



**FIRST ACCEPTANCE CORPORATION
NOTICE OF 2024 ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD MAY 7, 2024**

To our Stockholders:

The 2024 annual meeting of stockholders of First Acceptance Corporation will be held Tuesday, May 7, 2024, at 10:00 a.m., Central Time at our corporate headquarters, which is located at 3813 Green Hills Village Drive, Nashville, Tennessee 37215. Directions to the annual meeting can be obtained by contacting Investor Relations by email through an information request at <https://firstacceptance.com/investor-relations> or by phone at 1-800-321-0899. At the meeting, stockholders will vote on the following matters:

1. Election of the seven directors set forth in this proxy statement to serve until the next annual meeting of stockholders or until their respective successors are duly elected and qualified;
2. Approval of an increase in the number of shares authorized for issuance pursuant to the First Acceptance Corporation Employee Stock Purchase Plan;
3. Ratification of the appointment of Crowe LLP as our independent registered public accounting firm for 2024; and
4. Any other matters that may properly come before the meeting and any adjournments or postponements of the meeting.

Stockholders of record at the close of business on March 13, 2024 are entitled to notice of and to vote at the meeting.

Your vote is important. Please COMPLETE, DATE, SIGN AND RETURN THE ENCLOSED PROXY CARD as promptly as possible in the enclosed envelope in order that as many shares as possible will be represented.

By Order of the Board of Directors,

Michael J. Bodayle
Secretary

Nashville, Tennessee
March 22, 2024

**Important Notice regarding the Availability of Proxy Materials
for the 2024 Annual Meeting of Stockholders to be held on May 7, 2024**

**First Acceptance Corporation's Annual Report for the year ended December 31, 2023 Proxy Statement and
Proxy Card are available at**

<https://firstacceptance.com/investor-relations/proxy-online>

**FIRST ACCEPTANCE CORPORATION
3813 GREEN HILLS VILLAGE DRIVE
NASHVILLE, TENNESSEE 37215**

PROXY STATEMENT

The Board of Directors of First Acceptance Corporation (referred to herein as the “Board” or the “Board of Directors”) is soliciting proxies to be used at the 2024 annual meeting of stockholders. This proxy statement and the enclosed proxy card will be first mailed to stockholders on or about March 22, 2024.

ABOUT THE MEETING

What Is the Purpose of the Annual Meeting?

At our annual meeting, stockholders will vote on the matters outlined in the proxy statement. In addition, our management will report on our performance during 2023 and respond to appropriate questions from stockholders.

Who Is Entitled to Vote?

Stockholders of record of our common stock at the close of business on the record date, March 13, 2024, are entitled to receive notice of the annual meeting and vote the shares of common stock that they held on that date at the meeting, or any postponement or adjournment of the meeting. Each outstanding share of our common stock entitles its holder to cast one vote on each matter to be voted upon.

What Constitutes a Quorum?

For purposes of voting on all matters, the presence at the meeting, in person or by proxy, of the holders of a majority of the shares of common stock outstanding on the record date will constitute a quorum. As of the record date, 37,980,139 shares of our common stock were outstanding. Proxies received but marked as abstentions will be included in the calculation of the number of shares considered to be present at the meeting.

How Do I Vote?

If you complete and properly sign the accompanying proxy card and return the card to us, the card will be voted as you direct. If you are a registered stockholder and attend the meeting, you may deliver your completed proxy card in person. "Street name" stockholders who wish to vote at the meeting will need to obtain a proxy card from the institution that holds their shares.

Can I Change My Vote After I Return My Proxy Card?

Yes. You can revoke your proxy at any time before the final vote at the annual meeting in any of three ways:

- by submitting written notice of revocation to the Secretary;
- by submitting another proxy that is later dated and properly signed; or
- by voting in person at the meeting.

What Are the Board's Recommendations?

Unless you give other instructions on your proxy card, the persons named as proxy holders on the proxy card will vote in accordance with the recommendations of the Board of Directors. The Board's recommendations are set forth below, and a description of each item is included in this proxy statement. In summary, the Board recommends a vote:

- **FOR** election of each of the nominated directors;
- **FOR** approval of an increase in the number of shares authorized for issuance pursuant to the First Acceptance Corporation Employee Stock Purchase Plan; AND
- **FOR** the ratification of the appointment of Crowe LLP as our independent registered public accounting firm.

With respect to any other matter that properly comes before the meeting, the proxy holders will vote as recommended by the Board of Directors or, if no recommendation is given, in their own discretion.

What Vote Is Required to Approve Each Proposal?

Election of Directors

Each of the director nominees must receive affirmative votes from a plurality of the votes cast to be elected. This means that the seven nominees receiving the greatest number of votes will be elected as directors. Stockholders may not cumulate votes in the election of directors.

Approval of Increase in Number of Shares Authorized for Issuance Pursuant to the First Acceptance Corporation Employee Stock Purchase Plan

The amendment to the First Acceptance Corporation Employee Stock Purchase Plan will be ratified if the proposal receives the affirmative vote of a majority of the votes cast on the matter. With respect to this proposal, a properly executed proxy marked "ABSTAIN" will have the same effect as a vote against the proposal. Broker non-votes will not affect this proposal.

Ratification of Independent Registered Public Accounting Firm

The appointment of Crowe LLP as our independent registered public accounting firm for 2024 will be ratified if the proposal receives the affirmative vote of a majority of the votes cast on the matter. If this appointment is not ratified by stockholders, the Audit Committee and the Board may reconsider its recommendation and appointment, respectively. With respect to this proposal, abstentions will not be counted as votes and will have no effect on the result of the vote.

Will My Shares Be Voted if I Do Not Sign and Return My Proxy Card?

If you are a registered stockholder and do not sign and return your proxy card, your shares will not be voted at the annual meeting. **We strongly encourage you to vote - every vote is important.**

PROPOSAL 1 – ELECTION OF DIRECTORS

At the recommendation of the Nominating and Corporate Governance Committee, the Board of Directors has nominated and recommends to the stockholders, Rhodes R. Bobbitt, Donald J. Edwards, Jeremy B. Ford, Tom C. Nichols, Lyndon L. Olson, Jr., Kenneth D. Russell and William A. Shipp, Jr. for election to serve as directors until our next annual meeting of stockholders and until such time as their respective successors are duly elected and qualified. Each of the director nominees is currently a director and was elected by the stockholders at our 2023 annual meeting of stockholders.

If any of the nominees should become unable to accept election, the persons named in the proxy may vote for such other person or persons as may be designated by the Board of Directors. Management has no reason to believe that any of the nominees named above will be unable to serve.

Certain information with respect to the nominees for election as directors is set forth below, including, with respect to each director nominee, his particular experience, qualifications, attributes, and skills that qualify him to serve as a director.

Rhodes R. Bobbitt	<u>Director Since:</u> 2004
(Age 78)	<p><u>Business Experience:</u> From February 1987 until his retirement in June 2004, Mr. Bobbitt served as Managing Director and Dallas Regional Office Manager of the Private Client Service Group – Credit Suisse First Boston and its predecessor, Donaldson, Lufkin & Jenrette. Prior to joining Donaldson, Lufkin & Jenrette, Mr. Bobbitt was Vice President of Security Sales in the Dallas office of Goldman Sachs & Co. Mr. Bobbitt has executive experience in finance and investments.</p> <p><u>Other Current Board Positions:</u> Hilltop Holdings Inc.</p> <p><u>Relationship to Company:</u> Mr. Bobbitt is an Independent Director.</p>

Donald J. Edwards	<u>Director Since:</u> 2002
(Age 58)	<p><u>Business Experience:</u> Mr. Edwards is the Chief Executive Officer of Flexpoint Ford, LLC, a Chicago-based private equity firm focused on healthcare and financial services. Prior to July 2002, Mr. Edwards served as a principal in GTCR Golder Rauner, a Chicago-based private equity firm, for over eight years where he was the head of the firm’s healthcare investment effort. Mr. Edwards has experience in strategic planning, management, finance, and investments.</p> <p><u>Other Current Board Positions:</u> GeoVera Holdings.</p> <p><u>Relationship to Company:</u> Mr. Edwards is a Director.</p>

Jeremy B. Ford	<u>Director Since:</u> 2011
(Age 49) <i>Chairman of the Board of Directors</i>	<p><u>Business Experience:</u> Mr. Ford is the Chairman of the Board of Directors. He currently serves as a director, President and Chief Executive Officer of Hilltop Holdings Inc. (“Hilltop”), a financial holding company that owns PlainsCapital Bank, PrimeLending (mortgage lender), and HilltopSecurities (investment bank). Prior to joining Hilltop, he worked for Ford Financial Fund, L.P., a private equity fund, and for Diamond A-Ford Corporation, a family limited partnership. Mr. Ford has extensive experience in operating a public company, as well as mergers and acquisitions.</p> <p><u>Other Current Board Positions:</u> Hilltop Holdings Inc.</p> <p><u>Relationship to Company:</u> Jeremy B. Ford is the son of Gerald J. Ford, the Company’s former Chairman of the Board of Directors who controls approximately 57% of our outstanding common stock.</p>

Tom C. Nichols	<u>Director Since:</u> 2005
(Age 76)	<p><u>Business Experience:</u> Mr. Nichols is currently the owner and Chief Executive Officer of Carlile Holdings, Inc., a family investment office. He served as Chairman and Chief Executive Officer of Carlile Bancshares, Inc. from March 2008 through its April 2017 acquisition by Independent Bancshares, Inc. for which he served as a director until June 2020. He served as President and a director of First United Bancorp and Chairman, President and Chief Executive Officer of State National Bancshares, Fort Worth from October 1996 to March 2008. Mr. Nichols previously served as President of Ford Bank Group and as a director of United New Mexico Financial Corporation. Mr. Nichols has executive experience in strategic planning, management, and finance.</p> <p><u>Other Current Board Positions:</u> Hilltop Holdings Inc.</p> <p><u>Relationship to Company:</u> Mr. Nichols is an Independent Director.</p>

Lyndon L. Olson	<u>Director Since:</u> 2004
(Age 77)	<p><u>Business Experience:</u> From 2011 until 2015, Mr. Olson served as Chairman of Hill+Knowlton Strategies, Europe and USA, a global public relations company. Mr. Olson served as a Senior Advisor to the Chairman of Citigroup, Inc. from 2001 until 2008. Mr. Olson served as United States Ambassador to Sweden from 1998 until 2001. From 1990 to 1998, Mr. Olson served as Chairman and Chief Executive Officer of Travelers Insurance Group Holdings, Inc., and Associated Madison Companies, Inc. Prior to joining Travelers, Mr. Olson served as President of the National Group Corporation and Chief Executive Officer of its National Group Insurance Company. Mr. Olson has executive experience in strategic planning, management, insurance regulatory compliance and finance, with particular emphasis on the insurance industry.</p> <p><u>Other Current Board Positions:</u> Scott & White Health Plan.</p> <p><u>Relationship to Company:</u> Mr. Olson is an Independent Director.</p>

Kenneth D. Russell	<u>Director Since:</u> 2014
(Age 75) <i>President and Chief Executive Officer</i>	<p><u>Business Experience:</u> Since November 2021, Mr. Russell had served as a Special Advisor to the Company. Upon the death of Larry Willeford in October 2022, he has served as President and Chief Executive Officer. He previously served as the Company's Chief Executive Officer from October 2019 through November 2021. Mr. Russell previously served as both the Company's Interim President and Chief Executive Officer from October 2016 until October 2019. From June 2015 to October 2016, Mr. Russell served as President, Chief Executive Officer and a director of Mechanics Bank, an affiliate of Gerald J. Ford. Mr. Russell is a former member of the managing board of directors for KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft (KPMG DTG). Prior to joining KPMG DTG, Mr. Russell was the lead financial services partner in the US KPMG LLP's Department of Professional Practice in New York. Prior to joining the Department of Professional Practice at KPMG in 1993, Mr. Russell spent 20 years in KPMG's Dallas office and had engagement responsibilities for several significant regional banking, thrift and other financial services clients.</p> <p><u>Other Current Board Positions:</u> Hilltop Holdings Inc. and Mechanics Bank</p> <p><u>Relationship to Company:</u> Mr. Russell is the Interim President and Chief Executive Officer of the Company in addition to being a Director.</p>

William A. Shipp, Jr.	<u>Director Since:</u> 2004
(Age 71)	<p><u>Business Experience:</u> Mr. Shipp has been a principal of W.A. Shipp, Jr. & Co., a business and financial advisory firm, since July 1995 and has served as Treasurer/Secretary of the Jack C. Massey Foundation since July 1999, as a Director of the Foundation since April 2015, and as President since November 2016. From December 1983 to June 1995, Mr. Shipp served as Vice President of Massey Investment Company, the family office of Jack C. Massey. Prior to joining Massey Investment Company, Mr. Shipp worked for more than eight years in various audit and tax capacities for Ernst & Young LLP. Mr. Shipp is a certified public accountant with the CGMA designation and has experience in accounting, finance, and investments.</p> <p><u>Other Current Board Positions:</u> Jack C. Massey Foundation.</p> <p><u>Relationship to Company:</u> Mr. Shipp is an Independent Director.</p>

Required Vote; Recommendation of the Board

The affirmative vote of a plurality of the votes cast by the stockholders entitled to vote at the meeting is required for the election of directors. Abstentions will be counted in determining whether there is a quorum but will not be voted with respect to the proposal. Stockholders may not cumulate votes in the election of directors.

The Board of Directors unanimously recommends that you vote FOR each of the nominees identified above.

**PROPOSAL 2 – APPROVAL OF THE AMENDMENT TO THE FIRST ACCEPTANCE CORPORATION
EMPLOYEE STOCK PURCHASE PLAN**

The Company believes that broad-based ownership of equity interests in the Company by its employees provides a substantial motivation for superior performance by more closely aligning the economic interests of those employees with the overall performance of the Company and the interests of the stockholders of the Company. In order to encourage ownership of the Company's common stock by its employees, the Board of Directors and stockholders of the Company previously approved the First Acceptance Corporation Employee Stock Purchase Plan, as amended, which we will refer to as the "plan." The Company proposes to amend the plan to increase the number of shares of common stock authorized for issuance under the plan from 1,00,000 to 1,300,000, to allow for future shares to be issued. The Board of Directors has reviewed the plan and determined that, in order to encourage continued participation in the plan by the Company's employees, the stockholders should approve this amendment.

Required Vote; Recommendation of the Board

Approval of this proposal requires the affirmative vote of a majority of the shares represented in person or by proxy and entitled to vote on the matter. A properly executed proxy marked "ABSTAIN" with respect to this proposal will have the same effect as a vote against the proposal. Broker non-votes will not affect this proposal. However, as discussed elsewhere in this proxy statement, both abstentions and broker non-votes will factor into the determination of the existence of a quorum.

The Board of Directors recommends that you vote FOR approval of the amendment to the First Acceptance Corporation Employee Stock Purchase Plan.

PROPOSAL 3 – RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has selected Crowe LLP ("Crowe") to serve as our independent registered public accounting firm for the current year, and the stockholders are requested to ratify this appointment. This will be Crowe's fifth year as our independent registered public accounting firm. A representative of Crowe is expected to be present at the annual meeting, will have an opportunity to make a statement if he or she so desires and is expected to be available to respond to appropriate questions. Stockholders should recognize that the ratification of the appointment of Crowe does not preclude the Audit Committee from subsequently determining to change our independent registered public accounting firm if the Audit Committee determines such action to be in the best interests of the Company and its stockholders.

Required Vote; Recommendation of the Board

The appointment of Crowe LLP as our independent registered public accounting firm for 2024 will be ratified if this proposal receives the affirmative vote of a majority of the votes cast on the matter. With respect to this proposal, abstentions will not be counted as votes cast and will have no effect on the result of the vote.

The Board of Directors recommends that you vote FOR the ratification of the appointment of Crowe LLP as the Company's independent registered public accounting firm.

OTHER MATTERS

As of the date of this proxy statement, we know of no business that will be presented for consideration at the annual meeting other than the items referred to above. If any other matter is properly brought before the meeting for action by stockholders, proxies in the enclosed form returned to us will be voted in accordance with the recommendation of the Board of Directors or, in the absence of such a recommendation, in accordance with the judgment of the proxy holder.

ADDITIONAL INFORMATION

Stockholder Proposals for the 2025 Annual Meeting. To be eligible for inclusion in our proxy statement for the 2025 Annual Meeting of Stockholders, we must receive any stockholder proposals no later than December 8, 2024.

Requests in this regard should be addressed to:

Investor Relations
First Acceptance Corporation
3813 Green Hills Village Drive
Nashville, Tennessee 37215
1-800-321-0899

FIRST ACCEPTANCE CORPORATION



ANNUAL INFORMATION AND DISCLOSURE STATEMENT

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2023

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Part A – General Company Information

Item 1. The Exact Name of The Issuer

First Acceptance Corporation

Item 2. The Address of The Issuer’s Principal Executive Offices

Principal Executive Offices: First Acceptance Corporation
3813 Green Hills Village Drive
Nashville, TN 37215
Telephone: 615-844-2800
Web: www.firstacceptance.com

Investor Relations: Michael J. Bodayle
Vice President, Secretary & Treasurer
First Acceptance Corporation
3813 Green Hills Village Drive
Nashville, TN 37215
Email: mbodayle@firstacceptance.com

Item 3. The Jurisdiction and Date of the Issuer’s Incorporation

First Acceptance Corporation was incorporated in the state of Delaware in 1996.

Part B – Share Structure

Item 4. The Exact Title and Class of Securities Outstanding

Class: Common Stock
CUSIP: 318457108
Trading Symbol: FACO

Item 5. Par or Stated Value and Description of the Security

A. Par or Stated Value

The Company's outstanding securities consists solely of common stock, par value \$0.01 per share.

B. Common Stock or Preferred Stock

Common Stock

Stockholders of the Company are entitled to dividends if declared by the Board of Directors. Each share of our common stock entitles the holder thereof to one vote on all matters submitted to a vote of the stockholders. Our common stock is not subject to redemption or future calls or assessment by First Acceptance Corporation. Holders of common stock do not have preemptive rights, or rights to convert their common stock into other securities. In the event of a liquidation, dissolution or winding up of the affairs of First Acceptance Corporation, holders of our common stock have the right to a ratable portion of the assets remaining after the payment of all liabilities. All outstanding shares of our common stock are fully paid and nonassessable.

The provisions of First Acceptance Corporation's articles of incorporation and bylaws that are summarized below may have an anti-takeover effect and may delay, defer or prevent a tender offer or takeover attempt that a stockholder might consider to be in such stockholder's best interests, including those attempts that might result in a premium over the market price for the shares held by stockholders:

- the requirement that only stockholders owning at least one-third of the outstanding shares of our common stock may call a special stockholders' meeting; and
- the requirement that stockholders owning at least two-thirds of the outstanding shares of our common stock must approve any amendment to our certificate of incorporation provisions concerning the ability to call special stockholders' meetings.

Under our certificate of incorporation, we may issue shares of preferred stock on terms that are unfavorable to the holders of our common stock. The issuance of shares of preferred stock could also prevent or inhibit a third party from acquiring us. The existence of these provisions could depress the price of our common stock, could delay or prevent a takeover attempt or could prevent attempts to replace or remove incumbent management.

Item 6. The Number of Shares or Total Amount of the Securities Outstanding for Each Class of Securities Authorized

<u>Common Shares</u>	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Number of Shares Authorized	75,000,000	75,000,000
Number of Shares Outstanding	38,264,718	37,867,980
Freely Tradeable Shares (Public Float)	10,711,656	10,144,257
Total Number of Stockholders of Record	237	235

<u>Preferred Shares</u>	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Number of Shares Authorized	10,000,000	10,000,000
Number of Shares Outstanding	—	—
Freely Tradeable Shares (Public Float)	—	—
Total Number of Stockholders of Record	—	—

The Company has more than 50 beneficial stockholders of record owning at least 100 shares.

Item 7. The Name and Address of the Transfer Agent

Computershare is registered as a transfer agent under the Exchange Act.

Shawn P. Sharp, Assistant Vice President and Relationship Manager
Computershare – Client Services
1325 Remington Blvd.
Bolingbrook, IL 60490
502-551-9319
Shawn.Sharp@computershare.com

Part C – Business Information

Item 8. The Nature of the Issuer’s Business

A. Business Development (During the Last Three Years)

1. The form of organization of the issuer.

We are a Delaware corporation.

2. The year that the issuer (or any predecessor) was organized.

We were organized in 1996.

3. The issuer’s fiscal year end date.

Our fiscal year end date is December 31.

4. Whether the issuer (or any predecessor) has been in bankruptcy, receivership or any similar proceeding.

We have not been in any bankruptcy, receivership, or any similar proceeding.

5. Any material reclassification, merger, consolidation, or purchase or sale of a significant amount of assets.

We have not had any reclassification, merger, consolidation, or purchase or sale of a significant amount of assets other than the sale of our insurance agency operations effective December 1, 2023, as detailed in Part F, Item 18, Number 7, and discussed throughout this document.

6. Any default of the terms of any note, loan, lease, or other indebtedness or financing arrangement requiring the issuer to make payments.

We have not had any default of the terms of any note, loan, lease, or other indebtedness or financing arrangement.

7. Any change of control.

We have not had a change in control.

8. Any increase of 10% or more of the same class of outstanding equity securities.

There has not been an increase of 10% or more in any class of outstanding equity securities.

9. Any past, pending or anticipated stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization.

We do not have any past, pending or anticipated stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization.

10. Any delisting of the issuer’s securities by any securities exchange or deletion from the OTC Bulletin Board.

Effective April 9, 2018, we voluntarily terminated our listing with the New York Stock Exchange and began trading on the OTCQX Marketplace.

11. Any current, past, pending or threatened legal proceedings or administrative actions either by or against the issuer that could have a material effect on the issuer’s business, financial condition, or operations and any current, past or pending trading suspensions by a securities regulator. State the names of the principal parties, the nature and current status of the matters, and the amounts involved.

Please see the section entitled “Litigation” in Note 14 of our consolidated financial statements which are attached to this report.

B. Business of Issuer

1. The issuer's primary and secondary SIC codes.

Our primary SIC Code is 6331.

2. If the issuer has never conducted operations, is in the development stage, or is currently conducting operations.

We are currently conducting operations.

3. Whether the issuer has at any time been a "shell company."

We are not, and never have been, a shell company.

4. The names of any parent, subsidiary, or affiliate of the issuer, and its business purpose, its method of operation, its ownership, and whether it is included in the financial statements attached to this disclosure statement.

First Acceptance Corporation owns and operates three insurance company subsidiaries: First Acceptance Insurance Company, Inc. ("FAIC"), First Acceptance Insurance Company of Georgia, Inc. ("FAIC-GA) and First Acceptance Insurance Company of Tennessee, Inc. ("FAIC-TN") and had one wholly-owned insurance agency subsidiary: Acceptance Insurance Agency of Tennessee, Inc. ("AITN"), which was sold effective December 1, 2023. We also have other subsidiaries that individually and collectively are not material. These entities are all included in the consolidated financial statements attached to this disclosure statement.

We also own an unconsolidated subsidiary trust, First Acceptance Statutory Trust I ("FAST I") that in June 2007 issued debentures to outside investors on behalf of First Acceptance Corporation.

