FIRST ACCEPTANCE CORPORATION

2018 ANNUAL REPORT

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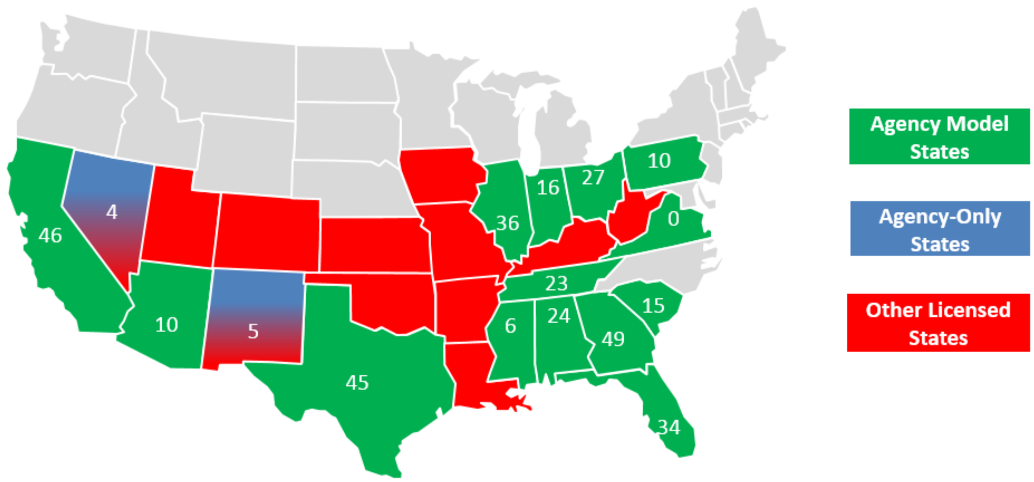
Our Marketplace

Acceptance sells non-standard automobile insurance through 350 retail locations (as presented below) across 15 states as well as through the internet and a Nashville Call Center. (The state of Virginia is Internet and Call Center only). The Company operates under an "Agency Model" in 14 states where it sells both its own underwritten insurance policies and those issued by third-party insurers for which the Company earns commissions. At this time, two states operate as "Agency-Only." The Company also has licenses to write insurance in 12 other states 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, 2017:		
First Quarter	$ 1.74	$ 1.03
Second Quarter	1.50	1.07
Third Quarter	1.25	0.80
Fourth Quarter	1.50	0.95
Year Ended December 31, 2018:		
First Quarter	$ 1.25	$ 0.78
Second Quarter	1.22	0.75
Third Quarter	1.25	1.04
Fourth Quarter	1.20	1.02

The closing price of our common stock on March 5, 2019 was $1.30.

Holders

According to the records of our transfer agent, there were 260 holders of record of our common stock on March 5, 2019, including record holders such as banks and brokerage firms who hold shares for beneficial holders, and 41,372,446 shares of our common stock were outstanding.

Dividends

We paid no dividends during the two most recent years. We have no specific plans to pay cash dividends in the future. 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 more fully understand our historical consolidated financial and operating data, 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 at December 31, 2018, and 2017 and for the years ended December 31, 2018, 2017, and 2016 from our consolidated financial statements included in this report. We derived our selected historical consolidated financial data at December 31, 2016, 2015 and 2014 and for the years ended December 31, 2015 and 2014 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,				
	2018	2017	2016	2015	2014
Statement of Operations Data:	(in thousands, except per share data)				
Revenues:					
Premiums earned	$ 258,891	$ 278,221	$ 303,328	$ 266,987	$ 218,315
Commission and fee income	44,896	45,618	52,800	37,775	20,655
Billing fees and service charges	16,823	18,963	22,796	22,117	19,078
Investment income	4,854	4,719	4,649	5,024	5,123
Gain on sale of foreclosed real estate	—	—	1,237	—	—
Net (losses) gains on investments	(1,651)	(3)	4,813	(11)	23
	323,813	347,518	389,623	331,892	263,194
Costs and expenses:					
Losses and loss adjustment expenses	179,794	220,785	309,002	219,031	161,302
Insurance operating expenses	112,745	111,323	116,510	105,254	87,328
Other operating expenses	893	1,133	1,219	1,126	996
Litigation settlement	—	—	—	3,677	187
Stock-based compensation	462	299	207	144	185
Depreciation	1,737	2,068	2,540	1,751	1,767
Amortization of identifiable intangible assets	636	789	956	514	—
Interest expense	4,940	4,535	4,319	2,967	1,706
	301,207	340,932	434,753	334,464	253,471
Income (loss) before income taxes	22,606	6,586	(45,130)	(2,572)	9,723
Provision (benefit) for income taxes [(1)]	4,888	15,190	(15,848)	(642)	(18,345)
Net income (loss)	$ 17,718	$ (8,604)	$ (29,282)	$ (1,930)	$ 28,068
Net income (loss) per basic and diluted share	$ 0.43	$ (0.21)	$ (0.71)	$ (0.05)	$ 0.68

	December 31,				
	2018	2017	2016	2015	2014
Balance Sheet Data:					
Cash and invested assets	$ 254,290	$ 255,172	$ 245,887	$ 258,425	$ 238,044
Total assets	389,083	395,859	400,074	402,127	328,445
Loss and loss adjustment expense reserves	140,398	159,130	161,079	122,071	96,613
Debentures payable and term loan	70,224	70,153	70,081	70,009	40,211
Total liabilities	309,106	331,102	327,586	298,457	221,481
Total stockholders' equity	79,977	64,757	72,488	103,670	106,964
Book value per common share	$ 1.94	$ 1.57	$ 1.76	$ 2.53	$ 2.61

(1) The provision (benefit) for income taxes for the year ended December 31, 2017 includes a reduction in the deferred tax asset of $12.5 million as a result of the enactment of legislation to reduce the corporate income tax rate. The provision (benefit) for income taxes for the year ended December 31, 2014 includes a decrease in the valuation allowance for the deferred tax asset of $22.4 million.

