

FEDERATED NATIONAL HOLDING CO
Form 424B5
August 01, 2014

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Registration No. 333-195890

PROSPECTUS SUPPLEMENT **(To prospectus dated July 3, 2014)**

2,051,283 Shares

Common Stock

We are offering 2,051,283 shares of common stock of Federated National Holding Company pursuant to this prospectus supplement and the accompanying prospectus. Our common stock is listed on the Nasdaq Global Market under the symbol FNHC. On July 31, 2014, the last reported sale price for our common stock on the Nasdaq Global Market was \$20.17 per share. Any shares of our common stock sold pursuant to this prospectus supplement will be listed on the Nasdaq Global Market.

Investing in our common stock involves a high degree of risk. You should read the section titled Risk Factors beginning on page S-9 of this prospectus supplement and the risk factors described in the documents incorporated by reference into this prospectus supplement.

	Per Share	Total
Public offering price	\$ 19.500	\$ 40,000,018
Underwriting discount ⁽¹⁾	\$ 1.121	\$ 2,300,001
Proceeds, before expenses, to us	\$ 18.379	\$ 37,700,017

(1) See Underwriting for a description of the compensation payable to the underwriters.

The underwriters may purchase up to an additional 307,692 of shares of our common stock from us at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus supplement to cover over-allotments. If the underwriter exercises the option in full, the total underwriting discount payable will be \$2,645,001, and the total proceeds to us, before expenses, will be \$43,355,011.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement is truthful or complete. Any

representation to the contrary is a criminal offense.

We expect to deliver the shares of common stock on or before August 6, 2014.

RAYMOND JAMES

WILLIAM BLAIR

JANNEY MONTGOMERY SCOTT

**The date of this prospectus supplement is August 1,
2014.**

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ABOUT THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS

This prospectus supplement and the accompanying prospectus are part of a registration statement that we filed with the Securities and Exchange Commission, or the SEC, utilizing a shelf registration process. This document has two parts. The first part is the prospectus supplement, in which we provide you with specific information about the shares of common stock offered and about the offering itself. The second part is the accompanying prospectus, which describes more general information, some of which may not apply to the offering. You should read both this prospectus supplement and the accompanying prospectus, as well as the additional information in the documents described under the heading **Incorporation of Certain Documents by Reference**, before investing in the common stock.

You should rely only on the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus and in any free-writing prospectus filed by us with the SEC. We have not, and the underwriters have not, authorized anyone else to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We and the underwriters are offering securities and soliciting offers to buy securities only in jurisdictions where offers and sales are permitted. The information we have included in this prospectus supplement and the accompanying prospectus is accurate only as of the date of this prospectus supplement or the accompanying prospectus, and any information we have incorporated by reference is accurate only as of the date of the document incorporated by reference. Our business, financial condition, results of operations and prospects may have changed since those dates. To the extent that any statement we make in this prospectus supplement differs from or is inconsistent with statements made in the accompanying prospectus or any previously filed document incorporated by reference herein or therein, the statements made in this prospectus supplement will be deemed to modify or supersede those made in the accompanying prospectus and such documents incorporated by reference herein and therein.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement, the accompanying prospectus and the information incorporated by reference contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These statements are therefore entitled to the protection of the safe harbor provisions of these laws. These statements may be identified by the use of forward-looking terminology such as anticipate, believe, budget, contemplate, continue, envision, estimate, expect, forecast, guidance, indicate, intend, may, might, outlook, plan, probably, pro-forma, project, seek, should, target, will, would, will be, will continue or the negative variations thereon or comparable terminology. We have based these forward-looking statements on our current expectations, assumptions, estimates and projections. While we believe these expectations, assumptions, estimates and projections are reasonable, such forward-looking statements are only predictions and involve a number of risks and uncertainties, many of which are beyond our control. These and other important factors may cause our actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. Management cautions that the forward-looking statements contained in this prospectus supplement, the accompanying prospectus and the information incorporated by reference are not guarantees of future performance, and we cannot assume that such statements will be realized or the forward-looking events and circumstances will occur. For additional information about factors that could cause actual results to differ materially from those described in the forward-looking statements, please see Risk Factors in this prospectus supplement, our Annual Report on Form 10-K and the other documents we subsequently file with the SEC.