5. The effect of existing or probable governmental regulations on the business.

Insurance Company Regulation. Our insurance company subsidiaries are regulated by governmental agencies in the states in which we conduct business and by various federal statutes and regulations. These state regulations vary by jurisdiction but, among other matters, usually involve:

- regulating premium rates and forms;
- setting minimum solvency standards;
- setting capital and surplus requirements;
- licensing companies, agents and, in some states, claims adjusters;
- setting requirements for and limiting the types and amounts of investments;
- establishing requirements for the filing of annual statements and other financial reports;
- conducting periodic statutory examinations of the affairs of insurance companies;
- requiring prior approval of changes in control and of certain transactions with affiliates;
- limiting the amount of dividends that may be paid without prior regulatory approval; and
- setting standards for advertising and other market conduct activities.

Required Licensing. We operate under licenses issued by various state insurance authorities. Such licenses may be of perpetual duration or periodically renewable, provided we continue to meet applicable regulatory requirements. The licenses govern, among other things, the types of insurance coverages and products that may be offered in the licensing state. Such licenses are typically issued only after an appropriate application is filed and prescribed criteria are met. All our licenses are in good standing.

As required by our current operations, we hold managing general agency licenses in Texas and Florida. In addition, business that was written through other third-party insurance carriers required our agency operations to hold agency or broker licenses

in those states. To expand into a new state or offer a new line of insurance or other new product, we must apply for and obtain the appropriate licenses.

Insurance Holding Company Regulation. We operate as an insurance holding company system and are subject to regulation in the jurisdictions in which our insurance company subsidiaries conduct business. These regulations require that each insurance company in the holding company system register with the insurance department of its state of domicile and furnish information concerning the operations of companies in the holding company system which may materially affect the operations, management or financial condition of the insurers in the holding company domiciled in that state. We have three insurance company subsidiaries that are organized and domiciled under the insurance statutes of Texas, Georgia and Tennessee. The insurance laws in each of these states similarly provide that all transactions among members of a holding company system be done at arm's length and shown to be fair and reasonable to the regulated insurer. Transactions between insurance company subsidiaries and their parents and affiliates typically must be disclosed to the state regulators, and any material or extraordinary transaction requires prior approval of the applicable state insurance regulator. A change of control of a domestic insurer or of any controlling person requires the prior approval of the state insurance regulator. In general, any person who acquires 10% or more of the outstanding voting securities of the insurer or its parent company is deemed by statute to have acquired control of the domestic insurer.

Restrictions on Paying Dividends. We may in the future rely on dividends from our insurance company subsidiaries to meet corporate cash requirements. State insurance regulatory authorities require insurance companies to maintain specified levels of statutory capital and surplus. The amount of an insurer's capital and surplus following payment of any dividends must be reasonable in relation to the insurer's outstanding liabilities and adequate to meet its financial needs. Prior approval from state insurance regulatory authorities is generally required in order for an insurance company to declare and pay extraordinary dividends. The payment of ordinary dividends is limited by the amount of capital and surplus available to the insurer, as determined in accordance with state statutory accounting practices and other applicable limitations. State insurance regulatory authorities that have jurisdiction over the payment of dividends by our insurance company subsidiaries may in the future adopt statutory provisions more restrictive than those currently in effect. See Note 15 to our consolidated financial statements for a discussion of the current ability of our insurance company subsidiaries to pay dividends.

Regulation of Rates and Policy Forms. Most states in which our insurance company subsidiaries operate have insurance laws that require insurance companies to file premium rate schedules and policy or coverage forms for review and approval. In many cases, such rates and policy forms must be approved prior to use. State insurance regulators have broad discretion in judging whether an insurer's rates are adequate, not excessive and not unfairly discriminatory. Generally, property and casualty insurers are unable to implement rate increases until they show that the costs associated with providing such coverage have increased. The speed at which an insurer can change rates in response to competition or increasing costs depends, in part, on the method by which the applicable state's rating laws are administered. There are three basic rate administration systems: (i) the insurer must file and obtain regulatory approval of the new rate before using it; (ii) the insurer may file the new rate and begin using the new rate during regulatory review; or (iii) the insurer may begin using the new rate and file it in a specified period of time for regulatory review. Under all three rating systems, the state insurance regulators have the authority to disapprove the rate subsequent to its filing. Thus, insurers who begin using new rates before the rates are approved may be required to issue premium refunds or credits to policyholders if the new rates are ultimately deemed excessive and disapproved by the applicable state insurance authorities.

Investment Regulation. Our insurance company subsidiaries are subject to state laws and regulations that require diversification of their investment portfolios and limitations on the amount of investments in certain categories. Failure to comply with these laws and regulations would cause non-conforming investments to be treated as non-admitted assets for purposes of measuring statutory surplus and, in some instances, would require divestiture. If a non-conforming asset is treated as a non-admitted asset, it would lower the affected subsidiary's surplus and thus, its ability to write additional premiums and pay dividends.

Restrictions on Cancellation, Non-Renewal or Withdrawal. Many states have laws and regulations that limit an insurer's ability to exit a market. For example, certain states limit an automobile insurer's ability to cancel or not renew policies. Some states prohibit an insurer from withdrawing one or more lines of business from the state, except pursuant to a plan approved by the state insurance department. The state insurance department may disapprove a plan that may lead to market disruption. Laws and regulations that limit cancellations and non-renewals and that subject business withdrawals to prior approval requirements may restrict an insurer's ability to exit unprofitable markets.

Privacy Regulations. The Gramm-Leach-Bliley Act protects consumers from the unauthorized dissemination of certain nonpublic personal information. In addition, most states have implemented additional regulations to address privacy issues. These laws and regulations apply to all financial institutions, including insurance companies, and require us to maintain

appropriate procedures for managing and protecting certain nonpublic personal information of our customers and to fully disclose our privacy practices to our customers. We may also be exposed to future privacy laws and regulations, which could impose additional costs and impact our results of operations or financial condition.

Licensing of Our Employee-Agents and Claims Adjusters. Prior to the sale of AITN, all our employees who sold, solicited or negotiated insurance were licensed, as required, by the state in which they worked, for the applicable line or lines of insurance they offer. In certain states in which we operate, our insurance claims adjusters are also required to be licensed and are subject to annual continuing education requirements.

Unfair Claims Practices. Generally, insurance companies, adjusting companies and individual claims adjusters are prohibited by state statutes from engaging in unfair claims practices which could indicate a general business practice. We set business conduct policies and conduct regular training to ensure that our employee-adjusters and other claims personnel are aware of these prohibitions, and we require them to conduct their activities in compliance with these statutes.

Financial Reporting. We are required to file quarterly and annual financial reports with states utilizing statutory accounting practices that are different from U.S. generally accepted accounting principles, which generally reflect our insurance company subsidiaries on a going concern basis. The statutory accounting practices used by state regulators, in keeping with the intent to assure policyholder protection, are generally based on a liquidation concept. For statutory financial information on our insurance company subsidiaries, see Note 15 to our consolidated financial statements which are attached to this report.

Periodic Financial and Market Conduct Examinations. The state insurance departments that have jurisdiction over our insurance company subsidiaries conduct on-site visits and examinations of the insurers' affairs, especially as to their financial condition, ability to fulfill their obligations to policyholders, market conduct, claims practices and compliance with other laws and applicable regulations. Generally, these examinations are conducted every five years. If circumstances dictate, regulators are authorized to conduct special or target examinations of insurers, insurance agencies and insurance adjusting companies to address particular concerns or issues. The results of these examinations can give rise to regulatory orders requiring remedial, injunctive, or other corrective action on the part of the company that is the subject of the examination. Our three insurance companies have been examined for financial condition through December 31, 2020 by their respective states of domicile. FAIC has been the subject of various limited scope market conduct examinations.

Risk-Based Capital. In order to enhance the regulation of insurer solvency, the National Association of Insurance Commissioners, or "NAIC," has adopted a formula and model law to implement risk-based capital, or "RBC," requirements designed to assess the minimum amount of statutory capital that an insurance company needs to support its overall business operations and to ensure that it has an acceptably low expectation of becoming financially impaired. RBC is used to set capital requirements based on the size and degree of risk taken by the insurer and considering various risk factors such as asset risk, credit risk, underwriting risk, interest rate risk and other relevant business risks. The NAIC model law provides for increasing levels of regulatory intervention as the ratio of an insurer's total adjusted capital decreases relative to its RBC, culminating with mandatory control of the operations of the insurer by the domiciliary insurance department at the so-called mandatory control level. This calculation is performed on a calendar year basis, and at December 31, 2023, each of our insurance companies maintained an RBC level that was in excess of an amount that would require any corrective actions on their part.

6. An estimate of the amount spent during each of the last two fiscal years on research and development activities, and, if applicable, the extent to which the cost of such activities is borne directly by customers.

We have not spent any material amounts during the last two fiscal years on research and development activities.

7. Costs and effects of compliance with environmental laws (federal, state, and local).

Based on our environmental assessments, we believe that any compliance costs associated with environmental laws and regulations or any remediation of affected properties are not material, and that any future compliance costs would not have a material adverse effect on our business, financial position, results of operations, or cash flows.

8. The number of total employees and number of full-time employees.

At December 31, 2023, the Company had 633 full time employees.

Item 9. The Nature of Products or Services Offered

A. Principal products or services, and their markets.

Our core business involved offering automobile insurance policies categorized as “non-standard” to individuals based primarily on their inability or unwillingness to obtain insurance coverage from standard carriers due to various factors, including their payment history or need for monthly payment plans, failure to maintain continuous insurance coverage or driving record. We believed that a majority of our customers seek non-standard insurance due to flexible payment terms and positive customer service experience, including dependable and direct interaction through our retail locations. These policies were written both through our insurance companies and third-party carriers.

Our employee-agents primarily sold non-standard personal automobile insurance products that were underwritten by us and through third-party carriers for which we received a commission. We also offered a variety of additional commissionable products, and, in most states, our employee-agents also sold (and continue to sell) an insurance product providing personal property and liability coverage for renters that were underwritten by us. Through December 1, 2023, our 288 retail locations, were also able to complete the entire sales process over the phone via our call center or through the internet via our consumer-based website or mobile platform. On a limited basis, we also sold our products through selected retail locations owned and operated by independent agents.

On December 1, 2023, the Company sold AITN, the Company’s retail sales agency operations subsidiary, which maintained retail locations in 13 states, and whose operations generated revenue from selling non-standard personal automobile insurance products and related products in 15 states. Following this transaction, we operate solely through independent agents. We are also licensed as an insurance company in 11 states where we do not conduct any underwriting operations.

Our employee-agents primarily sold non-standard personal automobile insurance products that were underwritten by us and through third-party carriers for which we received a commission. We also offered a variety of additional commissionable products, and, in most states, our employee-agents also sold (and continue to sell) an insurance product providing personal property and liability coverage for renters that were underwritten by us. Through December 1, 2023, our 288 retail locations, were also able to complete the entire sales process over the phone via our call center or through the internet via our consumer-based website or mobile platform. On a limited basis, we also sold our products through selected retail locations owned and operated by independent agents.

As an insurance company, we are a servicer and underwriter of non-standard personal automobile insurance.

We offer customers automobile insurance with low down payments, competitive monthly payments and a high level of personal service. This strategy makes it easier for our customers to obtain automobile insurance, which is legally mandated in the states in which we currently operate. Currently, our policy life expectancy is lower than that of standard personal automobile insurance providers due to the payment patterns of our customers. However, we accept customers seeking insurance who have previously terminated coverage provided by us without imposing any additional requirements on such customers. Our business model and systems allow us to issue policies efficiently and, when necessary, cancel them to minimize the potential for credit loss while adhering to regulatory cancellation notice requirements.

In addition to a low-down payment and competitive monthly rates, we offered customers valuable face-to-face contact and speed of service as many of our customers preferred not to purchase a new automobile insurance policy over the phone or through the internet. The majority of our customers made their payments through our retail locations. For many of our customers, our employee-agents were not only the face of the Company, but also the preferred interface for buying insurance.

B. Distribution methods of the products or services.

Following the December 1, 2023 sale of our insurance agency operations, we now solely distribute our products through independent agents.

C. Status of any publicly announced new product or service.

We have not publicly announced any new product or service.

D. Competitive business conditions, the issuer’s competitive position in the industry, and methods of competition.

The non-standard personal automobile insurance business is highly competitive. Our primary competition comes not only from national companies or their subsidiaries, but also from non-standard insurers and independent agents that operate only in specific regions or states. We compete against other insurance companies and independent agents that market insurance on behalf of a number of insurers. We compete with these other insurers on factors such as initial down payment, availability of monthly payment plans, price, customer service and claims service.

E. Sources and availability of raw materials and the names of principal suppliers.

We do not use raw materials.

F. Dependence on one or a few major customers.

For the year ended December 31, 2023, 25% of insurance company operating revenues resulted from insurance policies produced by a single independent agent who is engaged in a technology driven method of delivering insurance through an app that is commonly referred to as “Insurtech.” In 2024, it is anticipated that the buyer of AITN will produce the majority of insurance company operating revenues.

G. Patents, trademarks, licenses, franchises, concessions, royalty agreements or labor contracts, including their duration.

The Company maintains trademarks related to our trade names and logos. We do not have any patents, franchises, concessions, royalty agreements, or labor contracts. See Item 8 B.5. for information regarding our required licenses.

H. The need for any government approval of principal products or services and the status of any requested government approvals.

Insurance products are required to be reviewed and approved by insurance regulators in the various states in which we conduct business. Variations on certain products may occur on a state-by-state basis based on the laws or regulations of a given state. From time-to-time, we do seek to add new products and modify existing products, but the Company is not currently awaiting any approval that materially impacts our ability to conduct business.

Item 10. The Nature and Extent of the Issuer’s Facilities

We lease office space in two separate facilities (a total of approximately 80,000 square feet) in Nashville, Tennessee for our corporate office and customer service, claims, and data center. We also lease office space for a regional claims office in Tampa, Florida. Through December 1, 2023, our 288 retail locations were all leased and were typically located in storefronts in retail shopping centers.

Part D – Management Structure and Financial Information

Item 11. The Name of the Chief Executive Officer, Members of the Board of Directors, as well as Control Persons

A. Officers and Directors

Kenneth D. Russell	<u>President and Chief Executive Officer and Director Since 2014</u>
(Age 75)	<p><u>Business Experience:</u> Since November 2021, Mr. Russell had served as a Special Advisor to the Company. Upon the death of Larry Willeford in October 2022, he has served as President and Chief Executive Officer. He previously served as the Company's Chief Executive Officer from October 2019 through November 2021. Mr. Russell previously served as both the Company's Interim President and Chief Executive Officer from October 2016 until October 2019. From June 2015 to October 2016, Mr. Russell served as President, Chief Executive Officer and a director of Mechanics Bank, an affiliate of Gerald J. Ford. Mr. Russell is a former member of the managing board of directors for KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft (KPMG DTG). Prior to joining KPMG DTG, Mr. Russell was the lead financial services partner in the US KPMG LLP's Department of Professional Practice in New York. Prior to joining the Department of Professional Practice at KPMG in 1993, Mr. Russell spent 20 years in KPMG's Dallas office and had engagement responsibilities for several significant regional banking, thrift, and other financial services clients.</p> <p><u>Other Current Board Positions:</u> Hilltop Holdings Inc. and Mechanics Bank</p> <p><u>Relationship to Company:</u> Mr. Russell is the President and Chief Executive Officer of the Company.</p>

Brian Dickman	<u>Executive Vice President and Chief Financial Officer</u>
(Age 50)	<p><u>Business Experience:</u> Mr. Dickman has been the Company's Executive Vice President and Chief Financial Officer since December 2019. From 2011 to 2019, Mr. Dickman was Director – Financial Analysis and Strategy for Direct General Insurance.</p> <p><u>Other Current Board Positions:</u> None</p> <p><u>Relationship to Company:</u> Mr. Dickman is the Executive Vice President and Chief Financial Officer of the Company.</p>

Rhodes R. Bobbitt	<u>Director Since: 2004</u>
(Age 78)	<p><u>Business Experience:</u> From February 1987 until his retirement in June 2004, Mr. Bobbitt served as Managing Director and Dallas Regional Office Manager of the Private Client Service Group – Credit Suisse First Boston and its predecessor, Donaldson, Lufkin & Jenrette. Prior to joining Donaldson, Lufkin & Jenrette, Mr. Bobbitt was Vice President of Security Sales in the Dallas office of Goldman Sachs & Co. Mr. Bobbitt has executive experience in finance and investments.</p> <p><u>Other Current Board Positions:</u> Hilltop Holdings Inc.</p> <p><u>Relationship to Company:</u> Mr. Bobbitt is an Independent Director.</p>

Donald J. Edwards	<u>Director Since:</u> 2002
(Age 58)	<p><u>Business Experience:</u> Mr. Edwards is the Chief Executive Officer of Flexpoint Ford, LLC, a Chicago-based private equity firm focused on healthcare and financial services. Prior to July 2002, Mr. Edwards served as a principal in GTCR Golder Rauner, a Chicago-based private equity firm, for over eight years where he was the head of the firm’s healthcare investment effort. Mr. Edwards has experience in strategic planning, management, finance, and investments.</p> <p><u>Other Current Board Positions:</u> GeoVera Holdings.</p> <p><u>Relationship to Company:</u> Mr. Edwards is a Director.</p>

Gerald J. Ford	<u>Principal Shareholder</u>
(Age 79)	<p><u>Business Experience:</u> Gerald J. Ford is the Chairman of the Board of Hilltop Holdings Inc. and the Co-Managing Partner of Ford Financial Fund II, L.P. and Ford Financial Fund III. LP., private equity funds. He was Chairman of the Board of Directors and a director of the Company until 2011.</p> <p><u>Other Current Board Positions:</u> Hilltop Holdings Inc., and Mechanics Bank.</p> <p><u>Relationship to Company:</u> Gerald J. Ford controls approximately 57% of our outstanding common stock and is the father of Jeremy B. Ford, the Chairman of our Board of Directors.</p>

Jeremy B. Ford	<u>Director Since:</u> 2011
(Age 49) <i>Chairman of the Board of Directors</i>	<p><u>Business Experience:</u> Mr. Ford is the Chairman of the Board of Directors. He currently serves as a director, President, and Chief Executive Officer of Hilltop Holdings Inc. (“Hilltop”), a financial holding company that owns PlainsCapital Bank, PrimeLending (mortgage lender), and HilltopSecurities. Prior to joining Hilltop, he worked for Ford Financial Fund, L.P., a private equity fund, and for Diamond A-Ford Corporation, a family limited partnership. Mr. Ford has extensive experience in operating a public company, as well as mergers and acquisitions.</p> <p><u>Other Current Board Positions:</u> Hilltop Holdings Inc.</p> <p><u>Relationship to Company:</u> Jeremy B. Ford is the Chairman of the Board of Directors. He also is the son of Gerald J. Ford who controls approximately 57% of our outstanding common stock.</p>

Tom C. Nichols	<u>Director Since:</u> 2005
(Age 76)	<p><u>Business Experience:</u> Mr. Nichols is currently the owner and Chief Executive Officer of Carlile Holdings, Inc., a family investment office. He served as Chairman and Chief Executive Officer of Carlile Bancshares, Inc. from March 2008 through its April 2017 acquisition by Independent Bancshares, Inc. for which he served as a director. He served as President and a director of First United Bancorp and Chairman, President and Chief Executive Officer of State National Bancshares, Fort Worth from October 1996 to March 2008. Mr. Nichols previously served as President of Ford Bank Group and as a director of United New Mexico Financial Corporation. Mr. Nichols has executive experience in strategic planning, management, and finance.</p> <p><u>Other Current Board Positions:</u> Hilltop Holdings, Inc.</p> <p><u>Relationship to Company:</u> Mr. Nichols is an Independent Director.</p>

Lyndon L. Olson	<u>Director Since:</u> 2004
(Age 77)	<p><u>Business Experience:</u> From 2011 until 2015, Mr. Olson served as Chairman of Hill+Knowlton Strategies, Europe and USA, a global public relations company. Mr. Olson served as a Senior Advisor to the Chairman of Citigroup, Inc. from 2001 until 2008. Mr. Olson served as United States Ambassador to Sweden from 1998 until 2001. From 1990 to 1998, Mr. Olson served as Chairman and Chief Executive Officer of Travelers Insurance Group Holdings, Inc. and Associated Madison Companies, Inc. Prior to joining Travelers, Mr. Olson served as President of the National Group Corporation and Chief Executive Officer of its National Group Insurance Company. Mr. Olson has executive experience in strategic planning, management, insurance regulatory compliance and finance, with particular emphasis on the insurance industry.</p> <p><u>Other Current Board Positions:</u> Scott & White Health Plan.</p> <p><u>Relationship to Company:</u> Mr. Olson is an Independent Director.</p>

William A. Shipp, Jr.	<u>Director Since:</u> 2004
(Age 71)	<p><u>Business Experience:</u> Mr. Shipp has been a principal of W.A. Shipp, Jr. & Co., a business and financial advisory firm, since July 1995 and has served as Treasurer/Secretary of the Jack C. Massey Foundation since July 1999, as a Director of the Foundation since April 2015, and as President since November 2016. From December 1983 to June 1995, Mr. Shipp served as Vice President of Massey Investment Company, the family office of Jack C Massey. Prior to joining Massey Investment Company, Mr. Shipp worked for more than eight years in various audit and tax capacities for Ernst & Young LLP. Mr. Shipp is a certified public accountant with the CGMA designation and has experience in accounting, finance, and investments.</p> <p><u>Other Current Board Positions:</u> Jack C. Massey Foundation.</p> <p><u>Relationship to Company:</u> Mr. Shipp is an Independent Director.</p>

The business address of our directors and executive officers is 3813 Green Hills Village Drive, Nashville, TN 37215. The address of Gerald J. Ford is 6565 Hillcrest Avenue, Suite 600, Dallas, TX 75205.

2023 Compensation of Executive Officers

The following table summarizes information with respect to the compensation paid to our executive officers in 2023.

Name and Principal Position	Salary (\$)	Bonus (\$)	Stock Awards (\$ (1))	Total (\$)
Kenneth D. Russell Interim President and Chief Executive Officer	(2) 400,000	35,000	582,820	1,071,820
Brian Dickman Executive Vice President and Chief Financial Officer	(3) 302,713	147,850	385,380	835,943

-
- (1) Represents the aggregate grant date fair value of restricted stock units granted computed in accordance with FASB ASC 718. Aggregate compensation expense is equal to the grant date fair value based on the closing stock price on the date of grant.
- (2) Mr. Russell also serves in various capacities for affiliates of Gerald J. Ford, our principal stockholder. The salary amounts represent reimbursements by the Company to Mr. Russell's current employer, Diamond-A Administration Company, at an annual rate of \$400,000.
- (3) Mr. Dickman's current annual salary is \$305,000.

2023 Director Compensation

Each director receives an annual retainer of \$20,000, payable in equal, quarterly installments. The Chairman of the Audit Committee of the Board of Directors receives an additional annual retainer of \$5,000, payable in equal, quarterly installments. Directors also receive a fee of \$2,000 for each Board of Directors meeting attended and \$1,000 for each Board committee meeting attended. In addition, directors receive an award pursuant to the Amended and Restated First Acceptance Corporation 2002 Long Term Incentive Plan of 1,000 shares of common stock on the date of each annual meeting of our stockholders.

The following table summarizes information with respect to the compensation paid to the members of our Board in 2023.