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

	December 31, 2018	December 31, 2017
ASSETS		
Investments in fixed maturities, available-for-sale at fair value (amortized cost of $156,926 and $114,904, respectively)	$ 153,086	$ 113,902
Investment in equity securities at fair value (cost of $14,838 for both years)	14,387	16,043
Cash, cash equivalents, and restricted cash	77,947	115,477
Premiums, fees, and commissions receivable, net of allowance of $227 and $275	67,733	69,624
Deferred tax assets, net	14,710	20,549
Other investments	8,870	9,750
Other assets	9,860	6,438
Property and equipment, net	2,867	2,888
Deferred acquisition costs	3,839	4,947
Goodwill	29,384	29,384
Identifiable intangible assets, net	6,400	6,857
TOTAL ASSETS	$ 389,083	$ 395,859
LIABILITIES AND STOCKHOLDERS' EQUITY		
Loss and loss adjustment expense reserves	$ 140,398	$ 159,130
Unearned premiums and fees	78,893	82,620
Debentures payable	40,393	40,348
Term loan from principal stockholder	29,831	29,805
Accrued expenses	5,879	5,975
Other liabilities	13,712	13,224
Total liabilities	309,106	331,102
Stockholders' equity:		
Preferred stock, $.01 par value, 10,000 shares authorized, no shares issued or oustanding	—	—
Common stock, $.01 par value, 75,000 shares authorized; 41,372 and 41,235 issued and outstanding, respectively	414	413
Additional paid-in capital	458,611	458,124
Accumulated other comprehensive (loss) income, net of tax of $(1,237) and $(990), respectively	(2,602)	1,900
Accumulated deficit	(376,446)	(395,680)
Total stockholders' equity	79,977	64,757
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 389,083	$ 395,859

See notes to consolidated financial statements.

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

	Year Ended December 31, 2018	2017	2016
Revenues:			
Premiums earned	$ 258,891	$ 278,221	$ 303,328
Commission and fee income	44,896	45,618	52,800
Billing fees and service charges	16,823	18,963	22,796
Investment income	4,854	4,719	4,649
Gain on sale of foreclosed real estate	—	—	1,237
Net (losses) gains on investments (includes $4,745 of accumulated other comprehensive loss reclassification for net unrealized gains in 2016)	(1,651)	(3)	4,813
	323,813	347,518	389,623
Costs and expenses:			
Losses and loss adjustment expenses	179,794	220,785	309,002
Insurance operating expenses	112,745	111,323	116,510
Other operating expenses	893	1,133	1,219
Stock-based compensation	462	299	207
Depreciation	1,737	2,068	2,540
Amortization of identifiable intangible assets	636	789	956
Interest expense	4,940	4,535	4,319
	301,207	340,932	434,753
Income (loss) before income taxes	22,606	6,586	(45,130)
Provision (benefit) for income taxes	4,888	15,190	(15,848)
Net income (loss)	$ 17,718	$ (8,604)	$ (29,282)
Net income (loss) per share:			
Basic	$ 0.43	$ (0.21)	$ (0.71)
Diluted	$ 0.43	$ (0.21)	$ (0.71)
Number of shares used to calculate net income (loss) per share:			
Basic	41,316	41,181	41,085
Diluted	41,616	41,181	41,085
Reconciliation of net income (loss) to comprehensive income (loss):			
Net income (loss)	$ 17,718	$ (8,604)	$ (29,282)
Unrealized change in investments:			
Unrealized change in investments arising during the period, net of tax of $157, $204 and $489, respectively	$ (2,637)	$ 498	$ 909
Reclassification of net realized gains on investments, available-for-sale, included in net loss, net of tax of $(1,661) in 2016	—	—	(3,084)
Comprehensive income (loss)	$ 15,081	$ (8,106)	$ (31,457)
Detail of net (losses) gains on investments:			
Net realized gains (losses) on sales and redemptions	$ 5	$ (3)	$ 4,960
Net unrealized loss on equity securities	(1,656)	—	—
Other-than-temporary impairment charges	—	—	(147)
Net (losses) gains on investments	$ (1,651)	$ (3)	$ 4,813

See notes to consolidated financial statements.

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

	Common Stock		Additional paid-in	Accumulated other comprehensive	Accumulated	Total stockholders'
	Shares	Amount	capital	income (loss)	deficit	equity
Balances at December 31, 2015	41,060	$ 411	$ 457,476	$ 3,491	$ (357,708)	$ 103,670
Net loss	—	—	—	—	(29,282)	(29,282)
Net unrealized change on investments (net of tax benefit of $1,172)	—	—	—	(2,175)	—	(2,175)
Stock-based compensation	7	—	207	—	—	207
Vested restricted stock units, net of repurchases	29	—	(10)	—	—	(10)
Issuance of shares under Employee Stock Purchase Plan	64	1	77	—	—	78
Balances at December 31, 2016	41,160	412	457,750	1,316	(386,990)	72,488
Net loss	—	—	—	—	(8,604)	(8,604)
Net unrealized change on investments (net of tax provision of $204)	—	—	—	498	—	498
Stock-based compensation	7	—	299	—	—	299
Issuance of shares under Employee Stock Purchase Plan	68	1	75	—	—	76
Reclassification of deferred tax resulting from change in corporate tax rate	—	—	—	86	(86)	—
Balances at December 31, 2017	41,235	413	458,124	1,900	(395,680)	64,757
Net income	—	—	—	—	17,718	17,718
Net unrealized change on investments (net of tax provision of $157)	—	—	—	(2,986)	—	(2,986)
Stock-based compensation	6	—	462	—	—	462
Issuance of shares under Employee Stock Purchase Plan	48	—	50	—	—	50
Vested restricted stock units, net of repurchases	83	1	(25)	—	—	(24)
Reclassification of unrealized gain on investment in equity securities (net of tax provision of $403)	—	—	—	(1,516)	1,516	—
Balances at December 31, 2018	41,372	$ 414	$ 458,611	$ (2,602)	$ (376,446)	$ 79,977

See notes to consolidated financial statements.