Given these risks and uncertainties, you are cautioned not to place undue reliance on such forward-looking statements.

The forward-looking statements included or incorporated by reference into this prospectus supplement and the accompanying prospectus are made only as of the date hereof. We do not undertake and specifically decline any obligation to update any such statements or to publicly announce the results of any revisions to any such statements to reflect future events or developments.

In making your decision to invest in our common stock, you should only rely on the information contained in or incorporated by reference in this prospectus supplement. We have not authorized anyone to provide you with information different from that contained or incorporated by reference in this prospectus supplement. You must rely on your own examination of our company.

This prospectus supplement summarizes certain documents and other information in a manner we believe to be accurate, but we refer you to the actual documents for a more complete understanding of what we discuss in this prospectus supplement. We will make conformed copies of the actual documents available to you upon request.

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SUMMARY

This summary highlights important features of this offering and the information included or incorporated by reference in this prospectus supplement. This summary does not contain all of the information that you should consider before making an investment decision with respect to shares of our common stock. You should read this prospectus supplement carefully, including the Risk Factors, together with any documents incorporated by reference, before investing in shares of our common stock in this offering. In this prospectus supplement and the accompanying prospectus, unless otherwise indicated or the context otherwise requires, references to we, us, our, our company, Company, and FedNat refer to Federated National Holding Company and its subsidiaries.

General Overview

We are a property and casualty insurance holding company incorporated in 1991 and headquartered in Sunrise, Florida. Through our insurance subsidiary, Federated National Insurance Company, or FNIC, we provide homeowners multi-peril (homeowners'), commercial general liability, federal flood, personal auto and various other lines of insurance primarily in Florida and in select other states. We market and distribute our own and third-party insurers products and our other services through a network of approximately 3,500 independent agents, of which approximately 2,000 actively sell and service our products. We are a vertically integrated company and control substantially all aspects of insurance underwriting, distribution and claims processes through our subsidiaries.

For the three months ended March 31, 2014, 91.2%, 3.9%, 1.9% and 3.0% of the premiums we underwrote were for homeowners', commercial general liability, federal flood, and automobile insurance, respectively. We cede 100% of the flood policies we underwrite to the National Flood Insurance Program and earn a commission for our service. In addition to Florida, FNIC is licensed as either an admitted carrier or a non-admitted carrier in six other states. As of March 31, 2014 approximately 95.4% of our written premiums represented policies underwritten in Florida. FNIC is currently rated by Demotech, Inc. as A (Exceptional), a rating it has maintained since 1998.

Our most significant product is homeowners' insurance on residential properties in Florida, written through independent agents. At March 31, 2014, we had approximately 134,000 homeowners' policies in force, substantially all of which covered properties in Florida. We provide standardized insurance policies and offer coverage for single-family homes, renters, tenants and condominium owners. We focus on insuring newer construction and higher value dwellings that we believe typically have better wind mitigation features and lower All Other Perils (non-catastrophe) related losses. We have a long standing relationship with an independent firm that has created sophisticated risk analytics software that allows us to analyze potential homeowners' policies for our book of business to ensure they meet our strict underwriting standards and are accretive to our risk portfolio.

History of Operations

We were incorporated in 1991 with an initial focus on writing personal automobile insurance. We completed our initial public offering in 1998 and began offering homeowners' insurance in Florida in 2000. In 2003, we shifted our business emphasis from underwriting personal automobile to our current focus of underwriting homeowners' insurance. Our name was 21st Century Holding Company until September 2012. We changed our name to Federated National Holding Company to be more consistent with the name of our insurance company and our other subsidiaries and to strengthen the brand name we have used for our insurance products in Florida for more than 20 years.

Independent agents commonly refer to our company as Federated National, FedNat or FNIC.