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$ (1))	Total (\$)
William A. Shipp, Jr.	41,000	810	41,810
Rhodes R. Bobbitt	37,000	810	37,810
Kenneth D. Russell	36,000	810	36,810
Tom C. Nichols	33,000	810	33,810
Jeremy B. Ford	33,000	810	33,810
Lyndon L. Olson, Jr.	30,000	810	30,810
Donald J. Edwards	30,000	810	30,810

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- (1) Represents the proportionate amount of the total value of stock awards to directors recognized as an expense during 2023 for financial accounting purposes under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 718-20, Compensation – Stock Compensation, disregarding for this purpose estimated forfeitures relating to service-based vesting conditions. Compensation expense is equal to the grant date fair value of the stock awards using the closing price for the Company's common stock on the New York Stock Exchange on the date of grant (\$0.81).

Beneficial Ownership of Directors and Officers

The following table shows the amount of our common stock beneficially owned as of December 31, 2023 by our current directors and our named executive officers.

Name	Outstanding Shares (1)	Percent of Class
Jeremy B. Ford	2,806,552 (2)	7.3%
Kenneth D. Russell	1,082,919	2.8%
Rhodes R. Bobbitt	876,240	2.3%
Donald J. Edwards	537,666	1.4%
Tom C. Nichols	123,000	*
Lyndon L. Olson, Jr.	68,000	*
William A. Shipp, Jr.	44,501	*
Brian Dickman	24,676	*

* Represents less than 1% of our outstanding common stock.

- (1) The number of shares shown includes shares that are individually or jointly owned, as well as shares over which the individual has either sole or shared investment or voting authority.
- (2) Excludes shares beneficially owned by Hunter's Glen (See Beneficial Ownership of Control Persons table.). Mr. Jeremy B. Ford is the beneficiary of a trust that owns approximately 46% of Hunter's Glen. Mr. Jeremy B. Ford disclaims beneficial ownership of the shares owned by Hunter's Glen, except to the extent of his pecuniary interest therein.

B. Legal/Disciplinary History

In the last five years, none of our officers, directors or control persons have been the subject of any of the following:

1. A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses);
2. The entry of an order, judgment, or decree, not subsequently reversed, suspended, or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities;
3. A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding, or judgment has not been reversed, suspended, or vacated; or
4. The entry of an order by a self-regulatory organization that permanently or temporarily barred, suspended, or otherwise limited such person's involvement in any type of business or security activities.

C. Disclosure of Family Relationships

Jeremy B. Ford, Chairman of the Board, is the son of Gerald J. Ford, the Company's former Chairman of the Board of Directors who controls approximately 57% of our outstanding common stock.

D. Disclosure of Related Party Transactions

The Company also operates under standard agreements for Treasury and Custodial Services with a bank indirectly owned 24% by Gerald J. Ford. The fees under these agreements for the year ended December 31, 2023 were \$141 thousand.

E. Disclosure of Conflicts of Interest

There are no conflicts of interest with regards to our executive officers and directors.

Item 12. Financial Information for the Issuer's Most Recent Fiscal Period

Our audited consolidated financial statements for the year ended December 31, 2023, were filed separately through the OTC Disclosure and News Service, are available at www.otcmarkets.com and incorporated herein by reference.

Item 13. Similar Financial Information for Such Part of the Two Preceding Fiscal Years as the Issuer or its Predecessor Has Been in Existence

Our audited consolidated financial statements for the year ended December 31, 2023, are incorporated herein by reference and available through the OTC Disclosure and News Service, or at www.otcmarkets.com. Prior to April 9, 2018, the Company traded on the New York Stock Exchange. The Annual Report on Form 10-K for the year ended December 31, 2017 was previously filed by the Company with the Securities and Exchange Commission and is incorporated herein by reference.

Item 14. Beneficial Owners

Beneficial Ownership of Control Persons

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class (1)
Gerald J. Ford (2) 6565 Hillcrest Avenue, Suite 600 Dallas, Texas 75205	21,851,599	57.1%
Jeremy B. Ford 3813 Green Hills Village Drive Nashville, Tennessee 37215	2,806,552	7.3%

(1) Based on 38,264,718 shares of common stock outstanding on December 31, 2023.

(2) Includes 19,019,653 shares owned through Hunter's Glen/Ford Ltd. ("Hunter's Glen") and 2,268,218 shares owned through Turtle Creek Revocable Trust ("Turtle Creek Trust"). Because Mr. Ford is one of two general partners of Hunter's Glen and the sole stockholder of Ford Diamond Corporation, a Texas corporation and the other general partner of Hunter's Glen, Mr. Ford is considered the beneficial owner of the shares that Hunter's Glen owns. Since Mr. Ford is trustee of Turtle Creek Trust, Mr. Ford is considered the beneficial owner of the shares that Turtle Creek Trust owns.

We are not aware of any additional beneficial stockholders owning 5% or more of our Common Stock. It is possible that there are one or more additional beneficial holders of a significant percentage of our Common Stock, however the federal securities laws do not require a beneficial stockholder of 5% or more of our Common Stock to disclose that information publicly or to the Company. The table above is based on the best information available to the Company.

Item 15. The Name, Address, Telephone Number, and Email Address of Each of the Following Outside Providers that Advise the Issuer on Matters Relating to Operations, Business Development and Disclosure

Our securities counsel is:

Corey G. Prestidge
Hilltop Holdings Inc.
6565 Hillcrest Avenue
Dallas, TX 75205
cprestidge@hilltop-holdings.com
(214) 855-2177

Our auditor is:

Crowe LLP
720 Cool Springs Boulevard
Suite 600
Franklin, TN 37067
(615) 360-5500

Preparation of our consolidated financial statements is the responsibility of the Company. Crowe LLP is responsible for conducting an audit of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America, with the objective of expressing an opinion as to whether the presentation of the consolidated financial statements conforms with accounting principles generally accepted in the United States of America (GAAP). Crowe LLP has confirmed to us that the firm is licensed to practice public accounting in the states in which we conduct our business. Crowe LLP is registered with the PCAOB.

Item 16. Management's Discussion and Analysis or Plan of Operation

A. Plan of Operation

This item is not applicable as we have had revenue in each of the last two fiscal years.

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

Our Management's Discussion and Analysis of Financial Condition and Results of Operation for each of the last two fiscal years are incorporated by reference to our Annual Report filed separately through the OTC Disclosure and News Service, available at www.otcmarkets.com.

C. Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Part E – Issuance History

Item 17. List of Securities Offerings and Shares Issued for Services in the Past Two Years

We have had no securities offerings or shares issued for services during the past two fiscal years, or since December 31, 2023.

Part F – Exhibits

Item 18. Material Contracts

1. Amended and Restated First Acceptance Corporation 2002 Long Term Incentive Plan, was filed as Exhibit 10.1 of the Company's Current Report on Form 8-K dated November 23, 2009 and is incorporated herein by reference.
2. Second Amended and Restated First Acceptance Corporation Employee Stock Purchase Plan, was filed in the Company's Report on Form 10-K dated December 31, 2017 as Exhibit 10.4 and is incorporated herein by reference.
3. Form of Indemnification Agreement between the Company and each of the Company's directors and executive officers, was filed in the Company's Report on Form 10-K dated December 31, 2012 as Exhibit 10.6 and is incorporated herein by reference.
4. Junior Subordinated Indenture, dated June 15, 2007, between First Acceptance Corporation and Wilmington Trust Company, was filed as Exhibit 99.2 in the Company's June 18, 2007 Report on Form 8-K and is incorporated herein by reference.
5. Guarantee Agreement, dated June 15, 2007, between First Acceptance Corporation and Wilmington Trust Company, was filed as Exhibit 99.3 in the Company's June 18, 2007 Report on Form 8-K and is incorporated herein by reference.
6. Amended and Restated Trust Agreement, dated June 15, 2007, among First Acceptance Corporation, Wilmington Trust Company and the Administrative Trustees Named Therein, was filed as Exhibit 99.4 in the Company's June 18, 2007 Report on Form 8-K and is incorporated herein by reference.
7. On December 1, 2023, the Company entered into a Securities Purchase Agreement with Alliant Insurance Services ("Alliant") to sell 100% of its issued and outstanding shares of capital stock of its wholly-owned subsidiary, Acceptance Insurance Agency of Tennessee, Inc., for net cash consideration of up to \$120 million which included \$55 million paid at closing and \$20 million held in escrow which will be released monthly from March 2024 through December 2024. The Company is eligible to receive additional contingent consideration of \$15 million (held in escrow), \$10 million, and \$20 million on December 1, 2024, 2025 and 2026, respectively, based upon achievement of certain annual premium production targets. The agreement provides that the Company would receive its additional contingent consideration in its entirety should the buyer fail to submit applications within the applicable underwriting guidelines of the Insurance Companies, provided that the Company has not breached any of its agreements with the buyer. The agreement also provides that any contingent consideration payments to the Company would be used to maintain \$100 million of capital and surplus in the Insurance Companies. The Company also on this date entered into a Producer Agreement with certain insurance agency affiliates of Alliant to operate as independent agents of the Company with terms effective through December 31, 2026.

Item 19. Articles of Incorporation and Bylaws

The Articles of Incorporation, as Restated in 2004, were filed as Exhibit 3.1 to the Company's Report on Form 8-K dated May 3, 2004 and incorporated herein by reference. The Bylaws as Amended and Restated November 7, 2007, were filed as Exhibit 3.2 to the Company's Report on Form 8-K dated November 7, 2007 and are incorporated herein by reference.

Item 20. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

In 2023, the Company repurchased 55,594 shares from employees to cover payroll withholding taxes in connection with the vesting of restricted stock units.

Item 21. Issuer's Certifications

I, Kenneth D. Russell, Chief Executive Officer, certify that:

1. I have reviewed this annual disclosure statement of First Acceptance Corporation;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information includes or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: March 5, 2024

/s/ Kenneth D. Russell

Kenneth D. Russell

Chief Executive Officer

I, Brian Dickman, Executive Vice President and Chief Financial Officer, certify that:

1. I have reviewed this annual disclosure statement of First Acceptance Corporation;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information includes or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: March 5, 2024

/s/ Brian Dickman

Brian Dickman

Executive Vice President and Chief Financial Officer

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FIRST ACCEPTANCE CORPORATION



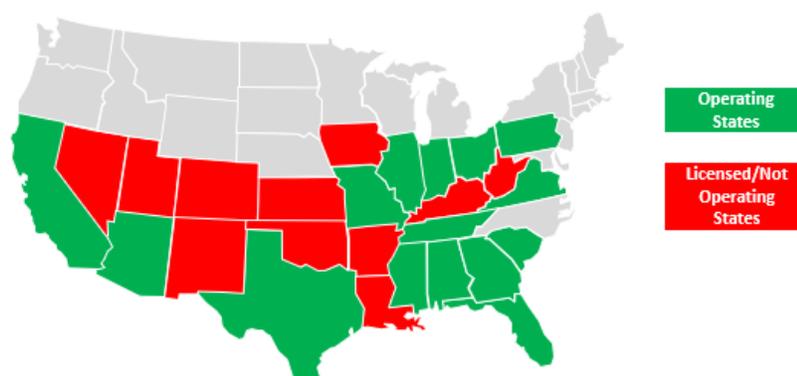
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Our Marketplace

Prior to the December 1, 2023 sale of our insurance agency operations, we primarily sold non-standard personal automobile insurance through retail locations staffed with employee-agents. We also completed sales over the phone through our call center and through a consumer-based website and mobile platform. Through December 1, 2023, we operated under an “Agency Model” in 15 states where we sold both our own underwritten insurance policies and those issued by third-party insurers for which we earned commissions. We now solely offer our own underwritten insurance policies through independent agents in these 15 states, and we are also licensed to write insurance in 11 other states that are not currently utilized.



Stock Market Information

Since April 9, 2018, our common stock has been listed on the OTCQX market under the symbol “FACO.” Prior to this date, our common stock traded on the New York Stock Exchange under the symbol “FAC.” The following table sets forth quarterly high and low sales prices for our common stock for the periods indicated. All price quotations represent prices between dealers, without accounting for retail mark-ups, mark-downs, or commissions, and may not represent actual transactions.

	Price Range	
	High	Low
Year Ended December 31, 2022:		
First Quarter	\$ 2.18	\$ 1.78
Second Quarter	\$ 1.98	\$ 1.59
Third Quarter	\$ 1.67	\$ 1.28
Fourth Quarter	\$ 1.55	\$ 0.71
Year Ended December 31, 2023:		
First Quarter	\$ 0.95	\$ 0.70
Second Quarter	\$ 1.25	\$ 0.76
Third Quarter	\$ 1.30	\$ 0.85
Fourth Quarter	\$ 2.42	\$ 1.05

The closing price of our common stock on March 4, 2023 was \$2.14.

Holdings

According to the records of our transfer agent, there were 235 registered holders of record of our common stock on February 29 2024, including record holders such as banks and brokerage firms who hold shares for beneficial holders, and 37,980,139 shares of our common stock were outstanding.

Dividends

On May 4, 2021, the Board of Directors declared a special cash dividend of \$0.27 per common share, that was paid on June 4, 2021, to all common stockholders of record as of the close of business on May 20, 2021.

On December 6, 2021, the Board of Directors declared a special cash dividend of \$0.11 per common share, that was paid on December 21, 2021, to all common stockholders of record as of the close of business on December 16, 2021. Both dividends paid by the Company in 2021 were non-taxable return of capital distributions to stockholders.

There were no dividends paid in 2023 or 2022. Any future determination to pay dividends will be at the discretion of our Board of Directors and will depend upon, among other factors, our results of operations, financial condition, capital requirements and contractual restrictions.

Selected Financial Data

The following tables provide selected historical consolidated financial data of the Company at the dates and for the periods indicated. In conjunction with the data provided in the following tables and in order to understand our historical consolidated financial and operating data more fully, you should also read our “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our “Consolidated Financial Statements” and the accompanying notes included in this report. We derived our selected historical consolidated financial data as of December 31, 2023, and 2022 and for the years ended December 31, 2023, 2022, and 2021 from our consolidated financial statements included in this report. We derived our selected historical consolidated financial data as of December 31, 2021, 2020 and 2019 and for the years ended December 31, 2020, and 2019 from our consolidated financial statements which are not included in this report. The results for past periods are not necessarily indicative of the results to be expected for any future period.

	Year Ended December 31,				
	2023	2022	2021	2020	2019
Statement of Operations Data:	(in thousands, except per share data)				
Revenues:					
Premiums earned	\$ 397,171	\$ 230,529	\$ 209,043	\$ 206,825	\$ 225,825
Commission and fee income	55,068	53,012	51,664	47,448	45,179
Billing fees and service charges	25,003	15,931	13,365	13,123	14,581
Investment income	8,654	3,895	3,638	3,203	5,706
Net other gains (losses)	74,680	(1,071)	7,537	(1,019)	1,400
	<u>560,576</u>	<u>302,296</u>	<u>285,247</u>	<u>269,580</u>	<u>292,691</u>
Costs and expenses:					
Losses and loss adjustment expenses	276,461	181,260	154,849	133,777	145,016
Operating expenses	177,601	136,150	128,348	116,507	119,657
Other expenses	780	931	809	786	857
Stock-based compensation	338	280	242	277	531
Depreciation	2,154	2,532	1,522	1,747	1,435
Amortization of identifiable intangible assets	391	790	374	469	596
Interest expense	3,818	2,386	1,684	2,378	4,884
	<u>461,543</u>	<u>324,329</u>	<u>287,828</u>	<u>255,941</u>	<u>272,976</u>
Income (loss) before income taxes	99,033	(22,033)	(2,581)	13,639	19,715
Provision (benefit) for income taxes	25,121	(4,545)	(1,353)	3,221	4,359
Net income (loss)	<u>\$ 73,912</u>	<u>\$ (17,488)</u>	<u>\$ (1,228)</u>	<u>\$ 10,418</u>	<u>\$ 15,356</u>
Net income (loss) per basic shares	<u>\$ 1.94</u>	<u>\$ (0.46)</u>	<u>\$ (0.03)</u>	<u>\$ 0.27</u>	<u>\$ 0.37</u>
Net income (loss) per diluted shares	<u>\$ 1.92</u>	<u>\$ (0.46)</u>	<u>\$ (0.03)</u>	<u>\$ 0.27</u>	<u>\$ 0.37</u>

	Year Ended December 31,				
	2023	2022	2021	2020	2019
Balance Sheet Data:					
Cash and invested assets	\$ 318,964	\$ 176,834	\$ 197,746	\$ 218,686	\$ 225,838
Total assets	557,424	355,939	322,648	340,954	356,411
Loss and loss adjustment expense reserves	165,346	107,100	93,278	91,788	109,193
Debentures payable and term loan	40,621	40,575	40,530	40,484	45,414
Total liabilities	415,576	290,417	229,751	229,268	255,549
Total stockholders' equity	141,848	65,522	92,897	111,686	100,862
Book value per common share	<u>\$ 3.71</u>	<u>\$ 1.73</u>	<u>\$ 2.44</u>	<u>\$ 2.93</u>	<u>\$ 2.42</u>

Consolidated Financial Statements

FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

	December 31,	
	2023	2022
ASSETS		
Investments in fixed maturities, available-for-sale at fair value (amortized cost of \$200,544 and \$123,505, respectively)	\$ 192,885	\$ 113,323
Investments in equity securities at fair value (cost of \$9,125 and \$9,521, respectively)	10,660	9,911
Cash, cash equivalents, restricted cash, and restricted cash equivalents	109,780	49,072
Premiums, fees, and commissions receivable, net of allowance of \$491 and \$375	149,764	94,278
Consideration receivable from sale of insurance agency, at fair value (Note 17)	59,825	—
Deferred tax assets, net	—	14,177
Other investments	5,639	4,528
Other assets	9,977	9,595
Operating lease right-of-use assets	5,020	14,520
Property and equipment, net	2,892	4,831
Deferred acquisition costs	9,452	7,062
Goodwill	—	28,786
Identifiable intangible assets, net	1,530	5,856
TOTAL ASSETS	\$ 557,424	\$ 355,939
LIABILITIES AND STOCKHOLDERS' EQUITY		
Loss and loss adjustment expense reserves	\$ 165,346	\$ 107,100
Unearned premiums and fees	164,479	103,934
Debentures payable	40,621	40,575
Operating lease liabilities	5,401	14,724
Deferred tax liability, net	4,558	—
Payable for securities	1,510	—
Accrued expenses	10,023	8,522
Income taxes payable	5,733	—
Other liabilities	17,905	15,562
Total liabilities	415,576	290,417
Stockholders' equity:		
Preferred stock, \$.01 par value, 10,000 shares authorized, no shares issued or outstanding	—	—
Common stock, \$.01 par value, 75,000 shares authorized; 38,265 and 37,868 issued and outstanding, respectively	382	379
Additional paid-in capital	456,309	455,891
Accumulated other comprehensive loss, net of tax of \$(2,790) and \$(3,319), respectively	(4,869)	(6,862)
Accumulated deficit	(309,974)	(383,886)
Total stockholders' equity	141,848	65,522
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 557,424	\$ 355,939

See notes to consolidated financial statements.

FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Year Ended December 31,		
	2023	2022	2021
Revenues:			
Premiums earned	\$ 397,171	\$ 230,529	\$ 209,043
Commission and fee income	55,068	53,012	51,664
Billing fees and service charges	25,003	15,931	13,365
Investment income	8,654	3,895	3,638
Gain on sale of insurance agency (Note 17)	73,034	—	—
Net gains (losses) on investments and foreclosed real estate held for sale	1,646	(1,071)	7,537
Total revenues	560,576	302,296	285,247
Costs and expenses:			
Losses and loss adjustment expenses	276,461	181,260	154,849
Insurance operating expenses	177,601	136,150	128,348
Other expenses	780	931	809
Stock-based compensation	338	280	242
Depreciation	2,154	2,532	1,522
Amortization of identifiable intangible assets	391	790	374
Interest expense	3,818	2,386	1,684
Total costs and expenses	461,543	324,329	287,828
Income (loss) before income taxes	99,033	(22,033)	(2,581)
Provision (benefit) for income taxes	25,121	(4,545)	(1,353)
Net income (loss)	\$ 73,912	\$ (17,488)	\$ (1,228)
Net income (loss) per share:			
Basic	\$ 1.94	\$ (0.46)	\$ (0.03)
Diluted	\$ 1.92	\$ (0.46)	\$ (0.03)
Number of shares used to calculate net income (loss) per share:			
Basic	38,086	37,795	38,151
Diluted	38,409	37,795	38,151
Reconciliation of net income (loss) to comprehensive income (loss):			
Net income (loss)	\$ 73,912	\$ (17,488)	\$ (1,228)
Unrealized change in investments arising during the period, net of tax expense (benefit) of \$530, \$(2,532) and \$(664), respectively	1,993	(9,525)	(2,499)
Reclassification of net realized losses and other-than-temporary impairment ("OTTI") on investments, included in net income (loss)	—	115	10
Comprehensive income (loss)	\$ 75,905	\$ (26,898)	\$ (3,717)
Detail of net gains (losses) on investments and foreclosed real estate held for sale:			
Net realized gains on sales and redemptions	500	789	6,143
Net unrealized gains (losses) on equity securities, includes \$511, \$(723) and \$726 of reclassification for realized gains and losses, respectively	1,146	(1,677)	728
Net gain on foreclosed real estate held for sale	—	—	666
Other-than-temporary impairment ("OTTI") of fixed maturities, available for sale	—	(183)	—
Net gains (losses) on investments and foreclosed real estate held for sale	\$ 1,646	\$ (1,071)	\$ 7,537

See notes to consolidated financial statements.

FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)

	Common Stock		Additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulated deficit	Total stockholders' equity
	Shares	Amount				
Balances at December 31, 2020	38,135	\$ 381	\$ 456,815	\$ 5,162	\$ (350,672)	\$ 111,686
Net loss	—	—	—	—	(1,228)	(1,228)
Net unrealized change on investments (net of tax benefit of \$664)	—	—	—	(2,499)	—	(2,499)
Stock-based compensation	5	—	242	—	—	242
Issuance of shares under Employee Stock Purchase Plan	84	1	137	—	—	138
Vested restricted stock units, net of repurchases	182	2	(70)	—	—	(68)
Retirement of treasury stock	(400)	(4)	(872)	—	—	(876)
Dividends paid	—	—	—	—	(14,498)	(14,498)
Balances at December 31, 2021	38,006	\$ 380	\$ 456,252	\$ 2,663	\$ (366,398)	\$ 92,897
Net loss	—	—	—	—	(17,488)	(17,488)
Net unrealized change on investments (net of tax benefit of \$2,532)	—	—	—	(9,525)	—	(9,525)
Stock-based compensation	5	—	280	—	—	280
Issuance of shares under Employee Stock Purchase Plan	110	1	112	—	—	113
Vested restricted stock units, net of repurchases	117	2	(21)	—	—	(19)
Retirement of treasury stock	(370)	(4)	(732)	—	—	(736)
Balances at December 31, 2022	37,868	\$ 379	\$ 455,891	\$ (6,862)	\$ (383,886)	\$ 65,522
Net income	—	—	—	—	73,912	73,912
Net unrealized change on investments (net of tax expense of \$530)	—	—	—	1,993	—	1,993
Stock-based compensation	7	—	338	—	—	338
Issuance of shares under Employee Stock Purchase Plan	149	2	114	—	—	116
Vested restricted stock units, net of repurchases	241	1	(34)	—	—	(33)
Balances at December 31, 2023	<u>38,265</u>	<u>\$ 382</u>	<u>\$ 456,309</u>	<u>\$ (4,869)</u>	<u>\$ (309,974)</u>	<u>\$ 141,848</u>

See notes to consolidated financial statements.

FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	2023	2022	2021
Cash flows from operating activities:			
Net income (loss)	\$ 73,912	\$ (17,488)	\$ (1,228)
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:			
Unrealized (gains) losses on equity securities	(1,146)	1,677	(728)
Depreciation	2,154	2,532	1,522
Amortization of identifiable intangible assets	391	790	374
Stock-based compensation	338	280	242
Deferred income taxes	18,214	(4,519)	(1,421)
Investment (income) loss from limited partnership investments	(691)	171	(859)
Realized gains on sales and redemptions of investments	(500)	(789)	(6,143)
Net gain on foreclosed real estate held for sale	—	—	(666)
Gain on sale of insurance agency (Note 17)	(73,034)	—	—
Other	(294)	(439)	621
Change in:			
Premiums, fees, and commission receivable	(55,370)	(39,218)	308
Deferred acquisition costs	(2,390)	(4,028)	(36)
Loss and loss adjustment expense reserves	58,246	13,822	1,490
Unearned premiums and fees	60,545	39,439	(1,107)
Other assets	(382)	(387)	(220)
Accrued expenses	(3,125)	996	2,186
Other liabilities	6,135	3,077	(1,132)
Other	1,278	195	199
Net cash provided by (used in) operating activities	<u>84,281</u>	<u>(3,889)</u>	<u>(6,598)</u>
Cash flows from investing activities:			
Purchases of investments	(94,814)	(41,483)	(8,796)
Maturities and redemptions of investments	14,889	31,398	31,785
Sales of investments	2,664	5,253	13,926
Distributions from other investments	877	1,193	514
Capital expenditures	(1,339)	(4,188)	(2,365)
Acquisition of identifiable intangible assets	—	(23)	(1,494)
Net proceeds from sale of insurance agency	54,067	—	—
Proceeds from sale of foreclosed real estate held for sale	—	—	910
Loss on abandonment of property and equipment	—	627	—
Net cash (used in) provided by investing activities	<u>(23,656)</u>	<u>(7,223)</u>	<u>34,480</u>
Cash flows from financing activities:			
Purchase of treasury stock	—	(736)	(876)
Dividends paid	—	—	(14,498)
Net proceeds from employee issuance of common stock	116	113	70
Taxes remitted in relation to employee restricted stock units exercised	(33)	(19)	—
Net cash provided by (used in) financing activities	<u>83</u>	<u>(642)</u>	<u>(15,304)</u>
Net change in cash, cash equivalents, restricted cash and restricted cash equivalents	60,708	(11,754)	12,578
Cash, cash equivalents, restricted cash, and restricted cash equivalents, beginning of period	<u>49,072</u>	<u>60,826</u>	<u>48,248</u>
Cash, cash equivalents, restricted cash, and restricted cash equivalents, end of period	<u>\$ 109,780</u>	<u>\$ 49,072</u>	<u>\$ 60,826</u>

See notes to consolidated financial statements.

FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

General

First Acceptance Corporation (the “Company”) is a holding company based in Nashville, Tennessee with operating subsidiaries whose primary operations have included the selling, servicing, and underwriting of non-standard personal automobile insurance and related products. In 2023 and 2022, the Company generated revenue from selling non-standard personal automobile insurance products and related products in 15 states. The Company issues policies of insurance through a subsidiary First Acceptance Insurance Company, Inc., and its subsidiaries: First Acceptance Insurance Company of Georgia, Inc. and First Acceptance Insurance Company of Tennessee, Inc. (collectively, the “Insurance Companies”) and had operated as an insurance agency through another subsidiary, Acceptance Insurance Agency of Tennessee, Inc. (“the Insurance Agency”), which was sold effective December 1, 2023 (see Note 17).

For the year ended December 31, 2023, 25% of insurance company operating revenues resulted from insurance policies produced by a single independent agent.

Basis of Consolidation and Reporting

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. The accounts of First Acceptance Statutory Trust I (“FAST I”) are not consolidated since it does not meet the requirements for consolidation of FASB ASC 810, “Consolidation” (see Note 10). Management evaluates the Company’s investment in FAST I on an ongoing basis and continues to conclude that, while FAST I continues to be a variable interest entity, the Company is not the primary beneficiary and therefore, FAST I is not included in the Company’s consolidated financial statements. These financial statements have been prepared in conformity with U.S. generally accepted accounting principles (“GAAP”). All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. It also requires disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported revenues and expenses during the period. Actual results could differ from those estimates.

Subsequent Events

In connection with the preparation of these consolidated financial statements, the Company has evaluated subsequent events through March 4, 2024, which is the date the consolidated financial statements were available to be issued.

Investments

Investments in fixed maturities, available-for-sale at fair value, include bonds with fixed principal payment schedules and mortgage-backed and asset-backed securities which are amortized using the retrospective method. These securities are carried at fair value with the corresponding unrealized appreciation or depreciation, net of deferred income taxes, reported in other comprehensive income (loss).

Investments in equity securities at fair value, include mutual funds and preferred stocks. These securities are carried at fair value, and the corresponding unrealized appreciation or depreciation is reported in net income (loss).

Premiums and discounts on collateralized mortgage obligations (“CMOs”) are amortized over a period based on estimated future principal payments, including prepayments, with premiums amortized through the earliest call date if applicable. Prepayment assumptions are reviewed periodically and adjusted to reflect actual prepayments and changes in expectations. The most significant determinants of prepayments are the difference between interest rates on the underlying mortgages and the current mortgage loan rates and the structure of the security. Other factors affecting prepayments include the size, type, and age of underlying mortgages, the geographic location of the mortgaged properties, and the credit worthiness of the borrowers. Variations from anticipated prepayments will affect the life and yield of these securities.

Investment securities are exposed to various risks such as interest rate, market, and credit risk. Fair values of securities fluctuate based on changing market conditions. Significant changes in market conditions could materially affect portfolio value in the near term. Previously, the Company accounted for other than temporary impairments (“OTTI”) for available-for-sale fixed maturities using the

FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

provisions of FASB ASC 320 related to recognition of other than temporary impairments on investments. Amendments from the adoption of ASU 2016-13 have been implemented. For available-for-sale fixed maturities in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of the amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For available-for-sale fixed maturities that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the maturity by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the maturity. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income (loss).

Management reviews investments in fixed maturities, available-for-sale for credit losses on a quarterly basis. Changes in the allowance for credit losses are recoded as credit loss expense (or reversal). Losses are charged against the allowance when management believes the uncollectibility of an available-for-sale fixed maturity is confirmed or when either of the criteria regarding intent or requirement to sell is met. No impairments for available-for-sale fixed maturities were recorded in 2023 and 2022.

Realized gains and losses on sales and redemptions of securities are computed based on specific identification.

Cash, Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents

Cash, cash equivalents, and restricted cash in connection with reinsurance contracts and deposits with state insurance regulators, consist of bank demand deposits and other highly liquid investments and are stated at cost which approximates fair value. All investments with maturities of three months or less at the date of purchase are considered cash equivalents. On December 31, 2023, and December 31, 2022, the Company had restricted cash equivalents of \$5.5 million and \$5.0 million, respectively.

Other Investments

Other investments consist of limited partnership interests and an investment in the common stock of a real estate investment trust ("REIT"). A previous investment in an REIT was sold in 2021. Limited partnership interests are recorded at net asset value which approximates fair value. Valuations are based upon the GAAP financial statements of the partnerships which are required to be audited annually.

The common stock of the REIT is recorded at a fair value and the corresponding unrealized appreciation or depreciation is reported in net income (loss). Since the common stock of the REIT has no readily determinable fair value, it is measured at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.

The change in net asset value of limited partnership interests is recorded in investment income in the consolidated statements of operations.

Revenue Recognition

Insurance premiums earned include policy and renewal fees and are recognized on a pro-rata basis over the respective terms of the policies, with the amounts to be earned in the future recorded as unearned premiums on the consolidated balance sheets. Written premiums are recorded as of the effective date of the policies for the full policy premium, although most policyholders elect to pay on a monthly installment basis. Premiums and fees are generally collected in advance of providing risk coverage, minimizing the Company's exposure to credit risk. Premiums receivable are recorded net of an estimated allowance for uncollectible amounts.

Commission and fee income of the Insurance Agency included commissions paid by third-party insurance carriers which were earned upon the effective date of bound coverage, less an estimated allowance for returned commissions based upon historical experience, since no performance obligation remained in these arrangements after coverage was bound and the control of the underlying insurance policy transferred to the third-party carrier. Commission and fee income also included commissions paid by a third-party entity on the sale of ancillary insurance products that were earned on a pro-rata basis over the life of the underlying contracts, since the Company maintained the control of the contract with the customer and has a contractual performance obligation for these contracts. In calculating such commission and fee income, the Company estimated the amount of consideration that will be received for which a significant reversal of revenue was not probable.

FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Billing fees and service charges include installment billing fees and other charges by the Insurance Companies that are recognized when billed which is the time at which the related services have been performed and costs incurred.

The Company's revenue from contracts with customers that were in scope of Topic 606 "*Revenue from Contracts with Customers*", comprise the commissions and fee income line item in its consolidated financial statements. This amount represents amounts that the Insurance Agency received from third-party insurance carriers and from a third-party entity on the sales of ancillary insurance products. Also, in scope, is the billing fees and service charges line item which represents various fees related to insurance contracts issued by the Insurance Companies.

The primary performance obligation of the Insurance Agency in return for the commission income from the third-party insurers was to complete the sale of the policy and deliver the control of the policy to the insurer at the policy effective date. In addition, the Insurance Agency may have provided administrative services to the insurer or the policyholder subsequent to the sale of the policy as needed, including processing of endorsements, collection of premiums, and answering general questions concerning the policyholder's account. The administrative services and the costs to perform such services were deemed immaterial in the context of the contract and to the Company's consolidated financial statements, and hence, such services were not identified as a separate performance obligation and the costs to perform such services were not accrued at the time of the sale of the policy but were expensed as incurred as part of the overall operating expenses.

The total revenue from the sale of a policy was recognized upon the effective date of bound coverage when the sale was complete as all the material aspects of the performance obligation were satisfied and the insurer was deemed to obtain control of the insurance policy at that time. Any commission income considered to be variable is constrained such that the revenue was recognized only to the extent that it is probable that there will not be a significant reversal of that revenue. Any commission income not received when the sale was complete was recognized as commission income receivable, which was included in premiums, fees, and commissions receivable in the Company's consolidated balance sheets. The commission income receivable as of December 31, 2022 was approximately \$2.8 million. Due to the sale of the Insurance Agency (Note 17), there was no commission income receivable as of December 31, 2023.

A refund liability was recorded for the expected amount of the commission income that had to be returned to the insurers based on estimated policy cancellations. The refund liability was computed for the entire portfolio of contracts as a practical expedient, rather than for each contract or performance obligation. The estimated policy cancellations and the resulting refund liability were computed using the expected value method based on all relevant information, including historical experience. The refund liability, which is included in other liabilities in the Company's consolidated balance sheets, was \$1.5 million at December 31, 2022. Due to the sale of the Insurance Agency (Note 17), there was no refund liability as of December 31, 2023.

The primary performance obligation of the Insurance Agency in return for the fee income from a third-party entity on the sales of ancillary insurance products was to complete the sale of the contract. However, the Insurance Agency maintained the control of the contract with the customer throughout its term providing recurring administrative services to the third-party entity and to the customer subsequent to the sale of the contract, including the monthly billing and collection of premiums. These services were considered separate performance obligations and as a result the fee income was recognized monthly from the third-party entity on a pro-rata basis over the contract terms which were generally for six months, and the costs to perform the required services were recognized as incurred.

The primary performance obligations of the Insurance Companies for the billing fees and service charges related to insurance contracts is completed at the time these services are performed which is also the time at which the amounts are billed and recognized as revenue and all costs have been incurred.

As of December 31, 2023, 2022 and 2021, the Company had no contract assets, contract liabilities, or capitalized costs to obtain or fulfill a contract, associated with revenues from contracts with customers.

Income Taxes

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

FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

A valuation allowance for the deferred taxes is established based upon management's estimate of whether it is more likely than not that the Company would not realize tax benefits in future periods to the full extent available. Changes in the valuation allowance are recognized in income during the period in which the circumstances that cause such a change in management's estimate to occur.

The Company accounts for income tax uncertainties under the provisions of FASB ASC 740, "Income Taxes." The Company has recognized no additional liability or reduction in deferred tax assets for unrecognized tax benefits as of December 31, 2023, and 2022. The Company does not believe it is reasonably possible that unrecognized tax benefits would materially change in the next twelve months. Any interest and penalties incurred in connection with income taxes are recorded as a component of the provision for income taxes. The Company is generally not subject to U.S. federal, state, or local income tax examinations by tax authorities for taxable years prior to 2016. These tax years are open due to the creation and utilization of net operating loss carryforwards.

Property and Equipment

Property and equipment are initially recorded at cost. Depreciation is provided over the estimated useful lives of the assets (generally ranging from three to five years) using the straight-line method. Leasehold improvements are amortized over the shorter of the lives of the respective leases or the service lives of the improvements. Repairs and maintenance are charged to expense as incurred.

Deferred Acquisition Costs

Deferred acquisition costs include premium taxes, commissions paid to independent agents, and other variable underwriting and direct sales costs incurred in connection with writing successful new and renewal business. These costs are deferred and amortized over the policy period in which the related premiums are earned, to the extent that such costs are deemed recoverable from future unearned premiums and anticipated investment income. Advertising costs are expensed when incurred and are not a part of deferred acquisition costs. Amortization expense for the years ended December 31, 2023, 2022 and 2021 was \$24.4 million, \$14.4 million, and \$10.0 million, respectively, and is included within operating expenses in the accompanying consolidated statements of operations.

Goodwill and Identifiable Intangible Assets

Goodwill and identifiable intangible assets were initially recorded at their estimated fair values at their dates of acquisition. Identifiable intangible assets with an indefinite life, (trade name and state insurance licenses) are not amortized for financial statement purposes while those with a definite life (policy renewal rights, customer relationships, and software licenses) are amortized in proportion to projected policy expirations or life of the asset. As of December 31, 2023, and 2022, identifiable intangible assets were \$1.5 million and \$5.9 million, respectively, stated net of accumulated amortization expense of \$1.7 million and \$6.3 million, respectively. Amortization expense will be \$0.1 million over the next three succeeding fiscal years.

The Company performed required annual impairment tests of its goodwill and identifiable intangible assets as of October 1 of each year. In the event that facts and circumstances indicate that goodwill or identifiable intangible assets may be impaired, an interim impairment test would be required. For goodwill impairment analysis purposes, the Company considered the Titan Agencies acquired in 2015 to be a separate reporting unit. All goodwill and identifiable intangible assets associated with the Insurance Agency were charged against the gain on the sale of the Insurance Agency in 2023 (Note 17), in the amount of \$28.8 million and \$4.0 million, respectively.

The Company follows the accounting guidelines, which allows companies to waive comparing the fair value of goodwill and intangible assets to their carrying amounts in assessing the recoverability of these assets if, based on qualitative factors, it is more likely than not that the fair value of the goodwill and intangible assets is greater than their carrying amounts. Based on the review of the relevant factors, the Company did not indicate any impairment analysis was necessary.

Sale of Insurance Agency Subsidiary

In accordance with ASC 810-10-40-5, in connection with the sale of the Insurance Agency (Note 17), the Company has recognized a net asset from the buyer equal to the fair value of the future net contingent consideration to be received as of the date of the sale. The Company has also elected to recognize any increases in the carrying amount of this asset using the gain contingency guidance in ASC 450-30 and recognize any impairments based on the guidance in ASC 450-20-25-2.

Loss and Loss Adjustment Expense Reserves

Loss and loss adjustment expense reserves are undiscounted and represent case-basis estimates of reported losses and estimates based on certain actuarial assumptions regarding the past experience of reported losses, including an estimate of losses incurred but

FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

not reported. Management believes that the loss and loss adjustment reserves are adequate to cover the ultimate associated liability. However, such estimates may be more or less than the amount ultimately paid when the claims are finally settled.

Evaluation of Going Concern

Conformity with GAAP requires the Company to evaluate whether there are conditions and events that raise substantial doubt about the Company's ability to continue as a going concern within one year after the financial statements are issued. Management's evaluation determined that the Company does not have substantial doubt continuing one year after these consolidated financial statements were issued.

Recent Accounting Pronouncements

Accounting Pronouncements Adopted

As of January 1, 2023, the Company adopted ASU No. 2016-13, "*Financial Instruments – Credit Losses (Topic 326)*" which requires financial assets measured at amortized cost to be presented at the net amount expected to be collected. The allowance for credit losses is based on relevant information, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The increases and decreases in the credit loss are reflected as a component of net income (loss). The adoption of this pronouncement and the changes in methods used to recognize OTTI had no impact on the 2023 consolidated financial statements.

Accounting Pronouncements Issued But Not Yet Adopted

In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures, which provides for expanded disclosures primarily related to income taxes paid and the rate reconciliation. The amendments are effective prospectively for annual periods beginning after December 15, 2024, and early adoption and retrospective application are permitted. The Company is currently evaluating the impact of this ASU on its Consolidated Financial Statements.

Supplemental Cash Flow Information

During the year ended December 31, 2023, the Company paid \$0.9 million in income taxes. During the years ended December 31, 2022 and 2021, the Company did not collect or pay any income taxes. During the years ended December 31, 2023, 2022 and 2021, the Company paid \$3.7 million, \$2.0 million, and \$1.7 million in interest, respectively.

Basic and Diluted Net Income (Loss) Per Share

Basic net income (loss) per share is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares, while diluted net income (loss) per share is computed by dividing net income (loss) available to common stockholders by the weighted average number of such common shares and dilutive share equivalents. Dilutive share equivalents may result from the assumed exercise of restricted stock units and are calculated using the treasury stock method.

2. Fair Value

Fair value is the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are generally based upon observable and unobservable inputs. Observable inputs are based on market data from independent sources, while unobservable inputs reflect the Company's view of market assumptions in the absence of observable market information. All assets and liabilities that are carried at fair value are classified and disclosed in one of the following categories:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Quoted market prices for similar assets or liabilities in active markets; quoted prices by independent pricing services for identical or similar assets or liabilities in markets that are not active; and valuations, using models or other valuation techniques, that use observable market data. All significant inputs are observable, or derived from observable information in the marketplace, or are supported by observable levels at which transactions are executed in the marketplace.

Level 3 - Instruments that use non-binding broker quotes, observable information from limited private transactions or model driven valuations that do not have observable market data.

NAV - Calculated net asset value ("NAV") based on an ownership interest to which a proportionate share of net assets is attributed.

FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Company categorizes valuation methods used in both its identifiable intangible assets initial measurement and impairment tests as Level 3. To determine the fair value of acquired trademarks and trade names, the Company used the relief-from-royalty method, which requires the Company to estimate the future revenue for the related brands, the appropriate royalty rate, and the weighted average cost of capital. To determine the fair value of the acquired policy renewal rights and customer relationships, the Company used an “excess earnings” method that relied on projected future net cash flows and included key assumptions for the customer retention and renewal rates. The data used in these methods was not observable in the market.

Fair Value of Financial Instruments

The carrying values and fair values of certain of the Company’s financial instruments were as follows (in thousands).

	December 31, 2023		December 31, 2022	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Cash, cash equivalents, and restricted cash	\$ 109,780	\$ 109,780	\$ 49,072	\$ 49,072
Investments in fixed maturities, available-for-sale	192,885	192,885	113,323	113,323
Investment in equity securities	10,660	10,660	9,911	9,911
Other investments	5,639	5,639	4,528	4,528
Liabilities:				
Debentures payable	40,621	31,135	40,575	22,448

The fair values as presented represent the Company’s best estimates and may not be substantiated by comparisons to independent markets. The fair value of the debentures payable is categorized as Level 3, since it was based on current market rates offered for debt with similar risks and maturities, an unobservable input categorized as Level 3. Carrying values of certain financial instruments, such as premiums, fees, and commissions receivable, approximate fair value due to the short-term nature of the instruments and are not required to be disclosed. Therefore, the aggregate of the fair values presented in the preceding table does not purport to represent the Company’s underlying value.

The following tables present the fair-value measurements for each major category of assets that are measured on a recurring basis (in thousands). Certain other investments are carried at the Company’s proportionate share net asset value which approximates fair value.

	Total	Fair Value Measurements Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Proportionate Share of Net Assets (NAV)
December 31, 2023					
Fixed maturities, available-for-sale:					
U.S. government and agencies	\$ 19,336	\$ 19,336	\$ —	\$ —	\$ —
Political subdivisions	2,931	—	2,931	—	—
Revenue and assessment	18,794	—	18,794	—	—
Corporate bonds	77,423	—	77,423	—	—
Asset-backed securities	35,145	—	35,145	—	—
Collateralized mortgage obligations:					
Agency backed	37,036	—	37,036	—	—
Non-agency backed – residential	1,226	—	1,226	—	—
Non-agency backed – commercial	994	—	994	—	—
Total fixed maturities, available-for-sale	192,885	19,336	173,549	—	—
Equity securities:					
Mutual funds	10,660	10,660	—	—	—
Total equity securities	10,660	10,660	—	—	—
Other investments	5,639	—	—	1,089	4,550
Total	\$209,184	\$ 29,996	\$ 173,549	\$ 1,089	\$ 4,550

FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

	Total	Fair Value Measurements Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Proportionate Share of Net Assets (NAV)
December 31, 2022					
Fixed maturities, available-for-sale:					
U.S. government and agencies	\$ 8,682	\$ 8,682	\$ —	\$ —	\$ —
Political subdivisions	3,774	—	3,774	—	—
Revenue and assessment	9,450	—	9,450	—	—
Corporate bonds	35,468	—	35,468	—	—
Asset-backed securities	11,763	—	11,763	—	—
Collateralized mortgage obligations:					
Agency backed	41,951	—	41,951	—	—
Non-agency backed – residential	1,218	—	1,218	—	—
Non-agency backed – commercial	1,017	—	1,017	—	—
Total fixed maturities, available-for-sale	113,323	8,682	104,641	—	—
Equity securities:					
Mutual funds	9,911	9,911	—	—	—
Total equity securities	9,911	9,911	—	—	—
Other investments	4,528	—	—	—	4,528
Total	<u>\$ 127,762</u>	<u>\$ 18,593</u>	<u>\$ 104,641</u>	<u>\$ —</u>	<u>\$ 4,528</u>

The fair values of the Company's investments are determined by management after taking into consideration available sources of data. All of the portfolio valuations classified as Level 1 or Level 2 in the above tables are priced exclusively by utilizing the services of independent pricing sources using observable market data and are obtained from a single independent pricing service. The Company has not made any adjustments to the prices obtained from the independent pricing source.

The Company has reviewed the pricing techniques and methodologies of the independent pricing service and believes that its policies adequately consider market activity, either based on specific transactions for the security valued or based on modeling of securities with similar credit quality, duration, yield, and structure that were recently traded. The Company monitored security-specific valuation trends and makes inquiries with the pricing service when considered necessary about material changes or the absence of expected changes to understand the underlying factors and inputs and to validate the reasonableness of the pricing. Likewise, the Company reviews the Level 3 valuations to understand the underlying factors and inputs and to validate the reasonableness of the pricing.