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

	Year Ended December 31,		
	2018	**2017**	**2016**
Cash flows from operating activities:			
Net income (loss)	$ 17,718	$ (8,604)	$ (29,282)
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:			
Depreciation	1,737	2,068	2,540
Amortization of identifiable intangible assets	636	789	956
Stock-based compensation	462	299	207
Deferred income taxes	5,691	14,883	(16,176)
Other-than-temporary impairment on investments, available-for-sale	—	—	147
Net losses (gains) on investments	1,651	3	(4,960)
Investment income from other investments	428	(440)	(427)
Gain on sale of foreclosed real estate	—	—	(1,237)
Other	476	155	108
Change in:			
Premiums, fees, and commission receivable	1,843	(3,227)	3,663
Loss and loss adjustment expense reserves	(18,732)	(1,949)	39,008
Unearned premiums and fees	(3,727)	3,759	(4,565)
Other liabilities	488	2,748	(5,130)
Other	(1,476)	(1,483)	1,520
Net cash provided by (used in) operating activities	7,195	9,001	(13,628)
Cash flows from investing activities:			
Purchases of fixed maturities	(50,439)	(26,770)	(62,982)
Maturities and redemptions of fixed maturities	7,996	14,774	11,028
Sales of fixed maturities	—	—	66,880
Purchases of other investments	(473)	(133)	(957)
Distributions from other investments	925	631	3,270
Capital expenditures	(2,581)	(763)	(2,263)
Acquisition of identifiable intangible assets	(179)	(20)	(91)
Proceeds from sale of foreclosed real estate, net	—	—	1,769
Net cash (used in) provided by investing activities	(44,751)	(12,281)	16,654
Cash flows from financing activities:			
Net proceeds from issuance of common stock	26	76	68
Net cash provided by financing activities	26	76	68
Net change in cash, cash equivalents, and restricted cash	(37,530)	(3,204)	3,094
Cash, cash equivalents, and restricted cash, beginning of period	115,477	118,681	115,587
Cash, cash equivalents, and restricted cash, end of period	$ 77,947	$ 115,477	$ 118,681

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 include the selling, servicing, and underwriting of non-standard personal automobile insurance and related products. In 2018, the Company generated revenue from selling non-standard personal automobile insurance products and related products in 17 states. The Company conducted servicing and underwriting operations in 15 states and operated only as an insurance agency in two states. The Company issued 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 operated as an insurance agency though another subsidiary, Acceptance Insurance Agency of Tennessee, Inc.

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. All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles ("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.

Reclassifications

Certain reclassifications have been made to the prior year's consolidated financial statements to conform with the current presentation.

Subsequent Events

In connection with the preparation of these consolidated financial statements, the Company has evaluated subsequent events through March 6, 2019, which is the date the 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 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 commencing with 2018, the corresponding unrealized appreciation or depreciation is reported in net income (loss) as opposed to the prior practice of the corresponding unrealized appreciation or depreciation, net of deferred income taxes, being reported in other comprehensive income (loss). (See "Accounting Pronouncements Adopted During 2018").

Premiums and discounts on collateralized mortgage obligations ("CMOs") are amortized over a period based on estimated future principal payments, including prepayments. 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. Management reviews investments in fixed maturities, available-for-sale for impairment on a quarterly basis. Fair values of investments are based on prices quoted in the most active market for each security. If quoted prices are not available, fair value is estimated based on the fair value of comparable securities, discounted cash flow models or similar methods. Any decline in the fair value of any fixed maturities available-for-sale security below cost that is deemed to be other-than-temporary would result in a reduction in the amortized cost of the security.

If management can assert that it does not intend to sell an impaired fixed maturity security and it is more likely than not that it will not have to sell the security before recovery of its amortized cost basis, then an entity must separate other-than-temporary impairments (“OTTI”) into the following two components: (i) the amount related to credit losses, which are charged against income, and (ii) the amount related to all other factors, which are 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. If management intends to sell an impaired security, or it is more likely than not that it will be required to sell the security before recovery, an impairment charge is required to reduce the amortized cost of that security to fair value.

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

Cash, Cash Equivalents, and Restricted Cash

Cash, cash equivalents, and restricted cash in connection with a reinsurance contract, consist of bank demand deposits and other highly-liquid investments. All investments with maturities of three months or less at the date of purchase are considered cash equivalents. At December 31, 2018 and December 31, 2017, the Company had restricted cash equivalents of $18.8 million and $18.5 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”). 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 commencing with 2018, the corresponding unrealized appreciation or depreciation is reported in net income (loss) as opposed to the prior practice of the corresponding unrealized appreciation or depreciation, net of deferred income taxes, being reported in other comprehensive income (loss). Effective, January 1, 2018, since the common stock of the REIT does not have a 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. (See “Accounting Pronouncements Adopted During 2018”).

The change in net asset value of limited partnership interests and any dividends paid by the REIT are recorded in investment income in the consolidated statements of comprehensive income (loss).

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 includes commissions paid by third-party insurance carriers which are earned upon the effective date of bound coverage, less an estimated allowance for returned commissions based upon historical experience, since no performance obligation remains in these arrangements after coverage is bound and the control of the underlying insurance policy is transferred to the third-party carrier. Commission and fee income also includes commissions paid by a third-party entity on the sale of ancillary insurance products that are earned on a pro-rata basis over the life of the underlying contracts, since the Company maintains 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 estimates the amount of consideration that will be received for which a significant reversal of revenue is not probable.

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

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.

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 at December 31, 2018 and 2017. 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 2014.

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. Equipment under capitalized lease obligations is stated at the present value of the minimum lease payments at the beginning of the lease term.

