,000 and

$342,000, respectively.

For the three months ended March 31, 2003, operations generated operating cash flow of $3.8 million, which was primarily attributable to the increase in premiums written. This represents a $2.30 million decrease in cash provided by operations as compared to the period ending March 31, 2002. The decrease primarily reflects anomalies which occurred in the first quarter of 2002 stemming from the introduction of the accounts associated with the acquisition American Vehicle. Also, the implementation of the Company's direct bill program, settlement of federal and state income taxes, and declines in accounts payable and accrued expenses contributed to the decrease.

The introduction of American Vehicle during the last quarter of 2001 resulted in significant increases in operating cash for the period ended March 31, 2002. As of March 31, 2003, however, a $1.84 million decline in cash flow was attributable to American Vehicle's integration into the consolidated operations of the Company for a full 12 months. Furthermore, as a result of the profitable operations for the year ended December 31, 2002, as compared to net losses reported for year ended December 31, 2001, federal and state income tax payments consumed $1.43 million of operating cash. Also, declines in accounts payable and accrued expense balances accounted for $930,000 of the decrease in the first quarter 2003 cash flow. On the other hand, during the first quarter of 2003, the Company's direct bill program contributed $1.97 million to operating cash, and the Company's increased net income, net of other non-cash items and agency commissions, contributed $80,000 to operating cash.

Operating cash flow is currently expected to be positive in both the short-term and the reasonably foreseeable future. In addition, the Company's investment portfolio is highly liquid as it consists almost entirely of readily marketable securities. Cash flow used in net investing activities was $258,000 for the quarter ended March 31, 2003 as the Company invested the cash flow from operating activities. In the future, the Company expects a continued cash flow deficit from investing activities as the Company invests cash from operations. Cash deficit from financing activities was $438,000 for the quarter ended March 31, 2003, as the Company reduced its bank overdraft and the amount outstanding under its Revolving Agreement as well as dividends paid. The Company believes that its current capital resources, together with cash flow from its operations, will be sufficient to meet its currently anticipated working capital requirements. There can be no assurances, however, that such will be the case.

To retain its certificate of authority, Florida insurance laws and regulations require that Federated National and American Vehicle maintain capital surplus equal to the greater of 10% of its liabilities or the 2002 statutory minimum capital and surplus requirement of $3.25 million as defined in the Florida Insurance Code. The insurance companies are also required to adhere to prescribed premium-to-capital surplus ratios.

Under Florida law, a domestic insurer may not pay any dividend or distribute cash or other property to its shareholders except out of that part of its available and accumulated capital surplus funds which is derived from realized net operating profits on its business and net realized capital gains. A Florida domestic insurer may not make dividend payments or distributions to shareholders without prior approval of the Florida Department of Financial Services if the dividend or distribution would exceed the larger of (i) the lesser of (a) 10.0% of its capital surplus or (b) net income, not including realized capital gains, plus a two-year carryforward, (ii) 10.0% of capital surplus with dividends payable constrained to unassigned funds minus 25% of unrealized capital gains or (iii) the lesser of (a) 10.0% of capital surplus or (b) net investment income plus a three-year carryforward with dividends payable

constrained to unassigned funds minus 25.0% of unrealized capital gains. Alternatively, a Florida domestic insurer may pay a dividend or distribution without the prior written approval of the Florida Department of Financial Services (i) if the dividend is equal to or less than the greater of (a) 10.0% of the insurer's capital surplus as regards policyholders derived from realized net operating profits on its business and net realized capital gains or (b) the insurer's entire net operating profits and realized net capital gains derived during the immediately preceding calendar year, (ii) the insurer will have policy holder capital surplus equal to or exceeding 115.0% of the minimum required statutory capital surplus after the dividend or distribution, (iii) the insurer files a notice of the dividend or distribution with the Florida Department of Financial Services at least ten business days prior to the dividend payment or distribution and (iv) the notice includes a certification by an officer of the insurer attesting that, after the payment of the dividend or distribution, the insurer will have at least 115% of required statutory capital surplus as to policyholders. Except as provided above, a Florida domiciled insurer may only pay a dividend or make a distribution (i) subject to prior approval by the Florida Department of Financial Services or (ii) 30 days after the Florida Department of Financial Services has received notice of such dividend or distribution and has not disapproved it within such time.

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Under these laws, Federated National would be permitted to pay dividends of approximately $207,000 to the Company in 2003, and American Vehicle would be permitted to pay $73,000 in dividends in 2003. Although the Company believes that amounts required for it to meet its financial and operating obligations will be available from sources other than dividends from insurance subsidiaries, there can be no assurance in this regard. Further, there can be no assurance that, if requested, the Florida Department of Financial Services will allow any dividends in excess of the amount available to be paid by Federated National or American Vehicle to the Company in the future. No dividends were paid by Federated National or American Vehicle in 2002, 2001 or 2000, and none are anticipated in 2003. The maximum dividends permitted by state law are not necessarily indicative of an insurer's actual ability to pay dividends or other distributions to a parent company. The payment of dividends may also be constrained by business and regulatory considerations, such as the impact of dividends on capital surplus, which could affect an insurer's competitive position and the amount of premiums that can be written, as well as 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.