Our Market

According to the U.S. Census Bureau, Florida was the fourth largest state in the country in 2013 with an estimated population of approximately 19.5 million. Florida's population has grown

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by over 100% since 1980, and is estimated to grow by another 46% by 2030, to approximately 28.6 million people.

Property ownership and development represent key drivers of the Florida economy. The Florida homeowners' insurance market is highly fragmented, dominated by domestic carriers and mostly devoid of national insurance carriers. According to data compiled by the Florida Office of Insurance Regulation, or the Florida OIR, Citizens Property Insurance Corporation, or Citizens, a Florida not-for-profit, tax-exempt government corporation, was the largest homeowners' insurance carrier in Florida as of March 31, 2014, with approximately a 17.0% market share based on annualized premiums written for policies in force for residential homeowners. As of the same date, we ranked 9th in Florida with a market share of 2.6%, rising from 20th as of March 31, 2013. These rankings and market shares exclude State Farm Florida Insurance Company, which has been excluded from the Florida OIR's database.

Assuming further access to capital and reinsurance support, we believe we have the opportunity to significantly expand the size of our homeowners' insurance business in Florida.

In May 2013, Florida's governor signed legislation intended to reform Citizens by reducing its insurance policy count and establishing the Property Insurance Clearinghouse. The Clearinghouse, which launched in January 2014, makes new business ineligible for Citizens if a participating insurance company is willing to afford similar coverage at a price that is no more than 15% above the price of a policy with Citizens. Similarly, existing Citizens policies will not be eligible for renewal with Citizens if a participating insurance company is willing to afford similar coverage at no additional cost over the price for a Citizens policy. This allows potentially new and renewal Citizens policies to be comparatively shopped by participating private market insurers before becoming, or remaining, policies of Citizens.

Effective March 30, 2014, FNIC became a participating insurance company in the Clearinghouse.

Our Strategy

Continued Growth in the Florida Homeowners' Voluntary Insurance Market. We will continue to concentrate on underwriting homeowners' policies in Florida through the voluntary insurance market. Currently, the homeowners' insurance market in Florida is attractive due to rate adequacy, favorably priced reinsurance programs, and a lack of competition from national carriers. We intend to deploy capital to further grow our homeowners' insurance business in

Florida through our independent agent distribution network. According to data compiled by the Florida OIR, we ranked third for the three months ended March 31, 2014, amongst all insurance carriers based on the total number of new personal residential policies written in Florida. Since 2009, we have not participated in the Citizens depopulation program, which is a program created to reduce the number of Citizens' insured properties by permitting insurance companies approved to do business in Florida to assume policies currently covered by Citizens. We have no current intention to participate in the depopulation program; as described above, however, we are a participating insurance company in the Clearinghouse.

Continued Expansion of Our Independent Agent Distribution Network. We currently market our policies through a large, well established network, developed over 20-plus years, of more than 3,500 independent agents, of which approximately 2,000 actively sell and service our policies. We differentiate ourselves from our competitors through our long-term relationships, experience in the Florida market, and strong service to our agents. Our dedicated sales and marketing team is focused on expanding our agency network in Florida and in other states.

Expansion of Market Presence through Joint Venture. We announced on July 21, 2014 a joint venture to form a new property and casualty insurer in Florida, to be named Monarch National Insurance Company, or Monarch (see Recent Developments below). This new insurer, the organization of which is subject to receipt of regulatory approvals and other conditions to closing, will develop rates and policy forms that are expected to enable Monarch to capture a segment of the market that has been unattainable to FedNat because of FedNat's current rate structure. Monarch will use FedNat's distribution, administration and claims processing operations. We currently anticipate that Monarch will

be a well-positioned and competitive voluntary insurance provider that will take advantage of our established distribution and operational strengths.

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Select Expansion in Additional States. We will continue to focus on writing policies in Florida, but will opportunistically expand into additional states we find attractive. In addition to Florida, we are currently licensed as an admitted carrier in Alabama, Georgia, Louisiana and Texas and as a non-admitted carrier in Nevada and South Carolina. We may cautiously increase our insurance underwriting in states other than Florida if we believe the business is profitable.