Foreclosed Real Estate Held for Sale

Foreclosed real estate held for sale is recorded at the lower of cost or fair value less estimated costs to sell. The Company periodically reviews its portfolio of foreclosed real estate held for sale using current information including (i) independent appraisals, (ii) general economic factors affecting the area where the property is located, (iii) recent sales activity and asking prices for comparable properties and (iv) costs to sell and/or develop that would serve to lower the expected proceeds from the disposal of the real estate. Gains (losses) realized on liquidation are recorded directly to operations and included in revenues. Foreclosed real estate held for sale assets of $0.2 million are included within other assets in the accompanying consolidated balance sheets at both December 31, 2018 and 2017.

Deferred Acquisition Costs

Deferred acquisition costs include premium taxes 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, 2018, 2017 and 2016 was $14.5 million, $16.9 million and $18.9 million, respectively, and is included within insurance operating expenses in the accompanying consolidated statements of operations and comprehensive income (loss).

Goodwill and Other 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. At December 31, 2018 and 2017, identifiable intangible assets were $6.4 million and $6.9 million, respectively, stated net of accumulated amortization expense of $2.9 million and $2.3 million, respectively. The remaining amortization expense over the four succeeding fiscal years is $0.5 million, $0.4 million, $0.3 million, and $0.2 million.

The Company performs required annual impairment tests of its goodwill and identifiable intangible assets as of October 1st 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 considers the Titan Agencies acquired in 2015 to be a separate reporting unit.

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 a review of the relevant factors, the Company prepared a qualitative analysis for its annual impairment testing as of October 1, 2018, which did not indicate any impairment.

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 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 U.S. generally accepted accounting principles 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 financial statements were issued.

Segment Reporting

Previously, the Company operated in two business segments with its primary focus being an insurance segment engaged in the selling, servicing and underwriting of non-standard personal automobile insurance. A real estate and corporate segment consisted of the activities related to the disposition of foreclosed real estate held for sale, interest expense associated with all debt and other general corporate overhead expenses. Since real estate operations are no longer material to the consolidated financial statements, the Company no longer considers this presentation meaningful and such disclosure is no longer presented.

Recent Accounting Pronouncements

Accounting Pronouncements Adopted During 2018

On January 1, 2018, the Company adopted Accounting Standards Codification Topic 606, *"Revenue from Contracts with Customers"* ("Topic 606"), using the modified retrospective transition method. The Company had no cumulative-effect adjustment, and its consolidated financial statement line items were not impacted as a result of the adoption, mostly because the accounting for insurance contracts was outside of the scope of Topic 606, and the application of the key aspects of revenue recognition of Topic 606 to the Company's in-scope transactions, such as the timing of recognition of revenue (at a point in time vs. over time) and the estimation of refund liability, resulted in recognition of revenues and related expenses consistent with that under the legacy accounting guide, Topic 605.

The Company's revenue from contracts with customers that are in scope of Topic 606 comprise the commissions and fee income line item in its consolidated financial statements. This amount represents amounts that Acceptance Insurance Agency of Tennessee, Inc. ("Acceptance") receives 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 Acceptance in return for the commission income from the third-party insurers is to complete the sale of the policy and deliver the control of the policy to the insurer prior to the policy effective date. In addition, Acceptance may provide 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 are deemed immaterial in the context of the contract and to the Company's consolidated financial statements, and hence, such services are not identified as a separate performance obligation and the costs to perform such services are not accrued at the time of the sale of the policy but are expensed as incurred as part of the overall operating expenses.

The total revenue from the sale of a policy is recognized upon the effective date of bound coverage when the sale is complete as all the material aspects of the performance obligation are satisfied and the insurer is deemed to obtain control of the insurance policy at that time. Any commission income considered to be variable is constrained such that the revenue is 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 is complete is recognized as commission income receivable, which is included in premiums, fees, and commissions receivable in the Company's consolidated balance sheets. The commission income receivable at December 31, 2018 and 2017 was approximately $2.0 million and $1.8 million, respectively.

A refund liability is recorded for the expected amount of the commission income that has to be returned to the insurers based on estimated policy cancellations. The refund liability is 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 are computed using the expected value method based on all relevant information, including historical experience. The refund liability at December 31, 2018 and 2017 which is included in other liabilities in the Company's consolidated balance sheets was approximately $1.2 million and $1.3 million, respectively.

The primary performance obligation of Acceptance in return for the fee income from a third-party entity on the sales of ancillary insurance products is to complete the sale of the contract. Acceptance however maintains 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 are considered separate performance obligations and as a result the fee income is received monthly from the third-party entity on a pro-rata basis over the contract terms which are generally for six months, and the costs to perform the required services are 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, 2018 and 2017, the Company had no contract assets, contract liabilities, or capitalized costs to obtain or fulfill a contract, associated with revenues from contracts with customers.

ASU No. 2016-01, "*Financial Instruments – Overall (Subtopic 825-20): Recognition and Measure of Financial Assets and Financial Liabilities*" required entities to measure many equity investments at fair value and recognize changes in fair value in net income, as opposed to the previous practice of other comprehensive income. This change has been applied to the Company's investments in equity securities (mutual funds and preferred stock) in the accompanying consolidated financial statements. As a result of this change, the net unrealized gain in equity securities of $1.5 million as of January 1, 2018 was reclassified from other accumulated comprehensive loss to accumulated deficit within stockholders' equity and the net unrealized gain (loss) on equity securities for the year ended December 31, 2018 was recorded as a component of net income. The guidance also provided a new measurement alternative for equity investments that do not have readily determinable fair values and do not qualify for the net asset value practical expedient. Under this alternative, these investments can be 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. This guidance is now applied to the Company's other investment in the common stock of a real estate investment trust.

ASU No. 2018-15, *"Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract"* states that entities should use the guidance in ASC 350-40 to determine which implementation costs of a cloud computing arrangement that is considered to be a service contract to defer and recognize as an asset. As a result, entities would defer certain implementation costs incurred during the application development stage and expense those costs over the term of the hosting arrangement. That expense would be recorded in the same income statement line item as the related hosting fees. The ASU also clarified that an entity should classify the deferred implementation costs on the balance sheet and cash flow statement in the same item where any related hosting fees would be classified. This standard is effective for public entities for annual periods beginning after December 15, 2019 and early adoption is allowed. The Company elected early adoption of the standard prospectively to implementation costs for all arrangements incurred after July 1, 2018. As a result of adoption, the Company has classified approximately $0.9 million of implementation costs as other assets on its consolidated balance sheet.