Insurance companies are required to comply with the risk-based capital requirements of the National Association of Insurance Commissioners ("NAIC"). The NAIC's risk-based capital requirements are a method of measuring the amount of capital appropriate for an insurance company to support its overall business operations in light of its size and risk profile. NAIC's risk-based capital standards are used by regulators to determine appropriate regulatory actions relating to insurers who show signs of weak or deteriorating condition. As of March 31, 2003, based on calculations using the appropriate NAIC formula, the Company's total adjusted capital is in excess of ratios that would require regulatory action. GAAP differs in some respects from reporting practices prescribed or permitted by the Florida Department of Financial Services. Federated National's and American Vehicle's statutory capital surplus levels as of March 31, 2003 were approximately $9.8 million and $5.2 million, respectively, and their statutory net income for the quarter ended March 31, 2003 was $511,000 and $293,000, respectively.

During 2002 Federated National entered into a 10% quota-share agreement

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

IMPACT OF INFLATION AND CHANGING PRICES

The consolidated financial statements and related data presented herein have been prepared in accordance with GAAP which requires the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation. The primary assets and liabilities of the Company are monetary in nature. As a result, interest rates have a more significant impact on the Company's performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or with the same magnitude as the cost of paying losses and LAE.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information related to quantitative and qualitative disclosures about market risk was included under Item 7a, "Quantitative and Qualitative Disclosures about Market Risk" in the Company's Annual Report on Form 10-K as of December 31, 2002. No material changes have occurred in market risk since this information was disclosed except as discussed below.

The Company's investment portfolio is available for sale and is carried at fair value. Gains, that represent securities with a fair value in excess of amortized cost, and losses (amortized cost is in excess of fair value) that are deemed temporary by management are recorded in shareholders' equity in accumulated other comprehensive income. Losses that are deemed other than temporary by management are recorded as net realized losses in the consolidated statement of operations.

A summary of the investment portfolio as of March 31, 2003 follows:

	Amortized Cost	Fair Value	Gain (Loss
Corporate Securities			
Communications Industry	$ 2,602,080	$ 2,782,225	$ 180,1
Financial Industry	4,354,347	4,379,431	25,0
Other Industries	4,258,484	4,323,758	65,2
Total Corporate Securities	11,214,911	11,485,414	270,5

Obligations of State and Municipal Subdivisions	13,485,242	13,589,451	104,2
U. S. Government and Government Agencies	103,488	104,094	6
Total Fixed Maturities	$24,803,641	$25,178,959	$ 375,3
Equity Securities - Common Stocks	$ 1,599,737	$ 1,508,939	$ (90,7

As shown in the table above, at March 31, 2003 the Company had investments with a fair value of $2.7 million and amortized cost of $2.6 million in the communications industry. At the time these investments were made, the Company believed that these were prudent and would enhance the yield on the investment portfolio.

ITEM 4. CONTROLS AND PROCEDURES

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

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

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PART II. OTHER INFORMATION

ITEM 1

LEGAL PROCEEDINGS

In June 2000, a lawsuit was filed against the Company and its directors and executive officers seeking compensatory damages in an undisclosed amount on the basis of allegations that the Company's amended registration statement dated November 4, 1998 was inaccurate and misleading concerning the manner in which the Company recognized ceded insurance commission income, in violation of Sections 11 and 15 of the Securities Act of 1933 and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. Specifically, the plaintiffs allege that the Company recognized ceded commission income on a written basis, rather than amortized on a pro rata basis. The plaintiffs allege that this was contrary to the Statement of Financial Accounting Concepts Nos. 1, 2 and 5. The Company has

since accounted for ceded commission on a pro rata basis and has done so since these matters were brought to the Company's attention in 1998.

Nevertheless, the Company believes that the lawsuit is without merit and is vigorously defending the action, as the Company reasonably relied upon outside subject matter experts to make these determinations at the time. The lawsuit was filed in the United States District Court for the Southern District of New York and seeks class action status. The plaintiff class purportedly includes purchasers of the Company's common stock between November 5, 1998 and August 13, 1999. The Court recently denied the Company's Motion to Dismiss the plaintiffs' First Amended Complaint and the Company filed an Answer and Affirmative Defenses.

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

ITEM 4

SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5

OTHER INFORMATION

None

ITEM 6

EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

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

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

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

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

(b) Reports on Form 8-K.

Form 8-K filed on May 5, 2003, attached and incorporated by reference Exhibit 99.1, press release of the Company dated May 5, 2003, reporting financial results for the first quarter of 2003.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Amendment No. 1 to Form 10-Q to be signed on its behalf by the undersigned hereunto duly authorized.

21ST CENTURY HOLDING COMPANY

By: /s/ Richard A. Widdicombe

Richard A. Widdicombe, Chief Executive Officer

/s/ J. G. Jennings III

J. G. Jennings III, Chief Financial Officer

Date: August 28, 2003