3. Investments

The following tables summarize the Company's investments in fixed maturities for the years ended December 31, 2023, and December 31, 2022 (in thousands).

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2023				
Fixed maturities, available-for-sale:				
U.S. government and agencies	\$ 19,298	\$ 91	\$ (53)	\$ 19,336
Political subdivisions	3,047	8	(124)	2,931
Revenue and assessment	18,891	83	(180)	18,794
Corporate bonds	78,098	575	(1,250)	77,423
Asset-backed securities	35,199	168	(222)	35,145
Collateralized mortgage obligations:				
Agency backed	44,188	6	(7,158)	37,036
Non-agency backed – residential	806	467	(47)	1,226
Non-agency backed – commercial	1,017	—	(23)	994
Total fixed maturities, available-for-sale	<u>\$ 200,544</u>	<u>\$ 1,398</u>	<u>\$ (9,057)</u>	<u>\$ 192,885</u>

FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed maturities, available-for-sale:				
U.S. government and agencies	\$ 8,796	\$ 11	\$ (125)	\$ 8,682
Political subdivisions	4,024	—	(250)	3,774
Revenue and assessment	9,679	5	(234)	9,450
Corporate bonds	37,410	6	(1,948)	35,468
Asset-backed securities	11,965	118	(320)	11,763
Collateralized mortgage obligations:				
Agency backed	49,799	—	(7,848)	41,951
Non-agency backed – residential	815	419	(16)	1,218
Non-agency backed – commercial	1,017	—	—	1,017
Total fixed maturities, available-for-sale	<u>\$ 123,505</u>	<u>\$ 559</u>	<u>\$ (10,741)</u>	<u>\$ 113,323</u>

The following table sets forth the scheduled maturities of the Company's fixed maturities based on their fair values (in thousands). Actual maturities may differ from contractual maturities because certain securities may be called or prepaid by the issuers.

December 31, 2023	Securities with Unrealized Gains	Securities with Unrealized Losses	Securities with No Unrealized Gains or Losses	All Fixed Maturity Securities
One year or less	\$ 300	\$ 16,888	\$ —	\$ 17,188
After one through five years	61,180	51,879	1,504	114,563
After five through ten years	13,197	6,116	—	19,313
After ten years	751	1,814	—	2,565
No single maturity date	1,087	38,169	—	39,256
	<u>\$ 76,515</u>	<u>\$ 114,866</u>	<u>\$ 1,504</u>	<u>\$ 192,885</u>

The fair value and gross unrealized losses of investments in fixed maturities for the years ended December 31, 2023, and 2022, by the length of time that individual securities have been in a continuous unrealized loss position follows (in thousands).

December 31, 2023	Less than 12 months		12 months or longer		Total Gross Losses
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	
Fixed maturities, available-for-sale:					
U.S. government and agencies	\$ 5,588	\$ (12)	\$ 4,659	\$ (41)	\$ (53)
Political subdivisions	—	—	2,415	(124)	(124)
Revenue and assessment	6,360	(59)	3,668	(121)	(180)
Corporate bonds	7,338	(27)	32,984	(1,223)	(1,250)
Asset-backed securities	8,612	(54)	5,073	(168)	(222)
Collateralized mortgage obligations:					
Agency backed	—	—	36,848	(7,158)	(7,158)
Non-agency backed – residential	327	(47)	—	—	(47)
Non-agency backed – commercial	994	(23)	—	—	(23)
Total fixed maturities, available-for-sale	<u>\$ 29,219</u>	<u>\$ (222)</u>	<u>\$ 85,647</u>	<u>\$ (8,835)</u>	<u>\$ (9,057)</u>

FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2022	Less than 12 months		12 months or longer		Total Gross Losses
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	
Fixed maturities, available-for-sale:					
U.S. government and agencies	\$ 4,563	\$ (125)	\$ —	\$ —	\$ (125)
Political subdivisions	1,358	(33)	2,416	(217)	(250)
Revenue and assessment	7,337	(138)	951	(96)	(234)
Corporate bonds	33,459	(1,879)	979	(69)	(1,948)
Asset-backed securities	10,116	(320)	—	—	(320)
Collateralized mortgage obligations:					
Agency backed	16,972	(1,766)	24,940	(6,082)	(7,848)
Non-agency backed – residential	147	(16)	—	—	(16)
Total fixed maturities, available-for-sale	\$ 73,952	\$ (4,277)	\$ 29,286	\$ (6,464)	\$ (10,741)

The following table reflects the number of fixed maturities with gross unrealized gains and losses. Gross unrealized losses are further segregated by the length of time that individual securities have been in a continuous unrealized loss position.

At:	Gross Unrealized Losses		Gross Unrealized Gains
	Less than or equal to 12 months	Greater than 12 months	
December 31, 2023	46	61	115
December 31, 2022	64	17	17

The following table reflects the fair value and gross unrealized losses of those fixed maturities in a continuous unrealized loss position for greater than 12 months. Gross unrealized losses are further segregated by the percentage of amortized cost (in thousands, except number of securities).

Gross Unrealized Losses at December 31, 2023:	Number of Securities	Fair Value	Gross Unrealized Losses
Greater than 10%	12	26,719	(6,472)
	<u>61</u>	<u>\$ 85,647</u>	<u>\$ (8,835)</u>

Gross Unrealized Losses at December 31, 2022:	Number of Securities	Fair Value	Gross Unrealized Losses
Greater than 10%	12	25,730	(6,175)
	<u>17</u>	<u>\$ 29,287</u>	<u>\$ 6,464</u>

FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following tables set forth the amount of gross unrealized losses by current severity (as compared to amortized cost) and length of time that individual securities have been in a continuous unrealized loss position (in thousands).

Length of Gross Unrealized Losses at December 31, 2023:	Fair Value of Securities with		Severity of Gross Unrealized Losses		
	Gross Unrealized Losses	Gross Unrealized Losses	Less than 5%	5% to 10%	Greater than 10%
Less than or equal to:					
Three months	\$ 3,564	\$ (26)	\$ (16)	\$ —	\$ (10)
Six months	2,706	(33)	(33)	—	—
Nine months	20,724	(114)	(110)	—	(4)
Twelve months	2,225	(49)	(12)	—	(37)
Greater than twelve months	85,647	(8,826)	(1,129)	(1,234)	(6,463)
Total	<u>\$ 114,866</u>	<u>\$ (9,048)</u>	<u>\$ (1,300)</u>	<u>\$ (1,234)</u>	<u>\$ (6,514)</u>

Length of Gross Unrealized Losses at December 31, 2022:	Fair Value of Securities with		Severity of Gross Unrealized Losses		
	Gross Unrealized Losses	Gross Unrealized Losses	Less than 5%	5% to 10%	Greater than 10%
Less than or equal to:					
Three months	\$ 1,177	\$ (6)	\$ (6)	\$ —	\$ —
Six months	7,732	(112)	(112)	—	—
Nine months	17,193	(991)	(303)	—	(688)
Twelve months	47,850	(3,168)	(406)	(2,746)	(16)
Greater than twelve months	29,286	(6,464)	—	(289)	(6,175)
Total	<u>\$ 103,238</u>	<u>\$(10,741)</u>	<u>\$ (827)</u>	<u>\$ (3,035)</u>	<u>\$ (6,879)</u>

Other Investments

Other investments consist of the common stock of an REIT and limited partnership interests in two funds that invest in (i) undervalued international publicly-traded equities and (ii) a pre-identified pool of select buyout private equity funds. These investments have redemption and transfer restrictions. The Company does not intend to sell any of these investments, and it is more likely than not that the Company will not be required to sell them before the expiration of such restrictions. As of December 31, 2023, the Company had unfunded commitments of \$1.4 million with three of these investments.

Included in realized gains on investments in 2021 was the sale of our other investment in the common stock of a REIT upon their acquisition by a third party. As a result of their acquisition, the Company received total proceeds of \$10.4 million and recognized a realized gain of \$6.4 million, of which \$0.7 million had previously been recognized as an unrealized gain on this investment.

Restrictions

As of December 31, 2023, fixed maturities and cash equivalents with a fair value and amortized cost of \$6.6 million were on deposit with various insurance departments as a requirement of doing business in those states. Cash equivalents with a fair value and amortized cost of \$5.5 million were on deposit with other insurance companies as collateral for assumed reinsurance contracts.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Investment Income and Net Realized Gains and Losses

The major categories of investment income follow (in thousands).

	Year Ended December 31,		
	2023	2022	2021
Fixed maturities, available-for-sale	\$ 4,874	\$ 3,646	\$ 2,633
Equity securities	475	396	539
Income (loss) from other investments	773	(171)	859
Cash and cash equivalents	3,069	549	107
Investment expenses	(537)	(525)	(500)
Accretion income	301	—	—
	<u>\$ 8,654</u>	<u>\$ 3,895</u>	<u>\$ 3,638</u>

The components of net realized and unrealized gains (losses) on investments follow (in thousands).

	Year Ended December 31,		
	2023	2022	2021
Unrealized gain (loss) on equity securities	\$ 1,146	\$ (1,677)	\$ 728
Gain on foreclosed real estate held for sale	—	—	666
Realized gains	511	1,163	6,405
Realized losses	(11)	(557)	(262)
	<u>\$ 1,646</u>	<u>\$ (1,071)</u>	<u>\$ 7,537</u>

Realized gains and losses on sales and redemptions are computed based on specific identification.

Other-Than-Temporary Impairment

The Company separates OTTI into the following two components: (i) the amount related to credit losses, which is recognized in the consolidated statement of operations and (ii) the amount related to all other factors, which is recorded in other comprehensive income (loss). The credit-related portion of an OTTI is measured by comparing a security's amortized cost to the present value of its current expected cash flows discounted at its effective yield prior to the impairment charge.

The determination of whether unrealized losses are "other-than-temporary" requires judgment based on subjective as well as objective factors. The Company routinely monitors its investment portfolio for changes in fair value that might indicate potential impairments and performs detailed reviews on such securities. Changes in fair value are evaluated to determine the extent to which such changes are attributable to (i) fundamental factors specific to the issuer or (ii) market-related factors such as interest rates or sector declines.

Securities with declines attributable to issuer-specific fundamentals are reviewed to identify all available evidence to estimate the potential for impairment. Resources used include agency ratings and historical financial data included in filings with the SEC for corporate bonds and performance data regarding the underlying loans for CMOs. Securities with declines attributable solely to market or sector declines where the Company does not intend to sell the security and it is more likely than not that the Company will not be required to sell the security before the full recovery of its amortized cost basis are not deemed to be other-than-temporarily impaired.

The issuer-specific factors considered in reaching the conclusion that securities with declines are not other-than-temporary include (i) the extent and duration of the decline in fair value, including the duration of any significant decline in value, (ii) whether the security is current as to payments of principal and interest, (iii) a valuation of any underlying collateral, (iv) current and future conditions and trends for both the business and its industry, (v) changes in cash flow assumptions for CMOs and (vi) rating agency actions. Based on these factors, the Company makes a determination as to the probability of recovering principal and interest on the security.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Company recognized OTTI charges in net income (loss) of \$183 thousand relating to three non-agency backed CMOs for the year ended December 31, 2022. There were no OTTI charges in 2023 and 2021.

The following is a progression of the credit-related portion of OTTI on investments owned as of December 31, 2023, 2022, and 2021 (in thousands).

	Year Ended December 31,		
	2023	2022	2021
Beginning balance	\$ (1,589)	\$ (1,443)	\$ (1,728)
Additional credit impairments on previously impaired securities	—	(183)	—
Reductions for securities deemed worthless and realized	—	37	285
	<u>\$ (1,589)</u>	<u>\$ (1,589)</u>	<u>\$ (1,443)</u>

The Company believes that the remaining securities having unrealized losses as of December 31, 2023, were impacted by changes in interest rates and are not other-than-temporarily impaired. The Company also does not intend to sell any of these securities, and it is more likely than not that the Company will not be required to sell any of these securities before the recovery of their amortized cost basis.

4. Reinsurance Premiums

Total premiums written and earned are summarized as follows (in thousands).

	Year Ended December 31,					
	2023		2022		2021	
	Written	Earned	Written	Earned	Written	Earned
Direct	\$ 447,987	\$ 390,632	\$ 268,581	\$ 229,435	\$ 206,313	\$ 207,252
Assumed	9,087	6,539	1,048	1,094	1,637	1,791
Total	<u>\$ 457,074</u>	<u>\$ 397,171</u>	<u>\$ 269,629</u>	<u>\$ 230,529</u>	<u>\$ 207,950</u>	<u>\$ 209,043</u>

Assumed business represents private-passenger non-standard automobile insurance premiums in Texas written through a program with a county mutual insurance company and assumed by the Company through 100% quota-share reinsurance.

5. Stock-Based Compensation Plans

Employee Stock-Based Incentive Plan

The Company has issued restricted stock units to employees and common stock to directors under its Amended and Restated First Acceptance Corporation 2002 Long Term Incentive Plan (the "Plan") and accounts for such issuances in accordance with FASB ASC 718, "Compensation – Stock Compensation". As of December 31, 2023, there were 4,426,354 shares remaining available for issuance under the Plan.

The following table summarizes restricted stock units that the Compensation Committee of the Board of Directors of the Company awarded to executive officers (in thousands, except weighted average information). Such restricted stock units typically vest with an equal number of shares of common stock deliverable upon the third anniversary of the dates of grants. Compensation expense related to the units was calculated based upon the closing market prices of the common stock on the dates of grants and is recorded on

FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

a straight-line basis over the vesting period. Expected future compensation related to the issuance of restricted stock units is \$2.1 million, which will be amortized through December 2026.

	Number of Restricted Stock Units	Weighted Average Grant-Date Fair Value per Share
Non-vested at December 31, 2020	584	\$ 0.84
Granted	155	1.99
Vested	(182)	1.06
Forfeited	(34)	1.07
Non-vested at December 31, 2021	523	1.09
Granted	165	2.08
Vested	(127)	1.18
Forfeited	(40)	1.73
Non-vested at December 31, 2022	521	1.32
Granted	1,281	1.70
Vested	(240)	0.74
Forfeited	(113)	0.89
Non-vested at December 31, 2023	<u>1,449</u>	<u>\$ 1.79</u>

Employee Stock Purchase Plan

The Company's Board of Directors adopted the First Acceptance Corporation Employee Stock Purchase Plan ("ESPP") whereby eligible employees may purchase shares of the Company's common stock at a price equal to the lower of the closing market price on the first or last trading day of a six-month period. ESPP participants can authorize payroll deductions, administered through an independent plan custodian, of up to 15% of their salary to purchase semi-annually (June 30 and December 31) up to \$25,000 of the Company's common stock during each calendar year. The Company's Board of Directors may at any time amend the ESPP in any respect, including termination of the ESPP, without notice to the employees. The Company has reserved 1,300,000 shares of common stock for issuance under the ESPP and as of December 31, 2023, 286,074 shares remain available for issuance. Employees purchased approximately 149,000, 110,000, and 84,000 shares during the years ended December 31, 2023, 2022 and 2021, respectively. Compensation expense attributable to subscriptions to purchase shares under the ESPP was \$25 thousand, \$18 thousand, and \$27 thousand for the years ended December 31, 2023, 2022 and 2021, respectively.

6. Employee Benefit Plan

The Company sponsors a defined contribution retirement plan ("401k Plan") under Section 401(k) of the Internal Revenue Code. The 401k Plan covers substantially all employees who meet specified service requirements. Under the 401k Plan, the Company may, at its discretion, matches 100% of the first 3% of an employee's salary plus 50% of the next 2% up to the maximum allowed by the Internal Revenue Code. The Company's contributions to the 401k Plan for the years ended December 31, 2023, 2022 and 2021 were \$1.7 million, \$1.8 million, and \$1.6 million, respectively, and are included within operating expenses in the accompanying consolidated statements of operations.

7. Property and Equipment

The components of property and equipment are as follows (in thousands).

	Year Ended December 31,	
	2023	2022
Furniture and equipment	\$ 15,049	\$ 21,816
Leasehold improvements	3,131	8,305
	18,180	30,121
Less: Accumulated depreciation	(15,288)	(25,290)
Property and equipment, net	<u>\$ 2,892</u>	<u>\$ 4,831</u>

Depreciation expense related to property and equipment was \$2.2 million, \$2.5 million, and \$1.5 million for the years ended December 31, 2023, 2022 and 2021, respectively.

FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. Lease and Service Contract Commitments

The Company determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (“ROU”) assets and lease liabilities on our consolidated balance sheets. The Company does not have any finance leases.

ROU assets represent the Company’s right to use an underlying asset for the lease term and lease liabilities represent the Company’s obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As the Company’s leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. Lease terms may include options to extend the lease when it is reasonably certain that the option will be exercised. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

The Company has operating leases, which include retail stores (sold effective December 1, 2023), corporate offices, and certain equipment. The leases have remaining lease terms of five years to nine years. Operating lease cost and cash flows for each of the years ended December 31, 2023 were \$8.7 million and \$8.9 million, respectively. Both operating lease cost and cash flows for each of the years ended December 31, 2022 and 2021 were \$8.2 million, and \$7.4 million, respectively.

Supplemental balance sheet information related to leases was as follows (in thousands):

	Year Ended December 31,	
	2023	2022
Operating lease right-of-use assets	\$ 5,020	\$ 14,520
Operating lease liabilities	5,401	14,724
Weighted average remaining lease term	3.90 years	4.36 years
Weighted average discount rate	6.8%	6.5%

Maturities of operating lease liabilities were as follows as of December 31, 2023 (in thousands):

For the Year Ended December 31,	Amount
2024	\$ 970
2025	979
2026	989
2027	1,000
2028	784
Thereafter	2,038
Total lease payments	\$ 6,760
Less imputed interest	(1,359)
Total	\$ 5,401

Note 9. Losses and Loss Adjustment Expenses Incurred and Paid

The Company underwrites primarily a single product in the form of a non-standard personal automobile policy. Although this product can vary in terms of its coverages (liability and physical damage), disaggregation by these coverages is not considered meaningful due to the relative immateriality of the physical damage component which is only approximately 6% of the ending liability

FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

for unpaid losses and loss adjustment expenses (“LAE”). Additionally, the amount of renters’ coverage sold as an optional product is likewise immaterial. Information regarding the reserve for unpaid losses and LAE is as follows (in thousands).

	Year Ended December 31,		
	2023	2022	2021
Liability for unpaid losses and LAE at beginning of year, gross	\$ 107,100	\$ 93,278	\$ 91,788
Reinsurance balances receivable	(97)	(90)	(254)
Liability for unpaid losses and LAE at beginning of year, net	107,003	93,188	91,534
Add: Provision for losses and LAE:			
Current year	274,747	176,444	156,409
Prior year	1,714	4,816	(1,560)
Net losses and LAE incurred	276,461	181,260	154,849
Less: Losses and LAE paid:			
Current year	141,424	101,118	95,709
Prior year	76,696	66,327	57,486
Net losses and LAE paid	218,120	167,445	153,195
Liability for unpaid losses and LAE at end of year, net	165,344	107,003	93,188
Reinsurance balances receivable	2	97	90
Liability for unpaid losses and LAE at end of year, gross	<u>\$ 165,346</u>	<u>\$ 107,100</u>	<u>\$ 93,278</u>

The unfavorable development of \$1.7 million for the year ending December 31, 2023 was primarily attributable to higher-than-expected collision losses in the 2022 accident year.

The unfavorable development of \$4.8 million for the year ending December 31, 2022 was primarily attributable to higher-than-expected loss severity on third-party physical damage losses for the fourth quarter of 2021. This increased severity was primarily due to the continuing inflationary and supply chain economic conditions that led to increased used car prices and higher vehicle repair costs.

The favorable development of \$1.6 million for the year ended December 31, 2021 was primarily attributable to improved bodily injury severity in recent accident periods.

The information that follows about incurred and paid claims development for the 2014 to 2022 years, and the average annual percentage payout of incurred claims by age as of December 31, 2023, is presented as required unaudited supplementary information.

Incurred losses and loss adjustment expenses, net of reinsurance, by accident year are as follows (in thousands).

Incurred losses and loss adjustment expenses, net of reinsurance
For the years ended December 31,
(Unaudited)

Accident year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
2014	\$ 166,179	\$ 165,991	\$ 171,827	\$ 171,372	\$ 170,996	\$ 170,962	\$ 171,056	\$ 171,150	\$ 171,282	\$ 171,292
2015		218,186	240,428	240,389	239,181	239,896	240,179	240,378	240,478	240,614
2016			278,366	275,768	272,000	269,026	269,159	270,515	270,497	271,176
2017				223,066	212,134	206,784	206,659	207,193	207,213	207,053
2018					196,023	179,060	178,172	179,381	179,394	179,539
2019						170,434	166,600	165,052	164,781	164,251
2020							138,014	134,543	133,602	132,672
2021								156,437	162,147	160,487
2022									176,444	180,431
2023										274,747
									Total	\$ 1,982,262

FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Cumulative paid losses and loss adjustment expenses, net of reinsurance, by accident year are as follows (in thousands).

Cumulative paid losses and loss adjustment expenses, net of reinsurance
For the years ended December 31,
(Unaudited)

Accident year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
2014	\$ 98,437	\$ 144,943	\$ 162,702	\$ 167,973	\$ 169,807	\$ 170,559	\$ 170,913	\$ 171,077	\$ 171,274	\$ 171,294
2015		129,216	208,533	227,388	234,264	237,665	239,191	239,951	240,395	240,569
2016			163,792	238,657	258,190	264,474	267,019	268,912	270,045	271,025
2017				120,673	183,609	197,573	202,766	205,280	206,438	206,844
2018					105,877	157,360	169,662	174,891	177,592	178,860
2019						99,966	147,341	157,245	161,272	162,851
2020							81,479	118,400	126,511	129,669
2021								93,715	144,198	153,327
2022									101,118	161,069
2023										141,424
									Total	\$ 1,816,930
										All outstanding reserves for unpaid losses and LAE prior to 2014, net of reinsurance
										14
										Total outstanding reserves for unpaid losses and LAE, net of reinsurance
										<u>\$ 165,346</u>

The total of incurred but not reported liabilities plus expected development on reported claims and the cumulative number of reported claims are as follows (dollars in thousands, except for cumulative number of reported claims). The Company uses claim counts to measure claim frequency information. Total reported claims on a cumulative basis include both open claims and claims that have been closed with or without payment, with multi-individual occurrences counted as separate claims. Open claims with only LAE reserves are excluded from the cumulative number of reported claims below.

Accident year	Incurred losses and LAE, net of reinsurance	Total of incurred but not reported liabilities plus expected development on reported claims	Cumulative number of reported claims
2014	\$ 171,292	\$ (2)	85,395
2015	240,614	(15)	110,069
2016	271,176	4	118,636
2017	207,053	72	89,823
2018	179,539	302	78,424
2019	164,251	985	68,863
2020	132,672	2,028	54,542
2021	160,487	4,823	61,232
2022	180,431	13,520	62,463
2023	274,747	86,360	92,846

The average historical annual percentage payout of incurred losses by age, net of reinsurance is as follows. The amounts reflected below represent the average length of time between the occurrence of a loss and its payment.