In January 2017, the FASB issued ASU No. 2017-04, *"Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment"* which eliminates the requirement to calculate the implied fair value of goodwill to measure an impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value. The standard will be applied prospectively. The guidance is effective for annual and interim impairment tests performed by public business entities for periods beginning after December 15, 2019. Early adoption is permitted for impairment testing dates after January 1, 2017. The Company adopted this new guidance as of October 1, 2018, our impairment testing date, with no material impact to our consolidated financial statements.

Accounting Pronouncements To Be Adopted During 2019

In February 2016, the FASB issued ASU No. 2016-02, "*Leases (Topic 842)*" which requires lessees to record most leases on their balance sheets as lease liabilities with corresponding right-of-use assets, but recognize expense in a manner similar to the current accounting treatment. The guidance is effective for public business entities for annual periods beginning after December 15, 2018, and interim periods within those years. Early adoption is permitted. The Company's lease arrangements fall under this guidance and will be required to be shown on its consolidated balance sheet. The FASB has proposed a transition option that would allow entities to not apply the new guidance in the comparative periods they present in their financial statements in the year of adoption. While the Company is currently evaluating the timing and impact of adopting ASU 2016- 02, the Company anticipates recording lease assets and liabilities of approximately $16.5 million on its consolidated balance sheet, with no material impact to its consolidated statements of operations. However, the ultimate impact of adopting ASU 2016-02 will depend on the Company's lease portfolio as of the adoption date.

Other Accounting Pronouncements Issued and Not Yet Adopted

In June 2016, the FASB issued ASU No. 2016-13, *"Financial Instruments – Credit Losses (Topic 326)"* which requires financial assets measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses will be based on relevant information, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The expected increases and decreases in the credit loss will be reflected on the consolidated statements of operations. The guidance is effective for public business entities for annual periods beginning after December 15, 2019, and interim periods within those years. Early adoption is permitted. The Company has not determined the impact on future consolidated financial statements in determining the allowance for uncollectable premiums, commissions and fees receivable and any OTTI on investments in fixed maturities, available-for-sale, once this is adopted.

In April 2017, the FASB issued ASU No. 2017-08, *"Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities"* which shortens the amortization period for the premium on certain purchased callable debt securities to the earliest call date instead of the current practice of amortizing the premium as a yield adjustment over the contractual life of the security. The guidance is effective for public business entities for periods beginning after December 15, 2018. Early adoption is permitted. The guidance calls for a modified retrospective transition approach under which a cumulative-effect adjustment will be made to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Company believes that it will be reasonably able to comply with these requirements and has not determined the impact on future consolidated financial statements once this is adopted.

In August 2018, the FASB issued ASU No. 2018-13, *"Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for First Value Measurement"* which eliminates, add and modifies certain disclosure requirements for fair value measurements as part of its disclosure framework project. Entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but public companies will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. The guidance is effective for all entities for fiscal years beginning after December 15, 2019, and early adopted is permitted. The Company is currently evaluating this guidance.

Supplemental Cash Flow Information

During the years ended December 31, 2018, 2017 and 2016, the Company paid $0.3 million, $0.4 million and $0.3 million in income taxes, respectively, and $4.8 million, $4.4 million and $4.2 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.

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 uses 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 uses 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 is 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, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Cash, cash equivalents, and restricted cash	$ 77,947	$ 77,947	$ 115,477	$ 115,477
Investments in fixed maturities, available-for-sale	153,086	153,086	113,902	113,902
Investment in equity securities	14,387	14,387	16,043	16,043
Other investments	8,870	8,870	9,750	9,750
Liabilities:				
Debentures payable	40,393	19,524	40,348	21,248
Term loan from principal stockholder	29,831	21,390	29,805	26,691

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 and the term loan from principal shareholder are categorized as Level 3, since they were 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 net asset value which approximates fair value.

		Fair Value Measurements Using			
December 31, 2018	**Total**	**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)**
Fixed maturities, available-for-sale:					
U.S. government and agencies	$ 58,637	$ 58,637	$ —	$ —	$ —
Political subdivisions	6,948	—	6,948	—	—
Revenue and assessment	6,527	—	6,527	—	—
Corporate bonds	40,377	—	40,377	—	—
Collateralized mortgage obligations:					
Agency backed	37,829	—	37,829	—	—
Non-agency backed – residential	2,363	—	2,363	—	—
Non-agency backed – commercial	405	—	405	—	—
Total fixed maturities, available-for-sale	153,086	58,637	94,449	—	—
Equity securities:					
Preferred stock	2,912	2,912	—	—	—
Mutual funds	11,475	11,475	—	—	—
Total equity securities	14,387	14,387	—	—	—
Other investments	8,870	—	—	4,750	4,120
Cash, cash equivalents, and restricted cash	77,947	77,947	—	—	—
Total	$254,290	$ 150,971	$ 94,449	$ 4,750	$ 4,120

		Fair Value Measurements Using			
December 31, 2017	**Total**	**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)**
Fixed maturities, available-for-sale:					
U.S. government and agencies	$ 19,347	$ 19,347	$ —	$ —	$ —
Political subdivisions	4,083	—	4,083	—	—
Revenue and assessment	5,318	—	5,318	—	—
Corporate bonds	42,975	—	42,975	—	—
Collateralized mortgage obligations:					
Agency backed	39,104	—	39,104	—	—
Non-agency backed – residential	2,670	—	2,670	—	—
Non-agency backed – commercial	405	—	405	—	—
Total fixed maturities, available-for-sale	113,902	19,347	94,555	—	—
Equity securities:					
Preferred stock	3,104	3,104	—	—	—
Mutual funds	12,939	12,939	—	—	—
Total equity securities	16,043	16,043	-	—	—
Other investments	9,750	—	—	4,750	5,000
Cash, cash equivalents, and restricted cash	115,477	115,477	—	—	—
Total	$255,172	$ 150,867	$ 94,555	$ 4,750	$ 5,000

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 Level 3 classified security in the table above consists of an investment in the common stock of a REIT for which fair value has been determined using observable information from limited private transactions. There were no transfers between Level 1 and Level 2 for the years ended December 31, 2018 and 2017. The Company's policy is to recognize transfers between levels at the end of the reporting period based on specific identification. 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 has made inquiries with the pricing service 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. There were no changes to the Level 3 valuations for the year ended December 31, 2018.