Opportunistic Product Diversification. We will continue to focus on writing homeowners' policies, but will opportunistically expand into product lines we believe we can profitably underwrite. We currently underwrite homeowners', commercial general liability, fire, allied lines and personal automobile insurance in select markets.

Our Competitive Strengths

Experienced Management Team With a Long History with FedNat. We have an experienced management team led by Michael H. Braun, Chief Executive Officer and President, and Peter J. Prygelski, III, Chief Financial Officer and Treasurer. Mr. Braun joined us in 1998 and was promoted to Chief Executive Officer in July 2008 and has served as President of FNIC since 2003. Mr. Prygelski has served as our Chief Financial Officer since June 2007 and served on our Board of Directors as an independent director from 2004 through 2007. Stephen C. Young, our Vice President of Operations, has more than 20 years of industry experience and joined us in 1995. J. Gordon Jennings III, our Vice President of Risk Management, has more than 23 years of industry experience and joined us in 2000. C. Brian Turnau, President of our wholly owned claims adjusting company, Federated National Adjusting, or FNA, has more than 13 years of industry experience and joined us in 2000. Christopher Clouse, our Underwriting Manager, has more than 25 years of industry experience and joined us in 2008. The majority of our management team has worked together for over a decade including during 2004 and 2005 when eight hurricanes made landfall in Florida.

Seasoned and Growing Book of Insurance Policies with Improving Profitability. We have been underwriting personal lines property and casualty insurance since 1991 and homeowners' policies since 2000. For the three months ended March 31, 2014, only one insurer other than Citizens wrote more new personal residential policies in Florida than we did. We have improved our underwriting capabilities and standards over the past several years, which has reduced our estimated probable maximum losses as compared to our total number of in force policies and total insured value. Furthermore, over the period from 2009 through 2012, we reduced our loss and loss adjustment expenses, or LAE, as a percentage of net premiums earned.

Large Independent Agency Distribution Network. We currently market our policies to a broad range of prospective policyholders through our well-established network of more than 3,500 independent insurance agents, of which approximately 2,000 actively sell and service our products. We developed our network over the past 20-plus years and maintain our relationships by providing high quality service to agents and policyholders and upholding our reputation for long-term stability. Insure-Link, Inc. is our wholly owned independent insurance agency through which we market a full line of property and casualty insurance products to individual and commercial clients. In 2013, we entered into an arrangement with Ivantage Select Agency, Inc., an affiliate of Allstate Insurance Company, to market our homeowners' policies through its captive insurance agencies. During the first quarter of 2014, 15.7% of the homeowners' premiums we underwrote were produced under this arrangement.

Long-Term Relationships with Highly Rated Reinsurers. We actively manage our exposure to catastrophic events through our underwriting and purchase of catastrophe reinsurance each year. For the 2014-2015 hurricane season, we purchased reinsurance through 53 private reinsurers, almost all of which were rated A- or higher by A.M. Best Company, Inc., or A.M. Best, as well as the Florida Hurricane Catastrophe Fund, or the FHCF. Our long-term relationships with high quality reinsurers have been developed over many years. Our reinsurance partners help us limit

our exposure to catastrophic losses and improve the cost-effectiveness of our reinsurance program.

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Robust Claims Capabilities. We have cultivated an experienced claims staff that includes both desk and field adjusters who manage all aspects of our claims process through our wholly owned claims adjusting company, FNA. Our internal claims adjusting company allows us to more efficiently manage our claims, reduce our loss and LAE, and better serve our policyholders. We have minority ownership in an independent catastrophe claims adjusting company, which we believe provides us a competitive advantage in processing claims and provides significant resources to best serve our policyholders in the event of a catastrophe.

Recent Developments

Monarch. On July 21, 2014, we announced a joint venture to form a new Florida-based property and casualty insurance carrier to be named Monarch National Insurance Company, or Monarch. Our co-venturers are C.A. Bancorp Inc., a publicly traded Canadian merchant bank, or CAB, or its majority-owned subsidiary, and Transatlantic Reinsurance Company, or TransRe. The organization of Monarch is subject to the receipt of regulatory approvals and other customary conditions.