	(Unaudited)									
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Non-standard auto	58.5%	29.2%	7.3%	2.7%	1.2%	0.6%	0.3%	0.1%	0.1%	0.0%

10. Debentures Payable

In June 2007, First Acceptance Statutory Trust I ("FAST I"), an unconsolidated subsidiary trust of the Company, issued 40,000 shares of preferred securities at \$1,000 per share to outside investors and 1,240 shares of common securities to the Company, also at \$1,000 per share. FAST I used the proceeds from the sale of the preferred securities to purchase \$41.2 million of junior subordinated debentures from the Company. The sole assets of FAST I are \$41.2 million of junior subordinated debentures issued by the Company. The debentures will mature on July 30, 2037 and are currently redeemable by the Company in whole or in part and the preferred

FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

securities are callable. The debentures paid a fixed rate of 9.277% until July 30, 2012, after which the rate became variable (Currently three-Month CME term SOFR plus the spread adjustment of 0.2161 percent, resetting quarterly). The interest rate related to the debentures ranged from 8.165% to 9.402% during 2023. In January 2024, the interest rate reset to 9.329% through April 2024.

The obligations of the Company under the junior subordinated debentures represent full and unconditional guarantees by the Company of FAST I's obligations for the preferred securities. Dividends on the preferred securities are cumulative, payable quarterly in arrears and are deferrable at the Company's option for up to five years. The dividends on these securities, which have not been deferred, are the same as the interest on the debentures. The Company cannot pay dividends on its common stock during such deferrals.

The debentures are classified as debentures payable in the Company's consolidated balance sheets and the interest paid on these debentures is classified as interest expense in the consolidated statements of operations. As of December 31, 2023, the unamortized debt discount and issuance costs of \$0.6 million are being amortized to interest expense over the term of the debentures.

On March 15, 2022, the Adjustable Interest Rate (LIBOR) Act was signed into law. Under this Act, on the first London banking day after June 30, 2023, three month CME term SOFR (as defined in the final regulations), as adjusted to the spread adjustment (0.26161 percent), became the benchmark replacement for the Three-Month LIBOR. This change was accounted for as a continuation of the current arrangement.

As of December 31, 2023, the Company was in compliance with the covenants related to the debentures payable. Such borrowing is not an obligation of the Company's regulated insurance company subsidiaries. The Company believes that it has sufficient liquidity outside the Company's regulated insurance company subsidiaries to meet its current obligations in the foreseeable future, including the payment of interest on this borrowing.

11. Income Taxes

The provision (benefit) for income taxes consisted of the following (in thousands).

	Year Ended December 31,		
	2023	2022	2021
Federal:			
Current	\$ 5,627	\$ —	\$ —
Deferred	15,855	(4,673)	(959)
	21,482	(4,673)	(959)
State:			
Current	1,280	(26)	68
Deferred	2,359	154	(462)
	3,639	128	(394)
	<u>\$ 25,121</u>	<u>\$ (4,545)</u>	<u>\$ (1,353)</u>

FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The provision (benefit) for income taxes differs from the amounts computed by applying the statutory federal corporate tax rate of 21% for the years ended December 31, 2023, 2022 and 2021 to income (loss) before income taxes as a result of the following (in thousands).

	Year Ended December 31,		
	2023	2021	2021
Provision (benefit) for income taxes at statutory rate	\$ 20,798	\$ (4,627)	\$ (542)
Tax effect of:			
Tax-exempt investment income	(19)	(32)	(56)
Change in the valuation allowance for deferred tax assets allocated to federal income taxes	—	31	(307)
Stock-based compensation	(38)	(16)	(38)
State income taxes, net of federal income tax benefit and state valuation allowance	3,369	133	(409)
Section 453A interest on installment sale of insurance agency	996	—	—
Other items	15	(34)	(1)
	<u>\$ 25,121</u>	<u>\$ (4,545)</u>	<u>\$ (1,353)</u>

The tax effects of temporary differences that give rise to the net deferred tax assets and liabilities are presented below (in thousands).

	Year Ended December 31,	
	2023	2022
Deferred tax assets:		
Net operating loss carryforwards	\$ 1,732	\$ 13,123
Stock-based compensation	110	95
Unearned premiums and loss and loss adjustment expense reserves	8,174	5,270
Accrued expenses and other nondeductible items	1,277	1,088
Net unrealized change on investments in fixed maturities	1,608	2,138
Operating lease liabilities	1,134	3,092
Other	1,035	1,507
	<u>15,070</u>	<u>26,313</u>
Deferred tax liabilities:		
Deferred acquisition costs	(1,985)	(1,483)
Identifiable intangible assets	(375)	(1,200)
Loss reserve discounting transition adjustment	(170)	(255)
Net unrealized change on investments in equity securities	(322)	(82)
Goodwill and identifiable intangible assets	—	(3,132)
Operating lease right-of-use assets	(1,054)	(3,049)
Deferred gain on installment sale of insurance agency	(9,788)	—
Other	(3,813)	(253)
	<u>(17,507)</u>	<u>(9,454)</u>
Total net deferred tax (liability) asset	(2,437)	16,859
Less: Valuation allowance	(2,121)	(2,682)
Net deferred tax (liability) asset	<u>\$ (4,558)</u>	<u>\$ 14,177</u>

ASC Topic 740, *Income Taxes*, establishes procedures to measure deferred tax assets and liabilities and assess whether a valuation allowance relative to existing deferred tax assets is necessary. Management assesses the likelihood of realization of the Company's deferred tax assets and the need for a valuation allowance with respect to those assets based on the weight of available positive and negative evidence. As of December 31, 2023 and December 31, 2022, management determined that a valuation allowance of \$2.1 million and \$2.7 million, respectively, was necessary relative to certain state taxes net operating loss carryforwards and OTTI which are not expected to be realized. Management also determined at December 31, 2023 and December 31, 2022 that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the remaining deferred tax assets not covered by this valuation allowance.

FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The deferred tax asset ("DTA") valuation allowance may be adjusted in future periods if management determines that it is more likely than not that some portion or all of the DTA will not be realized or previously recognized valuation allowance should be released. In the event the DTA valuation allowance is adjusted, the Company would record an income tax expense for the adjustment.

12. Net Income (Loss) Per Share

Basic EPS are computed using the weighted average number of shares outstanding. Diluted EPS are computed using the weighted average number of shares outstanding adjusted for the incremental shares attributed to outstanding restricted stock units.

The following table sets forth the computation of basic and diluted net income (loss) per share (in thousands, except per share data).

	Year Ended December 31,		
	2023	2022	2021
Net income (loss)	\$ 73,912	\$ (17,488)	\$ (1,228)
Weighted average common basic shares	38,086	37,795	38,151
Effect of dilutive securities	323	—	—
Weighted average common dilutive shares	38,409	37,795	38,151
Basic net income (loss) per share	\$ 1.94	\$ (0.46)	\$ (0.03)
Diluted net income (loss) per share	\$ 1.92	\$ (0.46)	\$ (0.03)

For the year ended December 31, 2023 the computations of diluted net income per share included all outstanding financial instruments with a right to purchase or convert into common stock.

For the years ended December 31, 2022 and 2021, the computation of diluted net loss per share did not include the dilutive effect of 246 thousand and 292 thousand shares from restricted stock units since their inclusion would have been anti-dilutive.

13. Concentrations of Credit Risk

As of December 31, 2023, the Company had certain concentrations of credit risk with several financial institutions in the form of cash, cash equivalents, and restricted cash, which amounted to \$109.8 million. For purposes of evaluating credit risk, the stability of financial institutions conducting business with the Company and the amount of available Federal Deposit Insurance Corporation insurance is periodically reviewed. If the financial institutions failed to completely perform under terms of the financial instruments, the exposure for credit loss would be the amount of the financial instruments less amounts covered by regulatory insurance.

The Company primarily transacts business directly with its policyholders, and to a lesser extent, through independently owned insurance agencies who write non-standard personal automobile insurance policies on behalf of the Company. Direct policyholders make payments directly to the Company. Balances due from policyholders are generally secured by the related unearned premium. The Company requires a down payment at the time the policy is originated, and subsequent scheduled payments are monitored in order to prevent the Company from providing coverage beyond the date for which payment has been received. If subsequent payments are not made timely, the policy is generally canceled at no loss to the Company. Policyholders whose premiums are written through the independent agencies make their payments to these agencies that in turn remit these payments to the Company. Balances due to the Company resulting from premium payments made to these agencies are unsecured.

At December 31, 2023, the Company had total gross consideration receivable of \$65.0 million from the sale of the Insurance Agency, of which \$35.0 million is held in escrow (Note 17).

14. Litigation

The Company is named as a defendant in various lawsuits, arising in the ordinary course of business, generally relating to its insurance operations. All legal actions relating to claims made under insurance policies are considered by the Company in establishing its loss and loss adjustment expense reserves. The Company also faces lawsuits from time to time that seek damages beyond policy limits, commonly known as bad faith claims, as well as class action and individual lawsuits that involve issues arising in the course of the Company's business. The Company continually evaluates potential liabilities and reserves for litigation of these types using the criteria established by FASB ASC 450, "Contingencies" ("FASB ASC 450"). Pursuant to FASB ASC 450, reserves for a loss may only be recognized if the likelihood of occurrence is probable and the amount can be reasonably estimated. If a loss, while not probable, is judged to be reasonably possible, management will disclose, if it can be estimated, a possible range of losses or state that

FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

an estimate cannot be made. Management evaluates each legal action and records reserves for losses as warranted by establishing a reserve in its consolidated balance sheets in loss and loss adjustment expense reserves for bad faith claims and in other liabilities for other lawsuits. Amounts incurred are recorded in the Company's consolidated statements of operations in losses and LAE for bad faith claims and in operating expenses for other lawsuits unless otherwise disclosed.

15. Statutory Financial Information and Accounting Policies

The Company has three insurance company subsidiaries that are organized and domiciled under the insurance statutes of Texas, Georgia, and Tennessee. The insurance company subsidiaries operate under licenses issued by various state insurance authorities. Such licenses may be of perpetual duration or periodically renewable, provided the insurance company subsidiaries continue to meet applicable regulatory requirements.

The statutory-basis financial statements of the Insurance Companies are prepared in accordance with accounting practices prescribed or permitted by the Department of Insurance in each respective state of domicile. Each state of domicile requires that insurance companies domiciled in the state prepare their statutory-basis financial statements in accordance with the National Association of Insurance Commissioners *Accounting Practices and Procedures Manual* subject to any deviations prescribed or permitted by the insurance commissioner in each state of domicile.

As of December 31, 2023, and 2022, on a consolidated statutory basis, the capital and surplus of the Insurance Companies was \$121.0 million and \$61.8 million, respectively. For the years ended December 31, 2023, 2022 and 2021, consolidated statutory net income (loss) of the Insurance Companies was \$14.9 million, \$(19.5) million, and \$1.6 million, respectively.

The maximum amount of dividends which can be paid within a 12-month period by the lead insurance company, First Acceptance Insurance Company, Inc. ("FAIC"), to the Company, without the prior approval of the Texas insurance commissioner, is limited to the greater of 10% of statutory capital and surplus as of December 31st of the next preceding year or net income for the year. In addition, dividends may only be paid from unassigned surplus and an insurance company's remaining surplus must be both reasonable in relation to its outstanding liabilities and adequate to meet its financial needs. The dividend limitation for FAIC in 2024 is \$12.1 million.

The National Association of Insurance Commissioners ("NAIC") Model Act for risk-based capital provides formulas to determine each December 31 on an annual basis the amount of statutory capital and surplus that an insurance company needs to ensure that it has an acceptable expectation of not becoming financially impaired. Failure to meet applicable minimum risk-based capital requirements could subject our insurance company subsidiaries to further examination or corrective action imposed by state regulators, including limitations on their writing of additional business, state supervision or even liquidation. Risk-based capital calculations are only made as of each December 31, and the three insurance company subsidiaries were each above the minimum regulatory company action levels as of December 31, 2023. Failure to maintain an adequate RBC could subject the Insurance Companies to regulatory action and could restrict the payment of dividends. There are also statutory guidelines that suggest that on an annual calendar year basis an insurance company should not exceed a ratio of net premiums written to statutory capital and surplus of 3-to-1. For the year ended December 31, 2023, each insurance company subsidiary was within this guideline.

16. Related Parties

The Company operates under standard agreements for Treasury and Custodial Services with a bank indirectly owned 24% by Gerald J. Ford, the Company's controlling stockholder. The fees under these agreements for the years ended December 31, 2023, 2022 and 2021 were \$141 thousand, \$131 thousand, and \$119 thousand, respectively.

17. Sale of Insurance Agency Subsidiary

On December 1, 2023, the Company entered into a securities purchase agreement with the buyer to sell 100% of its issued and outstanding shares of capital stock of its wholly-owned subsidiary, the Insurance Agency, for net cash consideration of up to \$120 million which included \$55 million paid at closing and \$20 million held in escrow which will be released monthly from March 2024 through December 2024. The Company is eligible to receive additional contingent consideration of \$15 million (held in escrow), \$10 million, and \$20 million on December 1, 2024, 2025 and 2026, respectively, based upon achievement of certain annual premium production targets.

FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Company has recognized a gain of \$73.0 million on this sale, which includes future contingent consideration of \$38.9 million, recorded at fair value, utilizing a discounted cash flow approach.

The purchase agreement provides that the Company would receive its additional contingent consideration in its entirety should the buyer fail to submit applications within the applicable underwriting guidelines of the Insurance Companies, provided that the Company has not breached any of its agreements with the buyer. The agreement also provides that the Company maintain \$100 million of capital and surplus in the Insurance Companies through December 31, 2026. As of December 31, 2023 and March 4, 2023, the Company is not in breach of contract.

The Insurance Agency was the retail sales agency operation of the Company, and principally sold non-standard automobile insurance and related products through employee-agents operating from 288 leased retail locations in 13 states. The insurance sold by the Insurance Agency was underwritten and serviced by the Insurance Companies and through third-party carriers for which received a commission. The purchase agreement provides that, effective December 1, 2023, the buyer, will operate as an independent agent for the Insurance Companies' non-standard automobile insurance products written through the Insurance Agency. Following this transaction, the Insurance Companies currently sells non-standard personal automobile insurance written solely through independent agents, including the buyer.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholder of
First Acceptance Corporation

Opinion

We have audited the consolidated financial statements of First Acceptance Corporation (the Company), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations, changes in stockholder's equity, and cash flows for the three-year period ended December 31, 2023 and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the three-year period ended December 31, 2023 in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year from the date the consolidated financial statements are available to be issued.

(Continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the claims development information for periods prior to 2022 and average annual percentage payout of incurred claims information, included within Note 9, be presented to supplement the basic consolidated financial statements. Such information is the responsibility of management and, although not a part of the basic consolidated financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

(Continued)

Other Information

Management is responsible for the other information included in the management's discussion and analysis. The other information comprises the information included in the management's discussion and analysis but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.


Crowe LLP

West Hartford, Connecticut
March 4, 2024

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

The following discussion should be read in conjunction with our consolidated financial statements and accompanying notes included in this report. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this report, particularly under the caption "Risk Factors."

Forward-Looking Statements

This report contains forward-looking statements. All statements made in this report, other than statements of historical fact, are forward-looking statements. You can identify these statements from our use of the words "may," "should," "could," "potential," "continue," "plan," "forecast," "estimate," "project," "believe," "intent," "anticipate," "expect," "target," "is likely," "will," or the negative of these terms and similar expressions. These forward-looking statements may include, among other things, statements and assumptions relating to:

- the accuracy and adequacy of our loss reserving methodologies;
- income (loss), income (loss) per share and other financial performance measures;
- the anticipated effects on our results of operations or financial condition from recent and expected economic developments;
- the financial condition of, and other issues relating to the strength of and liquidity available to, issuers of securities held in our investment portfolio;
- and our business and growth strategies.

We believe that our expectations are based on reasonable assumptions. However, these forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause our actual results, performance or achievements, or industry results to differ materially from our expectations of future results, performance or achievements expressed or implied by these forward-looking statements. In addition, our past results of operations do not necessarily indicate our future results. We discuss these and other uncertainties in the "Risk Factors" section, as well as other sections, of this report.

You should not place undue reliance on any forward-looking statements. These statements speak only as of the date of this report. Except as otherwise required by applicable laws, we undertake no obligation to publicly update or revise any forward-looking statements or the risk factors described in this report, whether as a result of new information, future events, changed circumstances or any other reason after the date of this report.

General

Through December 1, 2023, we owned and operated “Acceptance Insurance,” an insurance agency headquartered in Nashville, Tennessee. We operated under an “Agency Model” and sold insurance and related products underwritten and serviced by our own insurance companies, known as the First Acceptance Insurance Group, (“Acceptance business”) and through third-party carriers for which we received a commission (“3PC business”).

Acceptance Insurance primarily sold non-standard personal automobile insurance through our own insurance companies and third-party carriers. Non-standard personal automobile insurance is sought after by individuals because of their inability or unwillingness to obtain standard insurance coverage due to various factors including their payment preference, failure to have maintained continuous insurance coverage, or their driving record. We also offered a variety of other commissionable third-party products such as roadside assistance and in most states, we also sold (and continue to sell) an insurance product for renters that we underwrite.

Through December 1, 2023, Acceptance Insurance leased and operated 288 retail locations staffed with employee-agents. In addition to these retail locations, we previously completed sales over the phone through employee-agents in our call center or over the internet through our consumer-based website and mobile platform.

Effective with the sale of Acceptance Insurance, the Company has changed the primary distribution of its premiums written from the fixed cost of Company-operated retail locations staffed by employee-agents to the variable cost of a new independent agency relationship with the buyer. Through a production agreement with the buyer, the source of the premiums written through the former retail channel will continue in the future through this new independent agent relationship, in addition to anticipated production through other existing retail locations of the buyer. The buyer is eligible to receive contingent bonus commission payments of \$3.3 million on each of February 1, 2025, 2026 and 2027, based on annual production targets. The Company, however, will no longer receive commission and fee income from the sale of insurance policies from third party carriers through its former retail locations.

Subsequent to December 1, 2023, we now solely offer our own underwritten insurance policies through independent agents in 15 states, and we are also licensed to write insurance in 11 other states that are not currently utilized.

For the year ended December 31, 2023, 25% of insurance company operating revenues resulted from insurance policies produced by a single independent agent who is engaged in a technology driven method of delivering insurance through a web and mobile site application. In 2024, it is anticipated that the buyer of Acceptance Insurance will produce the majority of insurance company operating revenues.

Sale of Insurance Agency Subsidiary

On December 1, 2023, the Company sold its wholly owned subsidiary, Acceptance Insurance Agency of Tennessee, Inc. (“the Insurance Agency”) for cash consideration of up to \$120.0 million which included \$55 million paid at closing and \$20.0 million held in escrow which will be released monthly from March 2024 through December 2024. The Company is eligible to receive additional contingent consideration of \$15.0 million, \$10.0 million, and \$20.0 million, on December 1, 2024, 2025 and 2026, respectively, based upon achievement of certain annual premium production targets.

The Company has recognized a gain of \$73.0 million on this sale, which includes future contingent consideration of \$38.9 million, recorded at fair value, utilizing a discounted cash flow approach.

The purchase agreement provides that the Company would receive its additional contingent consideration in its entirety should the buyer fail to submit applications within the applicable underwriting guidelines of the Company, provided that the Company has not breached any of its agreements with the buyer. The agreement also provides that the Company will maintain \$100 million of capital and surplus in the insurance companies through December 31, 2026.

The Insurance Agency, the Company’s retail sales agency operations subsidiary, principally sold non-standard automobile insurance and related products through employee-agents operating from 288 leased retail locations in 13 states. The insurance sold by the Insurance Agency was underwritten and serviced by our insurance companies and through third-party carriers for which it received a commission. The purchase agreement provides that, effective December 1, 2023, the buyer, will operate as an independent agent for our insurance companies’ non-standard automobile insurance products written through the Insurance Agency. Following this transaction, our insurance companies will sell non-standard personal automobile insurance written solely through independent agents, including the buyer.

Consolidated Results of Operations

Overview

Our insurance operations generated revenues from selling non-standard personal automobile insurance products and related products. We currently conduct our servicing and underwriting operations in 15 states through three insurance company subsidiaries: First Acceptance Insurance Company, Inc., First Acceptance Insurance Company of Georgia, Inc. and First Acceptance Insurance Company of Tennessee, Inc., and through December 1, 2023, as an insurance agency through Acceptance Insurance Agency of Tennessee, Inc ("the Insurance Agency"). Our revenues were primarily generated from:

- premiums earned, including policy and renewal fees, from sales of policies written and assumed by our insurance company subsidiaries;
- commission and fee income, including agency fees and commissions and fees for other ancillary products and policies sold on behalf of third-party insurance carriers (through December 1, 2023);
- billing fees and service charges on policies written and assumed by our insurance company subsidiaries; and
- investment income earned on the invested assets of the insurance company subsidiaries.

The following table presents premiums earned by state (in thousands). Premiums earned are presented in the state in which the underlying insured risk of the related Acceptance business is located.

	Year Ended December 31,		
	2023	2022	2021
Georgia	\$ 112,098	\$ 57,671	\$ 53,813
Florida	96,657	41,699	32,815
Alabama	34,815	34,635	35,588
California	24,758	11,891	4,334
Tennessee	24,153	19,815	19,718
South Carolina	23,013	9,035	8,725
Arizona	17,598	6,482	3,879
Pennsylvania	15,782	9,135	8,843
Ohio	14,708	12,045	12,639
Texas	13,531	8,410	8,850
Indiana	8,392	7,606	8,058
Mississippi	6,156	5,631	5,819
Illinois	5,094	6,052	5,480
Virginia	314	328	386
Missouri	102	94	96
	<u>\$ 397,171</u>	<u>\$ 230,529</u>	<u>\$ 209,043</u>

Our insurance companies present a combined ratio as a measure of our overall underwriting profitability. The components of the combined ratio are as follows.

Loss Ratio - Loss ratio is the ratio (expressed as a percentage) of losses and loss adjustment expenses incurred to premiums earned and is a basic element of underwriting profitability. We calculate this ratio based on all direct and assumed premiums earned, net of ceded reinsurance.

Expense Ratio - Expense ratio is the ratio (expressed as a percentage) of insurance company operating expenses (including depreciation and amortization) to net premiums earned. Insurance company operating expenses are reduced by billing fees and service charges from insureds. This is a measurement that illustrates relative management efficiency in administering our insurance companies.

Combined Ratio - Combined ratio is the sum of the loss ratio and the expense ratio. If the combined ratio is at or above 100%, we cannot be profitable without sufficient investment income.

The following table presents our loss, expense, and combined ratios for our insurance companies:

	Year Ended December 31,		
	2023	2022	2021
Loss	69.6%	78.7%	74.2%
Expense	27.6%	30.6%	29.3%
Combined	<u>97.2%</u>	<u>109.3%</u>	<u>103.5%</u>

Investments

We use the services of an independent investment manager to help oversee the management of our investment portfolio. The investment manager, in concert with our Chief Investment Officer, conducts, in accordance with our investment policy, all of the investment purchases and sales for our insurance company subsidiaries. Our investment policy has been established by the Investment Committee of our Board of Directors and specifically addresses overall investment goals and objectives, authorized investments, prohibited securities, restrictions on sales and guidelines as to asset allocation, duration, and credit quality. Management and the Investment Committee meet quarterly with our investment manager and Chief Investment Officer to review the performance of the portfolio and compliance with our investment guidelines.