3. Investments

The following tables summarize the Company's investments in fixed maturities for the year ended December 31, 2018, and fixed maturities and equity securities for the year ended December 31, 2017 (in thousands).

December 31, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed maturities, available-for-sale:				
U.S. government and agencies	$ 58,987	$ 121	$ (471)	$ 58,637
Political subdivisions	6,965	16	(33)	6,948
Revenue and assessment	6,425	140	(38)	6,527
Corporate bonds	43,399	—	(3,022)	40,377
Collateralized mortgage obligations:				
Agency backed	39,254	21	(1,446)	37,829
Non-agency backed – residential	1,842	536	(15)	2,363
Non-agency backed – commercial	54	351	—	405
Total fixed maturities, available-for-sale	$ 156,926	$ 1,185	$ (5,025)	$ 153,086

December 31, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed maturities, available-for-sale:				
U.S. government and agencies	$ 19,642	$ 70	$ (365)	$ 19,347
Political subdivisions	4,111	—	(28)	4,083
Revenue and assessment	5,145	178	(5)	5,318
Corporate bonds	44,070	50	(1,145)	42,975
Collateralized mortgage obligations:				
Agency backed	39,823	61	(780)	39,104
Non-agency backed – residential	2,059	617	(6)	2,670
Non-agency backed – commercial	54	351	—	405
Total fixed maturities, available-for-sale	114,904	1,327	(2,329)	113,902
Equity securities:				
Preferred stock	3,025	193	(114)	3,104
Mutual funds	11,813	1,126	—	12,939
Total equity securities	14,838	1,319	(114)	16,043
Total	$ 129,742	$ 2,646	$ (2,443)	$ 129,945

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, 2018	Securities with Unrealized Gains	Securities with Unrealized Losses	Securities with No Unrealized Gains or Losses	All Fixed Maturity Securities
One year or less	$ —	$ 6,319	$ —	$ 6,319
After one through five years	16,789	48,577	—	65,366
After five through ten years	4,976	28,616	—	33,592
After ten years	1,603	5,609	—	7,212
No single maturity date	2,979	37,618	—	40,597
	$ 26,347	$ 126,739	$ —	$ 153,086

The fair value and gross unrealized losses of investments in fixed maturities for the year ended December 31, 2018, and fixed maturities and equity securities for the year ended December 31, 2017 by the length of time that individual securities have been in a continuous unrealized loss position follows (in thousands).

	Less than 12 months		12 months or longer		
December 31, 2018	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Total Gross Losses
Fixed maturities, available-for-sale:					
U.S. government and agencies	$ 24,897	$ (96)	$ 17,122	$ (375)	$ (471)
Political subdivisions	—	—	3,954	(33)	(33)
Revenue and assessment	1,722	(19)	1,049	(19)	(38)
Corporate bonds	9,048	(433)	31,330	(2,589)	(3,022)
Collateralized mortgage obligations:					
Agency backed	12,386	(273)	25,028	(1,173)	(1,446)
Non-agency backed – residential	—	—	203	(15)	(15)
Non-agency backed – commercial	—	—	—	—	—
Total fixed maturities, available-for-sale	$ 48,053	$ (821)	$ 78,686	$ (4,204)	$ (5,025)

	Less than 12 months		12 months or longer		
December 31, 2017	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Total Gross Losses
Fixed maturities, available-for-sale:					
U.S. government and agencies	$ 7,746	$ (72)	$ 10,020	$ (293)	$ (365)
Political subdivisions	4,083	(28)	—	—	(28)
Revenue and assessment	1,067	(5)	—	—	(5)
Corporate bonds	10,730	(123)	25,235	(1,022)	(1,145)
Collateralized mortgage obligations:					
Agency backed	9,085	(95)	19,730	(685)	(780)
Non-agency backed – residential	265	(1)	106	(5)	(6)
Non-agency backed – commercial	—	—	—	—	—
Total fixed maturities, available-for-sale	32,976	(324)	55,091	(2,005)	(2,329)
Equity securities:					
Preferred stock	—	—	1,411	(114)	(114)
Mutual funds	—	—	—	—	—
Total equity securities	—	—	1,411	(114)	(114)
Total	$ 32,976	$ (324)	$ 56,502	$ (2,119)	$ (2,443)

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: Less than or equal to 12 months	Gross Unrealized Losses: Greater than 12 months	Gross Unrealized Gains
December 31, 2018	8	34	22
December 31, 2017	12	25	24

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, 2018:	Number of Securities	Fair Value	Gross Unrealized Losses
Less than or equal to 10%	33	$ 76,022	$ (3,653)
Greater than 10%	1	2,664	(551)
	34	$ 78,686	$ (4,204)

Gross Unrealized Losses at December 31, 2017:	Number of Securities	Fair Value	Gross Unrealized Losses
Less than or equal to 10%	25	$ 55,091	$ (2,005)
Greater than 10%	—	—	—
	25	$ 55,091	$ (2,005)

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, 2018:	Fair Value of Securities with Gross Unrealized Losses	Gross Unrealized Losses	Severity of Gross Unrealized Losses: Less than 5%	5% to 10%	Greater than 10%
Less than or equal to:					
Three months	$ —	$ —	$ —	$ —	$ —
Six months	2,895	(125)	(125)	—	—
Nine months	—	—	—	—	—
Twelve months	45,158	(696)	(410)	(286)	—
Greater than twelve months	78,686	(4,204)	(803)	(2,850)	(551)
Total	$ 126,739	$ (5,025)	$ (1,338)	$ (3,136)	$ (551)