The parties have entered into a subscription agreement dated effective as of July 18, 2014, pursuant to which the parties have agreed to organize Monarch Delaware Holdings LLC, or Monarch Parent, which will become the indirect parent of Monarch following receipt of the approval of the Florida OIR. Monarch Parent is expected to have an initial equity capitalization of \$33 million. FedNat and CAB are each expected to own 42.4% of Monarch Parent's equity, with capital contributions of \$14 million each for voting interests, and TransRe will own the remaining 15.2%, with a capital contribution of \$5 million for a non-voting interest.

Upon receipt of all required regulatory approvals from the Florida OIR of the formation of Monarch and the terms of the agreements among the parties, and satisfaction of the other closing conditions, which pursuant to the subscription agreement must occur not later than December 31, 2014, the parties expect to enter into the following agreements:

Monarch will enter into a managing general agent and claims administration agreement, or the MGA Agreement, with Federated National Underwriters, Inc., or FNU, a wholly owned subsidiary of the Company, pursuant to which FNU will provide underwriting, accounting, reinsurance placement and claims administration services to Monarch. For its services under the MGA Agreement, FNU will be entitled to receive 4% of Monarch's total written annual premium, excluding acquisition expenses payable to agents, for FNU's managing general agent services; 3.6% of Monarch's total earned annual premium for FNU's claims administration services; and a per-policy administrative fee of \$25 for each policy underwritten for Monarch. We will also receive an annual expense reimbursement for accounting and related services.

Monarch Parent, Monarch National Holding Company, an intermediate holding company of Monarch, or Monarch Holding, and/or Monarch will enter into an investment management agreement, or the Investment Agreement, with CAB or an affiliate of CAB, pursuant to which CAB or its affiliate will manage the Monarch investment portfolio. The management fee, on an annual basis, will be 0.75% of assets under management up to \$100 million; 0.50% of assets under management of more than \$100 million but less than \$200 million; and 0.30% of assets under management of more than \$200 million.

TransRe will provide \$5 million in senior debt to Monarch Holding. The debt will bear interest at 6% per annum, payable annually in arrears; will mature six years from the date the debt is issued; and will be prepayable without penalty.

Monarch will enter into a reinsurance capacity right of first refusal agreement with TransRe, pursuant to which TransRe will have a right of first refusal for all quota share and excess of loss reinsurance that Monarch deems necessary in its sole discretion for so long as TransRe remains a member of Monarch Parent or the senior debt remains

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outstanding. Pursuant to this agreement, TransRe will have the right to provide, at market rates and terms, a maximum of 15% of any reinsurance coverage obtained by Monarch in any individual reinsurance contract.

The limited liability company agreement of Monarch Parent to be entered into upon the formation of Monarch Parent, or the LLC Agreement, will provide that Monarch Parent will be managed by a seven-member Board of Managers, three of whom will be designated by us, three of whom will be designated by CAB, and one who will be jointly selected by CAB and us. The LLC Agreement will provide that certain material transactions must be approved by a supermajority of the managers, including a termination or amendment of the MGA Agreement or the Investment Agreement. We will be entitled to receive a termination fee equal to the aggregate fees paid under the MGA Agreement for the 12 calendar months prior to the date of termination, if the MGA Agreement is terminated other than for cause. The LLC Agreement will also provide the members with certain redemption, tag-along, drag-along and buy-sell rights.

An affiliate of CAB has discretionary authority over certain managed accounts that currently hold in the aggregate shares of our common stock totaling less than 1% of our outstanding shares.

Selected Second Quarter 2014 Financial Results (Unaudited). Our consolidated financial statements for the three and six months ended June 30, 2014 are not yet available. The selected financial data with respect to our results for the three and six months ended June 30, 2014 as set forth below are preliminary, subject to completion of our financial closing process, are based upon currently available information and management estimates, and may vary from the actual results reported for such periods. Our independent registered public accounting firm, Goldstein Schechter Koch, P.A., has not audited this preliminary financial data and, accordingly, Goldstein Schechter Koch, P.A. does not express an opinion with respect thereto. This summary is not meant to be a comprehensive statement of our unaudited financial results for the three or six months ended June 30, 2014.