The invested assets of the insurance company subsidiaries consist substantially of marketable, investment grade debt securities, and include U.S. government securities, municipal bonds, corporate bonds, mutual funds, asset-backed securities, and collateralized mortgage obligations (“CMOs”), in addition to other investment alternatives made into limited partnership interests and a real estate investment trust. Investment income is comprised primarily of interest earned on these securities, net of related investment expenses. Although investments are generally purchased with the intention to hold them until maturity, realized gains and losses could occur as changes are made to our holdings based upon changes in interest rates or the credit quality of specific securities.

The value of our consolidated fixed maturities, available-for-sale portfolio was \$192.9 million as of December 31, 2023 and consisted of fixed maturity securities carried at fair value with unrealized gains and losses reported as a separate component of stockholders’ equity. As of December 31, 2023, we had gross unrealized gains of \$1.4 million and gross unrealized losses of \$9.1 million in our consolidated investments in fixed maturities, available-for-sale portfolio.

The value of our investment in equity securities portfolio was \$10.7 million as of December 31, 2023 and consisted of investments in mutual funds, carried at fair value with unrealized gains and losses reported as a component of net income (loss). As of December 31, 2023, we had gross unrealized gains of \$2.4 million and gross unrealized losses of \$0.8 million in our investments in equity securities portfolio.

The value of our other investments was \$5.6 million as of December 31, 2023 and consisted of two limited partnership interests carried at net asset value and a REIT at cost, which approximated fair value, with unrealized gains and losses reported as investment income.

As of December 31, 2023, 99.4% of the fair value of our fixed maturities portfolio was rated “investment grade” (a credit rating of AAA to BBB-) by nationally recognized statistical rating organizations. Investment grade securities generally bear lower yields and have lower degrees of risk than those that are unrated or non-investment grade. We believe that a high-quality investment portfolio is more likely to generate a stable and predictable investment return.

Year Ended December 31, 2023, Compared with the Year Ended December 31, 2022

Consolidated Results

Revenues for the year ended December 31, 2023 increased 85% to \$560.6 million from \$302.3 million in the prior year. Income before income taxes for the year ended December 31, 2023, was \$99.0 million, compared with loss before income taxes of \$22.0 million for the year ended December 31, 2022. Net income for the year ended December 31, 2023, was \$73.9 million, compared with net loss of \$17.5 million for the year ended December 31, 2022. Basic and diluted net income per share were \$1.94 and \$1.92 for the year ended December 31, 2023, respectively, compared with basic and diluted net loss per share of \$0.46 for the year ended December 31, 2022.

Excluding the gain on sale of insurance agency of \$73.0 million, income before income taxes for the year ended December 31, 2023 was \$26.0 million compared with loss before income taxes of \$22.0 million for the year ended December 31, 2022.

For the year ended December 31, 2023, we recognized unfavorable prior period loss and LAE development of \$1.7 million compared with \$4.8 million for the year ended December 31, 2022.

Net income and revenues for the year ended December 31, 2023, included \$1.6 million in net gains on investments compared with \$1.1 million in net losses on investments for the year ended December 31, 2022.

Premiums Earned

Premiums earned increased by \$166.7 million, or 72%, to \$397.2 million for the year ended December 31, 2023, from \$230.5 million for the year ended December 31, 2022. This increase in premiums earned were driven significantly by the impact of recent premium rate increases and by an increase in the Acceptance policies in-force compared to the prior year, primarily as a result of the growth in the independent agent channel. The growth in this channel was driven by the growth and state expansion of the Company's largest independent agent who utilizes a technology driven method of distribution.

The average in-force premium for Acceptance policies-in-force as of December 31, 2023 has increased 10% from the same period in the prior year and is expected to further increase as a result of the continuing impact of premium rate actions taken by the Company in response to the increase in loss severity in the latter half of 2022.

Commission and Fee Income

Commission and fee income increased by \$2.1 million, or 4%, to \$55.1 million for the year ended December 31, 2023, from \$53.0 million for the year ended December 31, 2022. This increase was primarily the result of an increase in agency fee income. As a result of the December 1, 2023 sale of the Insurance Agency, the year ended December 31, 2023 reflects only 11 months of commission and fee income and these revenues will not continue for the Company in the future.

Billing Fees and Service Charges

Billing fees and service charges increased by \$9.1 million, or 57%, to \$25.0 million for the year ended December 31, 2023, from \$15.9 million for the year ended December 31, 2022. These increases were primarily the result of the increase in Acceptance business policies-in-force compared to the prior year.

Investment Income

Investment income increased to \$8.7 million during the year ended December 31, 2023, from \$3.9 million during the year ended December 31, 2022. These increases were primarily the result of higher yields on short term cash equivalents and fixed maturities as well as improved returns on other investments, in addition to an increase in total invested assets as a result of cash provided from operations during the year.

As of December 31, 2023, and 2022, the book yields for our fixed maturities and cash equivalents portfolio were 3.9% and 2.9%, respectively, with effective durations of 2.26 and 2.43 years, respectively. Yield has increased as the Company has taken advantage of the increase in interest rates by investing previously uninvested cash and reinvesting portfolio maturities at higher interest rates.

Gain on Sale of Insurance Agency

On December 1, 2023, the Company sold its Insurance Agency recognizing a gain of \$73.0 million. This gain includes the entire amount of the future contingent receivable, recorded at fair value, utilizing a discounted cash flow approach.

Net Gains (Losses) on Investments and Foreclosed Real Estate Held for Sale

Net gains (losses) on investments and foreclosed real estate held for sale during the year ended December 31, 2023, included a net realized gain of \$0.5 million from investments and an unrealized gain of \$1.1 million on equity securities.

Net (losses) gains on investments and foreclosed real estate held for sale during the year ended December 31, 2022, included a net realized gain of \$0.8 million from investments, an unrealized loss of \$1.7 million on equity securities, and an other-than-temporary impairment of fixed maturities available for sale of \$0.2 million.

Losses and Loss Adjustment Expenses

The loss ratio was 69.6% for the year ended December 31, 2023, compared with 78.7% for the year ended December 31, 2022. We experienced unfavorable development related to prior fiscal years of \$1.7 million for the year ended December 31, 2023, compared with \$4.8 million for the year ended December 31, 2022. The unfavorable loss development for the year ended December 31, 2023 was primarily attributable to higher-than-expected collision losses in the 2022 accident year. The unfavorable loss development for the year ended December 31, 2022 was primarily attributable to higher-than-expected loss severity on third-party physical damage losses for the fourth quarter of 2021.

Excluding the development related to prior fiscal years, the loss ratios for the years ended December 31, 2023 and 2022 were 69.2% and 76.5%, respectively. These improved loss ratios are primarily the result of the impact of recent rate increases, a moderation of the increased severity resulting from the economic conditions that led to increased car prices and vehicle repair costs in the prior year, and a higher percentage of liability-only policies written in 2023.

Insurance Operating Expenses

Insurance operating expenses increased year-over-year by \$41.4 million, or 30%. These increases were primarily the result of higher commissions to independent agents as a result of the increase in business written through this channel during the current year.

The insurance companies' expense ratio was 27.6% for the year ended December 31, 2023, compared with 30.6% for the year ended December 31, 2022.

Provision (Benefit) for Income Taxes

The provision for income taxes was \$25.1 million for the year ended December 31, 2023, compared with a benefit for income taxes of \$4.5 million for the year ended December 31, 2022. The effective tax rate increased to 25.4% for the year ended December 31, 2023, from 20.6% in the prior year, primarily as a result of the impact of state taxes resulting from the gain of the sale on the Insurance Agency which is subject to state taxes.

Primarily, as a result of the gain on the sale of the Insurance Agency, the Company will utilize its remaining federal net operating loss carryforwards in 2023 as well as substantially all of its remaining state net operating loss carryforwards not covered by a valuation allowance. Such gain will be recognized as an installment sale for both federal and state tax purposes and the Company has recorded a deferred tax liability for the portion of the gain not currently taxable.

Interest Expense

Interest expense was \$3.8 million for the year ended December 31, 2023, compared with \$2.4 million for year ended December 31, 2022. Interest expense increased primarily as a result of the increase in LIBOR and the subsequent replacement SOFR rate and may increase in the future should interest rates continue to rise. For additional information, see "Liquidity and Capital Resources" in this report.

Year Ended December 31, 2022, Compared with the Year Ended December 31, 2021

Consolidated Results

Revenues for the year ended December 31, 2022, increased 6% to \$302.3 million from \$285.2 million in the prior year. Net loss before income taxes for the year ended December 31, 2022, was \$22.0 million, compared with \$2.6 million for the year ended December 31, 2021. Net loss for the year ended December 31, 2022, was \$17.5 million, compared with \$1.2 million for the year ended December 31, 2021. Basic and diluted net loss per share was \$0.46 for the year ended December 31, 2022, compared with \$0.03 for the year ended December 31, 2021.

For the year ended December 31, 2022, we recognized unfavorable prior period loss and LAE development of \$4.8 million compared with favorable prior period loss and LAE development of \$1.6 million for the year ended December 31, 2021.

Net loss and revenues for the year ended December 31, 2022, included \$1.1 million in net losses on investments compared with \$7.5 million in net gains on investments and foreclosed real estate held for sale for the year ended December 31, 2021.

Premiums Earned

Premiums earned increased by \$21.5 million, or 10%, to \$230.5 million for the year ended December 31, 2022, from \$209.0 million for the year ended December 31, 2021. The increase in premiums earned was driven by an increase in the Acceptance policies in-force compared to the prior year, primarily as a result of the growth in the independent agent channel and through sales initiatives in the retail channel.

We believe that future premiums earned will benefit from the recent favorable trends in new business production. We believe that this increase is the result of improved staffing and local marketing efforts in our retail stores as they have battled the economic headwinds, as well as the growth in the Company's independent agent channel which is bringing new customers to Acceptance. However, we also believe that these economic headwinds may present continued challenges to our future revenue growth.

The average in-force premium for Acceptance policies-in-force as of December 31, 2022 has increased 12% from the same period in the prior year and is expected to further increase in 2023 as a result of the continuing impact of recent and pending premium rate actions taken by the Company in response to the recent increase in loss severity further discussed under "Losses and Loss Adjustment Expenses."

Commission and Fee Income

Commission and fee income increased by \$1.3 million, or 3%, to \$53.0 million for the year ended December 31, 2022, from \$51.7 million for the year ended December 31, 2021. Decreases in the sales of ancillary products have been offset by an increase in agency fee income.

Billing Fees and Service Charges

Billing fees and service charges increased by \$2.5 million, or 19%, to \$15.9 million for the year ended December 31, 2022, from \$13.4 million for the year ended December 31, 2021. This increase is primarily the result of fee increase actions taken by the Company as well as the increase in Acceptance policies in-force compared to the prior year.

Investment Income

Investment income increased to \$3.9 million during the year ended December 31, 2022, from \$3.6 million during the year ended December 31, 2021, primarily as the result of favorable yield adjustments on residential collateralized mortgage obligations and higher yields on reinvested fixed maturities.

As of December 31, 2022, and 2021, the book yields for our fixed maturities and cash equivalents portfolio were 2.9% and 1.6%, respectively, with effective durations of 2.43 and 2.47 years, respectively. Yield has increased as the Company has taken advantage of the increase in interest rates by investing previously uninvested cash and reinvesting portfolio maturities at higher interest rates.

Net (Losses) Gains on Investments and Foreclosed Real Estate Held for Sale

Net (losses) gains on investments and foreclosed real estate held for sale during the year ended December 31, 2022, included a net realized gain of \$0.8 million from investments, an unrealized loss of \$1.7 million on equity securities, and an other-than-temporary impairment of fixed maturities available for sale of \$0.2 million.

Net (losses) gains on investments and foreclosed real estate held for sale during the year ended December 31, 2021, included a net realized gain of \$6.1 million from investments, an unrealized gain of \$0.7 million on equity securities, and a gain of \$0.7 million from the sale of the Company's remaining foreclosed real estate held for sale.

Losses and Loss Adjustment Expenses

The loss ratio was 78.7% for the year ended December 31, 2022, compared with 74.2% for the year ended December 31, 2021. We experienced unfavorable development related to prior fiscal years of \$4.8 million for the year ended December 31, 2022, compared with favorable development related to prior fiscal years of \$1.6 million for the year ended December 31, 2021. The unfavorable loss development for the year ended December 31, 2022 was primarily attributable to higher-than-expected loss severity on third-party physical damage losses for the fourth quarter of 2021. The favorable loss development for the year ended December 31, 2021 was primarily attributable to improved bodily injury severity in previous accident years.

Excluding the development related to prior fiscal years, the loss ratios for the years ended December 31, 2022 and 2021 were 76.5% and 74.8%, respectively. The loss ratio increased due to the increase in severity levels that impacted physical damage losses. This increased severity was primarily due to recent economic conditions that have led to increased car prices and vehicle repair costs.

Various auto insurance industry publications suggest that increased loss ratios are being experienced industry wide despite the fact that most auto insurance carriers have taken recent rate increases. Such sources also suggest that these increased loss ratios will continue through 2023 and as a result, carriers will seek additional rate increases. In this regard, the Company has and will continue to seek rate increases as deemed necessary. To the contrary, recent publications have reported that automotive wholesale and retail values have been trending lower.

We consistently employ conventional actuarial loss reserving techniques that rely upon historical loss payment patterns and changes in exposures. Recently, the winding down of the Pandemic has impacted payment patterns causing us to modify the actuarial techniques employed in our loss reserve analysis as of September 30, 2022. These modified reserving techniques were continued to be utilized as of December 31, 2022.

Insurance Operating Expenses

Insurance operating expenses increased year-over-year by \$7.9 million, or 6.2%. The increase in insurance operating expenses were primarily the result of higher staffing vacancies at our retail stores and higher commissions to independent agents as a result of the increase in business written through this channel during the current year.

The insurance companies' expense ratio was 30.6% for the year ended December 31, 2022, compared with 29.2% for the year ended December 31, 2021.

In response to the increase in the Company's expense ratio, some of which is inflationary-driven, and continued pressure on the loss costs in the market creating uncertainty around the loss ratio, the Company has enacted a comprehensive cost-containment program, which included the closure of 14 underperforming retail locations, in an effort to reduce its expense ratio.

(Benefit) Provision for Income Taxes

The benefit for income taxes was \$4.5 million for the year ended December 31, 2022, compared with \$1.4 million for the year ended December 31, 2021. The effective tax rate was 20.6% for the year ended December 31, 2022, and 52.4% in the prior year. The prior year effective rate was impacted by the release of the valuation allowance for capital loss carryovers and a reduction in state taxes.

In assessing our ability to realize our deferred tax asset ("DTA"), both positive and negative evidence are used to evaluate the allowance. We placed the greatest weight on the Company's outlook for future taxable income over the allowable time period for realization of the DTA and concluded that it is more likely than not that the remaining DTA will be realized. Regarding the length of time available to realize the DTA, as of December 31, 2022, the Company had \$4.9 million of the DTA related to federal net operating loss carryforwards that do not expire until 2036, \$2.6 million that do not expire until 2042 and \$3.1 million have no expiration date. The DTA valuation allowance may be adjusted in future periods if management determines that it is more likely than not that some portion or all of the DTA will not be realized. In the event the DTA valuation allowance is adjusted, we would record an income tax expense for the adjustment.

Interest Expense

Interest expense was \$2.4 million for the year ended December 31, 2022, compared with \$1.7 million for year ended December 31, 2021. Interest expense increased primarily as a result of the increase in LIBOR and may increase in the future should interest rates continue to rise. For additional information, see “Liquidity and Capital Resources” in this report.

Liquidity and Capital Resources

Our primary sources of funds are premiums, billing fees and service charges, and investment income from our insurance company subsidiaries. Through December 1, 2023, we also received commissions and fee income from our non-insurance company subsidiaries. Our primary uses of funds are the payment of claims and operating expenses. Net cash provided by operating activities for the year ended December 31, 2023, was \$84.3 million, compared with net cash used in operating activities of \$3.9 million for the year ended December 31, 2022. This increase was primarily the result of the net income from operations for the year, an increase in premium collections and an increase in the reserve for loss and loss adjustment expenses.

Net cash used in investing activities for the year ended December 31, 2023, was \$23.7 million, compared with net cash provided by investing activities of \$7.2 million for the year ended December 31, 2022. This change was primarily the result of the \$54.1 million of net proceeds received from the sale of the Insurance Agency and an increase in the purchases of securities in the current year as the Company has taken advantage of the increase in interest rates by investing previously uninvested cash.

Our holding company requires cash for general corporate overhead expenses and for debt service related to our debentures payable. Following the sale of the Insurance Agency, the holding company’s primary source of unrestricted cash to meet its obligations will be dividends from the insurance companies and the remaining proceeds to be received through 2026 from the sale of the Insurance Agency as noted in the following paragraph. As of December 31, 2023, our holding company had adequate unrestricted cash to meet current obligations. We also believe that these funds and the additional anticipated unrestricted cash from the sources noted above will be sufficient to pay our future cash requirements outside of the insurance company subsidiaries.

As a result of the sale of the Insurance Agency, the Company will receive additional unrestricted cash of \$20 million currently held in escrow that will be released monthly from March 2024 through December 2024. The Company is also eligible to receive additional maximum contingent consideration of \$15 million, \$10 million, and \$20 million, on December 1, 2024, 2025 and 2026, respectively, based upon achievement of certain annual production targets, the receipt of which the Company has deemed probable. The cash from the contingent consideration payments to the Company would be unrestricted unless required by the Insurance Companies to maintain \$100 million of capital and surplus as per the purchase agreement.

The holding company has debt service requirements related to the debentures payable. The debentures are interest-only and mature in full in July 2037. Effective July 1, 2023 with the sunset of LIBOR, the debentures now accrue interest at a variable rate equal to an adjusted Three-Month CME term SOFR rate plus 375 basis points, which resets quarterly. The interest rate related to the debentures for the year ended December 31, 2023 ranged from 8.165% to 9.402%. In January 2024, the interest rate reset to 9.329% through April 2024. For additional information, see Note 10 to the Consolidated Financial Statements in this report regarding the sunset of LIBOR.

State insurance laws limit the amount of dividends that may be paid from our insurance company subsidiaries. As of December 31, 2023, the dividend limitation for 2024 would be \$12.1 million.

We have three insurance company subsidiaries that are organized and domiciled under the insurance statutes of Texas, Georgia, and Tennessee. Our insurance company subsidiaries also operate under licenses issued by various state insurance authorities. Such licenses may be of perpetual duration or periodically renewable, provided we continue to meet applicable regulatory requirements.

The National Association of Insurance Commissioners (“NAIC”) Model Act for risk-based capital provides formulas to determine each December 31 on an annual basis the amount of statutory capital and surplus that an insurance company needs to ensure that it has an acceptable expectation of not becoming financially impaired. Failure to meet applicable risk-based capital requirements could subject our insurance company subsidiaries to further examination or corrective action imposed by state regulators, including limitations on their writing of additional business, state supervision or even liquidation. As of December 31, 2023, the insurance company subsidiaries remain above the company action levels. There are also statutory guidelines that suggest that on an annual calendar year basis an insurance company should not exceed a ratio of net premiums written to statutory capital and surplus of 3-to-1. For the year ended December 31, 2023, each insurance company subsidiary was within this guideline.

We believe that existing cash and investment balances, when combined with anticipated cash flows as noted above, will be adequate to meet our expected liquidity needs, for both the holding company and our insurance company subsidiaries, in both the short-term and the foreseeable future.

Trust Preferred Securities

On June 15, 2007, First Acceptance Statutory Trust I (“FAST I”), our unconsolidated subsidiary trust entity, completed a private placement whereby FAST I issued 40,000 shares of preferred securities at \$1,000 per share to outside investors and 1,240 shares of common securities to us, also at \$1,000 per share. FAST I used the proceeds from the sale of the preferred securities to purchase \$41.2 million of junior subordinated debentures from us. The debentures will mature on July 30, 2037 and are currently redeemable by the Company in whole or in part and the preferred securities are callable. The debentures currently pay a variable rate equal to an adjusted Three-Month CME term SOFR rate plus 375 basis points, resetting quarterly. During 2023, the interest rate related to the debentures ranged from 8.165% to 9.402%. The obligations of the Company under the junior subordinated debentures represent full and unconditional guarantees by the Company of FAST I’s obligations for the preferred securities. Dividends on the preferred securities are cumulative, payable quarterly in arrears and are deferrable at the Company’s option for up to five years. The dividends on these securities, which have not been deferred, are the same as the interest on the debentures. The Company cannot pay dividends on its common stock during any such deferments. FAST I does not meet the requirements for consolidation of FASB ASC 810, “*Consolidation*”. See note 10 to the consolidated financial statements.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Critical Accounting Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements. As more information becomes known, these estimates and assumptions could change, thus having an impact on the amounts reported in the future. The following is considered to be a critical accounting estimate.

Losses and Loss Adjustment Expense Reserves

Losses and loss adjustment expense reserves represent our best estimate of our ultimate liability for losses and loss adjustment expenses relating to events that occurred prior to the end of any given accounting period but have not been paid. Months and potentially years may elapse between the occurrence of an automobile accident covered by one of our insurance policies, the reporting of the accident and the payment of the claim. We record a liability for estimates of losses that will be paid for accidents that have been reported, which is referred to as case reserves. As accidents are not always reported when they occur, we estimate liabilities for accidents that have occurred but have not been reported (“IBNR”).

We are directly liable for loss and loss adjustment expenses under the terms of the insurance policies underwritten by our insurance company subsidiaries. Each of our insurance company subsidiaries establishes a reserve for all of its unpaid losses, including case reserves and IBNR reserves, and estimates for the cost to settle the claims. We estimate our IBNR reserves by estimating our ultimate liability for loss and loss adjustment expense reserves first, and then reducing that amount by the amount of cumulative paid claims and by the amount of our case reserves. We rely primarily on historical loss experience in determining reserve levels, on the assumption that historical loss experience provides a good indication of future loss experience. We also consider various other factors, such as inflation, claims settlement patterns, legislative activity, and litigation trends. Our actuarial staff continually monitors these estimates on a state and coverage level. We utilize our actuarial staff to determine appropriate reserve levels. As experience develops or new information becomes known, we increase or decrease the level of our reserves in the period in which changes to the estimates are determined. These estimates involve a high level of subjectivity and judgement, and accordingly, the actual losses and loss adjustment expenses may differ materially from the estimates we have recorded.

We believe that our estimate regarding changes in loss severity is the most significant factor that can potentially impact our IBNR reserve estimate. We believe that there is a reasonable possibility of increases or decreases in our estimated claim severities, with the largest potential changes occurring in the most recent accident years.

Regarding our most recent estimate, for the year ended December 31, 2023, we experienced unfavorable development on reserves of \$1.7 million, which increased our loss and loss adjustment expense for prior accident periods. This unfavorable development was primarily attributable to higher-than-expected collision losses in the 2022 accident year.

See Note 9 to our consolidated financial statements for additional information.

Quantitative and Qualitative Disclosures About Market Risk

Market risk represents the potential economic loss arising from adverse changes in the fair value of financial instruments. Our exposures to market risk relate primarily to our investment portfolio, which is exposed primarily to interest rate risk and credit risk. The fair value of our investment portfolio is directly impacted by changes in market interest rates. Generally, the fair value of fixed-income investments moves inversely with movements in market interest rates. Our fixed maturity portfolio is comprised of substantially all fixed rate investments with primarily short-term and intermediate-term maturities. Likewise, the underlying investments of our mutual fund investments and certain other investments are also fixed-income investments. This portfolio composition allows flexibility in reacting to fluctuations of interest rates. Other investments offer additional risk through the diversity of their underlying investments and their lack of marketability. The portfolios of our insurance company subsidiaries are managed to achieve an adequate risk-adjusted return while maintaining sufficient liquidity to meet policyholder obligations.