Length of Gross Unrealized Losses at December 31, 2017:	Fair Value of Securities with Gross Unrealized Losses	Gross Unrealized Losses	Severity of Gross Unrealized Losses: Less than 5%	5% to 10%	Greater than 10%
Less than or equal to:					
Three months	$ 10,682	$ (55)	$ (55)	$ —	$ —
Six months	22,294	(269)	(269)	—	—
Nine months	—	—	—	—	—
Twelve months	—	—	—	—	—
Greater than twelve months	56,502	(2,005)	(1,648)	(357)	—
Total	$ 89,478	$ (2,329)	$ (1,972)	$ (357)	$ —

Other Investments

Other investments consist of the common stock of a REIT and limited partnership interests in three funds that invest in (i) commercial real estate and secured commercial real estate loans acquired from financial intuitions, (ii) undervalued international publicly-traded equities and (iii) 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 the remaining investments, and it is more likely than not that the Company will not be required to sell them before the expiration of such restrictions. At December 31, 2018, the Company had unfunded commitments of $2.1 million with two of these investments.

Restrictions

At December 31, 2018, fixed maturities with a fair value and amortized cost of $6.2 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 $18.8 million were on deposit with another insurance company as collateral for an assumed reinsurance contract.

Investment Income and Net Realized Gains and Losses

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

	Year Ended December 31,		
	2018	**2017**	**2016**
Fixed maturities, available-for-sale	$ 3,390	$ 2,996	$ 3,558
Equity securities	852	859	842
Other investments	(428)	440	427
Cash and cash equivalents	1,547	904	310
Investment expenses	(507)	(480)	(488)
	$ 4,854	$ 4,719	$ 4,649

The components of net realized and unrealized (losses) gains on investments, available-for-sale follow (in thousands).

	Year Ended December 31,		
	2018	**2017**	**2016**
Unrealized losses on equity securities	$ (1,654)	$ —	$ —
Realized gains	10	—	4,982
Realized losses	(7)	(3)	(22)
Other than temporary impairment	—	—	(147)
	$ (1,651)	$ (3)	$ 4,813

Realized gains and losses on sales and redemptions are computed based on specific identification. The non-credit related portion of OTTI is included in other comprehensive income (loss). The amounts of non-credit OTTI for securities still owned was $1.0 million at both December 31, 2018 and 2017.

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 comprehensive income (loss) 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 United

States Securities and Exchange Commission ("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.

The Company did not recognize any OTTI charges in net income (loss) for the years ended December 31, 2018 and 2017.

The following is a progression of the credit-related portion of OTTI on investments owned at December 31, 2018, 2017, and 2016 (in thousands).

	Year Ended December 31,		
	2018	2017	2016
Beginning balance	$ (1,870)	$ (2,184)	$ (2,632)
Additional credit impairments on:			
Previously impaired securities	—	—	—
Securities without previous impairments	—	—	(147)
	—	—	(147)
Reductions for securities deemed worthless and realized	—	314	595
	$ (1,870)	$ (1,870)	$ (2,184)

The Company believes that the remaining securities having unrealized losses at December 31, 2018 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.

There has been a significant increase in interest rates since the third quarter of 2016 when the Company purchased approximately $63 million of its fixed maturities available-for-sale portfolio. The portfolio benchmark 3-year US Treasury rate was 0.88% at September 30, 2016 and this rate has increased by 180% to 2.46% at December 31, 2018, thus explaining the significant decrease in the market value of these securities.

4. Reinsurance

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

	Year Ended December 31,					
	2018		2017		2016	
	Written	Earned	Written	Earned	Written	Earned
Direct	$ 231,826	$ 235,988	$ 254,530	$ 248,803	$ 262,110	$ 265,256
Assumed	23,786	23,273	28,072	29,843	37,381	38,522
Ceded	(370)	(370)	(425)	(425)	(450)	(450)
Total	$ 255,242	$ 258,891	$ 282,177	$ 278,221	$ 299,041	$ 303,328

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.

The Insurance Companies utilize excess-of-loss reinsurance with an unaffiliated reinsurer to limit their exposure to losses under liability coverages for automobile policies issued with limits greater than the minimum statutory requirements and for tenant homeowner policies with higher liability limits. Although the reinsurance agreements contractually obligate the reinsurer to reimburse the Company for their share of losses, they do not discharge the primary liability of the Company, which remains contingently liable in the event the reinsurer is unable to meet their contractual obligations.

At December 31, 2018, the Insurance Companies had unsecured aggregate reinsurance receivables of $0.7 million.

Ceded premiums earned and reinsurance recoveries on losses and loss adjustment expenses were as follows (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Ceded premiums earned	$ 370	$ 425	$ 450
Reinsurance recoveries on losses and loss adjustment expenses	$ 229	$ 208	$ 589

5. Stock-Based Compensation Plans

Employee Stock-Based Incentive Plan

The Company has issued stock options ("Stock Option Awards") and restricted stock units ("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*. At December 31, 2018, there were 6,226,932 shares remaining available for issuance under the Plan.

Stock Option Awards were all granted with an exercise price equal to or greater than the market price of the Company's stock at the date of grant. Stock Option Awards expired over five or ten years from the date of grant and all had expired as of January 2016. Compensation expense related to Stock Option Awards was calculated under the fair value method and recorded on a straight-line basis over the vesting period. No Stock Option Awards have been granted since January 2012.

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 per share data). 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 a straight-line basis over the vesting period. Expected future compensation related to the issuance of Restricted Stock Awards is $0.6 million, which will be amortized through January 2022.