(in thousands except per share data and ratios)	Three Months Ended		Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Gross premiums written	\$ 107,353	\$ 69,534	\$ 188,454	\$ 114,868
Net premiums earned	\$ 51,433	\$ 23,659	\$ 95,437	\$ 41,958
Net income per share, fully diluted	\$ 1.01	\$ 0.31	\$ 1.75	\$ 0.60
Book value per share ⁽¹⁾	\$ 11.70	\$ 8.58	\$ 11.70	\$ 8.58
Loss ratio ⁽²⁾	47.68	% 54.18	% 47.52	% 52.78

(1)

At period end.

The loss ratio compares our losses and LAE incurred, net of reinsurance, to our net premiums earned, and indicates how much we expect to pay policyholders for claims and related settlement expenses compared to the amount of (2) premiums we earn. The loss ratio uses all losses and LAE incurred in the current calendar year, regardless of the year in which the incident giving rise to the claim occurred. The lower the loss ratio percentage is, the more profitable our insurance business is, all other factors being equal.

Corporate Information

Our executive offices are located 14050 N.W. 14th Street, Suite 180, Sunrise, Florida 33323, and our telephone number is (800) 293-2532. Our website is www.FedNat.com. Information contained on our website is not incorporated by reference into this prospectus supplement or the accompanying prospectus, and such information should not be considered to be part of this prospectus supplement or the accompanying prospectus.

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The Offering

Issuer

Federated National Holding Company.

Common Stock Offered

2,051,283 shares of common stock.

Over-Allotment Option

We have granted the underwriters an option to purchase up to an additional 307,692 shares of our common stock to cover over-allotments, if any, within 30 days of the date of this prospectus supplement.

Common Stock Outstanding After the Offering

13,497,778 shares (13,805,470 shares if the underwriters exercise in full their over-allotment option).

Use of Proceeds

We estimate that the net proceeds from this offering after commissions and expenses will be approximately \$37,450,017, or approximately \$43,105,011 if the underwriters exercise their over-allotment option in full. We intend to use the net proceeds from this offering primarily for general corporate purposes, including as statutory capital to support our growth. Although we are currently able to fund our capital contribution to Monarch with available cash resources, the net proceeds will help to sustain our capital levels after our investment in Monarch.

Risk Factors

See **Risk Factors** beginning on page S-9 of this prospectus supplement, and the risk factors described in the documents incorporated by reference into this prospectus supplement for a discussion of factors you should carefully consider before deciding to invest in our common stock.

Nasdaq Global Market Symbol

FNHC

Unless otherwise noted, all information contained in this prospectus supplement assumes no exercise of the underwriters' option to purchase 307,692 additional shares.

The total number of shares of our common stock outstanding after this offering is based on 11,446,495 shares outstanding as of July 31, 2014. Unless otherwise indicated, the number of shares of common stock outstanding presented in this prospectus supplement excludes 314,810 shares of common stock issuable upon exercise of stock options outstanding as of July 31, 2014 at a weighted average exercise price of \$3.80 per share, 662,698 shares of common stock reserved for issuance under our equity compensation plans, and shares that may be purchased by the underwriter to cover over-allotments.

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Summary Financial Data

The following tables summarize the relevant financial data for our business and should be read in conjunction with the consolidated financial statements and notes thereto as of and for the three months ended March 31, 2014 and 2013 and the years ended December 31, 2013, 2012, 2011, 2010 and 2009 and the related Management's Discussion and Analysis of Financial Condition and Results of Operations incorporated herein by reference. The operating data for the three months ended March 31, 2014 are not necessarily indicative of the results that might be expected for the full year.

Operations Data

	Three Months Ended March 31,		Years Ended December 31,				
	2014	2013	2013	2012	2011	2010	2009
Revenue:							
Gross premiums written		\$ 81,102					

(Amounts in thousands except per share amounts and ratios)