Interest Rate Risk

The fair values of our fixed maturity investments fluctuate in response to changes in market interest rates. Increases and decreases in prevailing interest rates generally translate into decreases and increases, respectively, in the fair values of those instruments. Additionally, the fair values of interest rate sensitive instruments may be affected by the creditworthiness of the issuer, prepayment options, relative values of alternative investments, the liquidity of the instrument, and other general market conditions.

The following table summarizes the estimated effects of hypothetical increases and decreases in interest rates resulting from parallel shifts in market yield curves on our fixed maturities portfolio (in thousands). It is assumed that the effects are realized immediately upon the change in interest rates. The hypothetical changes in market interest rates do not reflect what could be deemed best or worst-case scenarios. Variations in market interest rates could produce significant changes in the timing of repayments due to prepayment options available. For these and other reasons, actual results might differ from those reflected in the table.

	Sensitivity to Instantaneous Interest Rate Changes (basis points)						
	(200)	(100)	(50)	0	50	100	200
Fair value of fixed maturities portfolio	\$ 0	\$ 198,519	\$ 195,701	\$ 192,885	\$ 190,069	\$ 187,254	\$ 181,627

The following table provides information about our fixed maturity investments as of December 31, 2023, which are sensitive to interest rate risk. The table shows expected principal cash flows (at par value, which differs from amortized cost as a result of premiums or discounts at the time of purchase and any expected impairment) by expected maturity date for each of the next five years and collectively for all years thereafter (in thousands). Callable bonds and notes are included based on call date or maturity date depending upon which date produces the most conservative yield. CMOs and sinking fund issues are included based on maturity year adjusted for expected payment patterns. Actual cash flows may differ from those expected.

<u>Year Ending December 31,</u>	<u>Securities with Unrealized Gains</u>	<u>Securities with Unrealized Losses</u>	<u>Securities with No Unrealized Gains or Losses</u>	<u>All Fixed Maturity Securities</u>
2024	\$ 9,935	\$ 24,618	\$ —	\$ 34,553
2025	11,913	25,186	—	37,099
2026	25,364	23,915	—	49,279
2027	7,732	1,239	750	9,721
2028	14,645	2,578	750	17,973
Thereafter	7,658	43,790	—	51,448
Total	\$ 77,247	\$ 121,327	\$ 1,500	\$ 200,073
Fair value	\$ 76,515	\$ 114,866	\$ 1,504	\$ 192,885

On June 15, 2007, our unconsolidated trust entity, FAST I, used the proceeds from its sale of trust preferred securities to purchase \$41.2 million of junior subordinated debentures. The debentures currently pay a variable rate equal to an adjusted Three-Month CME term SOFR rate plus 375 basis points resetting quarterly. The interest rate related to the debentures ranged from 8.165% to 9.402% during 2023. Interest rates on these debentures therefore will reset quarterly based on changes in the Three-Month CME term SOFR rate. In January 2024, the interest rate reset to 9.329% through April 2024. See note 10 to the consolidated financial statements.

Credit Risk

Credit risk is managed by diversifying our investment portfolio to avoid concentrations in any single industry group or issuer and by limiting investments in securities with lower credit ratings. Our largest single investment, excluding U.S. government and agency securities, is our investment in a single mutual fund with a fair value of \$5.7 million, while our five largest investments totaled \$21.1 million.

The following table presents the underlying ratings of our fixed maturities portfolio by nationally recognized statistical rating organizations as of December 31, 2023 (in thousands).

Comparable Rating	Amortized Cost	% of Amortized Cost	Fair Value	% of Fair Value
AAA	\$ 107,615	53.7%	\$ 100,071	51.9%
AA+, AA, AA-	27,181	13.6%	27,069	14.0%
A+, A, A-	40,600	20.2%	40,436	21.0%
BBB+, BBB, BBB-	24,325	12.1%	24,070	12.5%
Total investment grade	199,721	99.6%	191,646	99.4%
Not rated	204	0.1%	358	0.2%
BB+, BB, BB-	—	0.0%	—	0.0%
B+, B, B-	—	0.0%	—	0.0%
CCC+, CCC, CCC-	198	0.1%	484	0.2%
CC+, CC, CC-	—	0.0%	—	0.0%
C+, C, C-	17	0.0%	13	0.0%
D	404	0.2%	384	0.2%
Total non-investment grade	619	0.4%	881	0.6%
Total	<u>\$ 200,544</u>	<u>100.0%</u>	<u>\$ 192,885</u>	<u>100.0%</u>

Risk Factors

Investing in the Company involves risk. You should carefully consider the following risk factors, any of which could have a significant or material adverse effect on the Company. This information should be considered together with the other information contained in this report and in the other reports and materials filed by us with OTCQX Markets, as well as news releases publicly disseminated by us from time to time.

Our business may be adversely affected by adverse economic conditions, current inflationary economy, and other negative developments in the non-standard personal automobile insurance industry.

Substantially all of our revenues are now generated from underwriting non-standard personal automobile insurance policies. As a result of our concentration in this line of business, negative developments in the economic, competitive, or regulatory conditions affecting the non-standard personal automobile insurance industry and our customers could reduce our revenues, increase our expenses, or otherwise have a material adverse effect on our results of operations and financial condition. Weak economic conditions, elevated unemployment levels, and low consumer confidence in the United States tend to result in fewer customers purchasing and maintaining non-standard personal automobile insurance policies and certain customers reducing their insurance coverage, which adversely impacts our revenues and profitability. Developments affecting the non-standard personal automobile insurance industry and our customers could have a greater effect on us compared with more diversified insurers that also sell other types of automobile insurance products or write other additional lines of insurance.

In addition, auto technology advancements such as driverless cars and usage-based insurance, could materially impact our revenues over time. However, based on the higher average age of the vehicles we currently insure for non-standard customers, we believe that these advancements will impact us later than it will for the preferred and standard personal automobile insurance carriers.

Our underwriting results may fluctuate as a result of cyclical changes in the non-standard personal automobile insurance industry.

The non-standard personal automobile insurance industry is cyclical in nature. Likewise, adverse economic conditions impact our customers, and many will choose to reduce their coverage or go uninsured during a weak economy. Conversely, favorable economic conditions may lead to lower gas prices which result in an increase in miles driven and consequently claim frequency. Employment rates, sales of used vehicles, consumer confidence and other factors affect our customers' purchasing habits. In the past, the industry has also been characterized by periods of price competition and excess capacity followed by periods of high premium rates and shortages of underwriting capacity. If new competitors enter the market, existing competitors may attempt to increase market share by lowering rates. Given the cyclical nature of the industry and the economy, these conditions may negatively impact our revenues and profitability.

Our loss and loss adjustment expenses may exceed our reserves, which would adversely impact our results of operations and financial condition.

We establish reserves for the estimated amount of claims under the terms of the insurance policies underwritten by our insurance company subsidiaries. The amount of the reserves is determined based on historical claims information and other factors. The establishment of appropriate reserves is an inherently uncertain process due to a number of factors, including the difficulty in predicting the frequency and severity of claims, the rate of inflation, changes in trends, ongoing interpretation of insurance policy provisions by courts and inconsistent decisions in lawsuits regarding coverage and broader theories of liability. Any changes in claims settlement practices can also lead to changes in loss payment patterns, which are used to estimate reserve levels. Our ability to accurately estimate our loss and loss adjustment expense reserves may be made more difficult by changes in our business, including entry into new markets, changes in sales practices, or changes in our customers' purchasing habits. If our reserves prove to be inadequate, we will be required to increase our loss reserves and the amount of any such increase would reduce our income in the period that the deficiency is recognized. The historic development of reserves for loss and loss adjustment expenses may not necessarily reflect future trends in the development of these amounts. Consequently, our actual losses could materially exceed our loss reserves, which would have a material adverse effect on our results of operations and financial condition.

Our insurance company subsidiaries are subject to statutory capital and surplus requirements and other standards, and their failure to meet these requirements or standards could subject them to regulatory actions.

Our insurance company subsidiaries are subject to RBC standards and other minimum statutory capital and surplus requirements imposed under the laws of their respective states of domicile. The RBC standards, which are based upon the RBC Model Act adopted by the NAIC, require our insurance company subsidiaries to annually report their results of RBC calculations to the state departments of insurance and the NAIC.

Failure to meet applicable minimum RBC requirements or minimum statutory capital and surplus requirements could subject our insurance company subsidiaries to further examination or corrective action imposed by state regulators, including limitations on their writing of additional business, state supervision or even liquidation. Any changes in existing minimum RBC standards or minimum statutory capital and surplus requirements may require our insurance company subsidiaries to increase their statutory capital and surplus levels, which they may be unable to do. These calculations are performed on a calendar year basis, and as of December 31, 2023, our insurance company subsidiaries maintained RBC levels in excess of an amount that would require any corrective actions on their part.

Extra-contractual losses arising from bad faith claims could materially reduce our profitability.

In Florida, Georgia, and other states where we have substantial operations, the judicial climate, case law or statutory framework are often viewed as unfavorable toward an insurer in litigation brought against it by policyholders and third-party claimants. This tends to increase our exposure to extra-contractual losses, or monetary damages beyond policy limits, in what are known as “bad faith” claims. Such claims may result in losses which could have a material adverse effect on our results of operations and financial condition.

Our investment portfolio may suffer reduced returns or other-than-temporary impairment losses, which could reduce our profitability.

Our results of operations depend, in part, on the performance of our investment portfolio. As of December 31, 2023, the majority of our investment portfolio was invested either directly or indirectly in marketable, investment-grade debt securities and mutual funds, and included U.S. government securities, municipal bonds, corporate bonds, asset-backed securities, and collateralized mortgage obligations. Recent increases in interest rates have reduced the fair value of our investments below amortized cost resulting in a net unrealized loss. Such loss is recognized in comprehensive income (loss) for debt securities and in net income (loss) for equity securities, and in both cases, reduce our stockholders’ equity. As of December 31, 2023, the amortized cost of our fixed maturities, available for sale investment portfolio exceeded its fair value by approximately \$7.7 million. A future increase in interest rates could further reduce the fair value of our investment portfolio.

We also have made certain “other investments” that are not readily marketable and have restrictions as to their redemption. Defaults by third parties who fail to pay or perform obligations could reduce our investment income and could also result in investment losses to our portfolio. See Note 3 to our consolidated financial statements regarding determination of other-than-temporary impairment losses on investment securities and for further information about our “other investments.”

Our business is highly competitive, which may make it difficult for us to market our core products effectively and profitably.

The non-standard personal automobile insurance business is highly competitive. Our primary insurance company competition comes not only from national insurance companies or their subsidiaries, but also from non-standard insurers and independent agents that operate in a specific region or single state in which we also operate. Some of our competitors have substantially greater financial and other resources than we do, and they may offer a broader range of products or competing products at lower prices and may offer products through multiple distribution channels. Our revenues, profitability and financial condition could be materially adversely affected if we are required to decrease or are unable to increase prices to stay competitive, or if we do not successfully retain our current customers and attract new customers.

In addition, innovation by competitors or other market participants may increase the level of competition in the industry. This can include product, pricing, or marketing innovations, new or improved services, technology advances, or new modes of doing business that enhance the customer’s ability to shop and compare prices from multiple companies, among other initiatives. Our ability to react to such advances and navigate the new competitive environment is important to our success.

Our ability to attract, develop, and retain talented employees, managers, and executives, and to maintain appropriate staffing levels, is critical to our success.

Our success depends on our ability to attract, develop, and retain talented employees, including executives, and other key managers. Our loss of certain key employees, or the failure to attract and develop talented new executives and managers, could have a materially adverse effect on our business. In addition, we must forecast volume and other factors in changing business environments with reasonable accuracy and adjust our hiring and training programs and employment levels accordingly. Our failure to recognize the need for such adjustments, or our failure or inability to react appropriately on a timely basis, could lead either to over-staffing (which would adversely affect our cost structure) or under-staffing (impairing our ability to service our business) in one or more locations. In either such event, our financial results, customer relationships, and brand could be materially adversely affected.

Pricing, claim, and coverage issues and class action litigation are continually emerging in the automobile insurance industry, and these issues could adversely impact our revenues, profitability, or our methods of doing business.

As automobile insurance industry practices and regulatory, judicial and consumer conditions change, litigation and unexpected and unintended issues related to claims, coverages and business practices may emerge. These issues can have an adverse effect on our business by subjecting us to liability, changing the way we price and market our products, extending coverage beyond our underwriting intent, requiring us to obtain additional licenses or increasing the size of claims. The effects of unforeseen emerging issues could subject us to liability or negatively affect our revenues, profitability, or our methods of doing business. Recent economic conditions have led to increased car prices and vehicle repair costs resulting in increased loss severity.

Our business may be adversely affected if we do not underwrite risks accurately and charge adequate rates to policyholders.

Our financial condition, cash flows, and results of operations depend on our ability to underwrite and set rates accurately for a full spectrum of risks. The role of the pricing function is to ensure that rates are adequate to generate sufficient premium to pay losses, loss adjustment expenses, and underwriting expenses, and to earn a profit. Pricing involves the acquisition and analysis of historical accident, loss and credit data, and the projection of future accident trends, loss costs and expenses, and inflation trends, among other factors, for each of our products and in many different markets. As a result, our ability to price accurately is subject to a number of risks and uncertainties, including, without limitation:

- the availability of sufficient reliable data;
- uncertainties inherent in estimates and assumptions, generally;
- our ability to conduct a complete and accurate analysis of available data;
- our ability to timely recognize changes in trends and to predict both the severity and frequency of future losses with reasonable accuracy, specifically, the costs of auto repair parts and labor and medical costs;
- our ability to predict changes in certain operating expenses with reasonable accuracy;
- the development, selection, and application of appropriate rating formulae or other pricing methodologies;
- our ability to innovate with new pricing strategies, and the success of those innovations;
- our ability to implement rate changes and obtain any required regulatory approvals on a timely basis;
- our ability to predict policyholder retention accurately;
- unanticipated court decisions, legislation, or regulatory action;
- the occurrence and severity of catastrophic events, such as hurricanes, hailstorms, other severe weather, and terrorist events;
- our understanding of the impact of ongoing changes in our claim settlement practices; and
- changing driving patterns.

The realization of one or more of such risks may result in our pricing being based on inadequate or inaccurate data or inappropriate analyses, assumptions, or methodologies, and may cause us to estimate incorrectly future changes in the frequency or severity of claims. As a result, we could underprice risks, which would negatively affect our underwriting profit margins, or we could overprice risks, which could reduce our volume and competitiveness. In either event, our operating results, financial condition, and cash flows could be materially adversely affected. In addition, underpricing insurance policies over time could erode the surplus of one or more of our insurance subsidiaries, constraining our ability to write new business.

Our results are dependent on our ability to adjust claims accurately.

We must accurately evaluate and pay claims that are made under our insurance policies. Many factors can affect our ability to pay claims accurately, including the training, experience, and skill of our claims representatives, the extent of and our ability to recognize fraudulent or inflated claims, the effectiveness of our management, and our ability to develop or select and implement appropriate procedures, technologies, and systems to support our claims functions. Our failure to pay claims fairly, accurately, and in a timely manner, or to deploy claims resources appropriately, could result in unanticipated costs to us, lead to material litigation, undermine customer goodwill and our reputation in the marketplace, and impair our brand image and, as a result, materially adversely affect our competitiveness, financial results, prospects, and liquidity.

Our insurance company subsidiaries are subject to regulatory restrictions on paying dividends to our holding company.

Our holding company may in the future, rely in part, on receiving dividends from the insurance company subsidiaries to pay its obligations. State insurance laws limit the ability of our insurance company subsidiaries to pay dividends and require our insurance company subsidiaries to maintain specified minimum levels of statutory capital and surplus. These restrictions affect the ability of our insurance company subsidiaries to pay dividends to our holding company and may require our subsidiaries to obtain the prior approval of regulatory authorities, which could slow the timing of such payments or reduce the amount that can be paid. The limits on the amount of dividends that can be paid by our insurance company subsidiaries may affect the ability of our holding company to pay its obligations. The current dividend-paying ability of the insurance company subsidiaries is discussed in Note 15 to our consolidated financial statements.

We rely on our information technology and communication systems, and the failure of these systems could materially adversely affect our business.

Our business is highly dependent on proprietary and third-party integrated technology systems that enable timely and efficient communication and data sharing among the various segments of our integrated operations. These systems are used in all our operations, including price quotation, policy issuance, independent agent management, customer service, underwriting, claims, accounting, communications, and the maintenance of our consumer-based website and mobile platform. We have a technical staff that develops, maintains, and supports all elements of our technology infrastructure. However, failure by third-party vendors, disruption of power systems or communication systems or any failure of our systems could result in deterioration in our ability to respond to customers' requests, write and service new business, and process claims in a timely manner. We believe we have appropriate types and levels of insurance to protect our real property, systems, and other assets. However, insurance does not provide full reimbursement for all losses, both direct and indirect, that may result from an event affecting our information technology and communication systems.

Severe weather conditions and other catastrophes may result in an increase in the number and amount of claims filed against us.

Our business is exposed to the risk of severe weather conditions and other catastrophes. Catastrophes can be caused by various events, including natural events, such as severe winter weather, hurricanes, tornados, windstorms, earthquakes, hailstorms, thunderstorms and fires, and other events, such as explosions, terrorist attacks and riots. The incidence and severity of catastrophes and severe weather conditions are inherently unpredictable. Severe weather conditions generally result in more automobile accidents and damage, leading to an increase in the number of claims filed and/or the amount of compensation sought by claimants.

A single stockholder family has significant control over us, and their interests may differ from yours.

A single stockholder family, Gerald J. Ford, our former Chairman of the Board and his son, Jeremy B. Ford, our current Chairman, together control approximately 64% of our outstanding common stock. Together, they have the power to control the election and removal of our directors. They would also have significant control over other matters requiring stockholder approval, including the approval of any major corporate transactions or proposed amendments to our certificate of incorporation. This concentration of ownership may delay or prevent any change in control of the Company, as well as frustrate any attempts to replace or remove current management, even when a change may be in the best interests of our other stockholders. Furthermore, their interests may not always coincide with the interests of the Company or other stockholders.

We and our subsidiaries are subject to comprehensive regulation and supervision that may restrict our ability to earn profits.

We and our subsidiaries are subject to comprehensive regulation and supervision by the insurance departments in the states where our subsidiaries are domiciled and where our subsidiaries sell insurance, issue policies and handle claims. Certain regulatory restrictions and prior approval requirements may affect our subsidiaries' ability to operate, change their operations or obtain necessary rate adjustments in a timely manner or may increase our costs and reduce profitability.

Among other things, regulation and supervision of us and our subsidiaries extends to:

Required Licensing. We and our subsidiaries operate under licenses issued by various state insurance authorities. These licenses govern, among other things, the types of insurance coverages and claims services that we and our subsidiaries may offer consumers in the particular state. If a regulatory authority denies or delays granting any such license, our ability to enter new markets or offer new products could be substantially impaired.

Transactions Between Insurance Companies and Their Affiliates. Our insurance company subsidiaries are organized and domiciled under the insurance statutes of Texas, Georgia, and Tennessee. The insurance laws in these states provide that all transactions among members of an insurance holding company system must be done at arm's length and shown to be fair and reasonable to the regulated insurer. Transactions between our insurance company subsidiaries and other subsidiaries generally must be

disclosed to the state regulators, and prior approval of the applicable regulator generally is required before any material or extraordinary transaction may be consummated. State regulators may refuse to approve or delay approval of such a transaction, which may impact our ability to innovate or operate efficiently.

Regulation of Rates and Policy Forms. The insurance laws of most states in which our insurance company subsidiaries operate require insurance companies to file premium rate schedules and policy forms for review and approval. State insurance regulators have broad discretion in judging whether our rates are adequate, not excessive, and not unfairly discriminatory. The speed at which we can change our rates in response to market conditions or increasing costs depends, in part, on the method by which the applicable state's rating laws are administered. Generally, state insurance regulators have the authority to disapprove our requested rates. If as permitted in some states, we begin using new rates before they are approved, we may be required to issue premium refunds or credits to our policyholders if the new rates are ultimately disapproved by the applicable state regulator. In some states, there has been pressure in past years to reduce premium rates for automobile and other personal insurance or to limit how often an insurer may request increases for such rates. In states where such pressure is applied, our ability to respond to market developments or increased costs in that state may be adversely affected.

Investment Restrictions. Our insurance company subsidiaries are subject to state laws and regulations that require diversification of their investment portfolios and that limit the amount of investments in certain categories. Failure to comply with these laws and regulations would cause non-conforming investments to be treated as non-admitted assets for purposes of measuring statutory surplus and, in some instances, would require divestiture. If a non-conforming asset is treated as a non-admitted asset, it would lower the affected subsidiary's surplus and thus, its ability to write additional premiums and pay dividends.

Restrictions on Cancellation, Non-Renewal or Withdrawal. Many states have laws and regulations that limit an insurer's ability to exit a market. For example, certain states limit an automobile insurer's ability to cancel or non-renew policies. Some states prohibit an insurer from withdrawing from one or more lines of business in the state, except pursuant to a plan approved by the state insurance department. The state insurance department may disapprove a plan that may lead to market disruption. These laws and regulations that limit cancellations and non-renewals and that subject business withdrawals to prior approval restrictions could limit our ability to exit unprofitable markets or discontinue unprofitable products in the future.

Provisions in our certificate of incorporation and bylaws may prevent a takeover or a change in management that you may deem favorable.

Our certificate of incorporation and bylaws contain the following provisions that could prevent or inhibit a third party from acquiring us:

- the requirement that only stockholders owning at least one-third of the outstanding shares of our common stock may call a special stockholders' meeting; and
- the requirement that stockholders owning at least two-thirds of the outstanding shares of our common stock must approve any amendment to our certificate of incorporation provisions concerning the ability to call special stockholders' meetings.

Under our certificate of incorporation, we may issue shares of preferred stock on terms that are unfavorable to the holders of our common stock. The issuance of shares of preferred stock could also prevent or inhibit a third party from acquiring us. The existence of these provisions could depress the price of our common stock, could delay, or prevent a takeover attempt or could prevent attempts to replace or remove incumbent management.

Our failure to prevent unauthorized access to confidential electronic information could result in a data breach that may negatively impact our business.

We are dependent upon automated information technology processes. A portion of our business operations is conducted over the internet which increases the risk of improper third-party attacks that could cause system failures and disruptions of operations. In addition, any failure to maintain the security of confidential information belonging to our customers could put us at a competitive disadvantage, result in a loss of customers' confidence in us, and subject us to potential liabilities resulting from litigation, fines, and penalties, which could have a material adverse effect on our results of operations and financial condition.

The payment methods that we offer also subject us to potential fraud and theft by criminals seeking to obtain unauthorized access to or exploit weaknesses that may exist in the payment systems. Such breaches could cause interruptions to our operations, damage to our reputation and our customers' willingness to purchase insurance from us, and subject us to additional potential liabilities resulting from litigation, fines, and penalties, which could have a material adverse effect on our results of operations and financial condition.

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