	Number of Restricted Stock Units	Weighted Average Grant-Date Fair Value per Share
Non-vested at January 1, 2016	141	$ 2.44
Granted	146	2.30
Vested	(39)	2.40
Forfeited	(79)	2.37
Non-vested at December 31, 2016	169	2.44
Granted	586	1.21
Vested	—	—
Forfeited	—	—
Non-vested at December 31, 2017	755	2.36
Granted	430	1.09
Vested	(110)	2.20
Forfeited	(66)	1.75
Non-vested at December 31, 2018	1,009	$ 1.21

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 600,000 shares of common stock for issuance under the ESPP. Employees purchased approximately 48,000, 68,000, and 64,000 shares during the years ended December 31, 2018, 2017 and 2016, respectively. Compensation expense attributable to subscriptions to purchase shares under the ESPP was $13 thousand, $19 thousand and $19 thousand for the years ended December 31, 2018, 2017 and 2016, respectively. At December 31, 2018, 70,701 shares remain available for issuance under the ESPP.

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, match 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, 2018, 2017 and 2016 were $1.4 million, $1.3 million and $1.1 million, respectively, and are included within insurance operating expenses in the accompanying consolidated statements of operations and comprehensive income (loss).

7. Property and Equipment

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

	Year Ended December 31, 2018	2017
Furniture and equipment	$ 17,804	$ 16,398
Leasehold improvements	4,129	3,877
	21,933	20,275
Less: Accumulated depreciation	(19,066)	(17,387)
Property and equipment, net	$ 2,867	$ 2,888

Depreciation expense related to property and equipment was $1.7 million, $2.1 million and $2.5 million for the years ended December 31, 2018, 2017 and 2016, respectively.

8. Lease and Service Contract Commitments

The Company is committed under various operating lease agreements for office space. Certain lease agreements contain renewal options and rent escalation clauses. Rental expense for the years ended December 31, 2018, 2017 and 2016 was $10.3 million, $9.9 million and $11.3 million, respectively, and is included within insurance operating expenses in the accompanying consolidated statements of operations and comprehensive income (loss). Future minimum lease payments primarily under these agreements follow (in thousands).

For the Year Ended December 31,	Amount
2019	$ 6,901
2020	4,585
2021	2,543
2022	1,113
2023	901
Thereafter	2,962
Total	$ 19,005

The Company is also committed under two service contracts for cloud-hosted software arrangements. Future minimum payments under these agreements are approximately $1.5 million on an annual basis through December 31, 2022.

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 5% of the ending liability for unpaid losses and LAE. Additionally, the amount of renters coverage sold as an optional product is likewise immaterial. Information regarding the reserve for unpaid losses and loss adjustment expenses ("LAE") is as follows (in thousands).

	Year Ended December 31,		
	2018	**2017**	**2016**
Liability for unpaid losses and LAE at beginning of year, gross	$ 159,130	$ 161,079	$ 122,071
Reinsurance balances receivable	(840)	(769)	(464)
Liability for unpaid losses and LAE at beginning of year, net	158,290	160,310	121,607
Add: Provision for losses and LAE:			
Current year	196,023	223,056	278,366
Prior year	(16,229)	(2,271)	30,636
Net losses and LAE incurred	179,794	220,785	309,002
Less: Losses and LAE paid:			
Current year	105,877	120,708	163,792
Prior year	92,483	102,097	106,507
Net losses and LAE paid	198,360	222,805	270,299
Liability for unpaid losses and LAE at end of year, net	139,724	158,290	160,310
Reinsurance balances receivable	674	840	769
Liability for unpaid losses and LAE at end of year, gross	$ 140,398	$ 159,130	$ 161,079

The favorable change in the estimate of unpaid losses and loss adjustment expenses of $16.2 million for the year ended December 31, 2018 primarily attributable to better-than-expected severity across all coverages for the 2017 and 2016 accident periods.

The favorable change in the estimate of unpaid losses and loss adjustment expenses of $2.3 million for the year ended December 31, 2017 was the net result of favorable LAE development related to bodily injury claims over the 2014-2016 accident years, offset by unfavorable development on losses related to bodily injury severity over the 2014-2016 accident years.

The unfavorable change in the estimate of unpaid losses and loss adjustment expenses of $30.6 million for the year ended December 31, 2016 was the result of increased losses primarily from the 2015 accident year across all major coverages. The most significant causes of the development were a greater than usual emergence of reported claims and higher bodily injury severity.

The information about incurred and paid claims development for the 2009 to 2017 years, and the average annual percentage payout of incurred claims by age as of December 31, 2018, is presented as required supplementary information.

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

Accident year	For the years ended December 31, 2009 (Unaudited)	2010 (Unaudited)	2011 (Unaudited)	2012 (Unaudited)	2013 (Unaudited)	2014 (Unaudited)	2015 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2018
2009	146,584	140,539	140,501	141,936	142,819	142,772	142,546	142,705	142,703	142,756
2010		135,458	133,283	134,470	134,446	134,191	134,144	133,983	134,000	134,007
2011			126,384	126,886	126,272	126,373	125,810	125,670	125,703	125,628
2012				144,231	140,111	140,249	140,673	141,375	141,100	141,014
2013					145,878	140,775	142,053	144,076	144,450	144,641
2014						166,179	165,991	171,827	171,372	170,996
2015							218,186	240,419	240,388	239,181
2016								278,366	275,768	272,000
2017									223,056	212,134
2018										196,023
									Total	$1,778,381

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

Accident year	For the years ended December 31, 2009 (Unaudited)	2010 (Unaudited)	2011 (Unaudited)	2012 (Unaudited)	2013 (Unaudited)	2014 (Unaudited)	2015 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2018
2009	92,372	127,355	135,701	139,436	141,399	142,294	142,441	142,654	142,700	142,751
2010		87,319	120,301	128,843	131,878	132,989	133,648	133,896	133,981	134,004
2011			82,945	113,199	120,790	123,888	125,012	125,383	125,541	125,609
2012				89,159	123,869	133,397	137,968	139,781	140,554	140,825
2013					88,726	124,021	134,931	141,444	143,481	144,172
2014						98,437	144,943	162,702	167,973	169,807
2015							129,216	208,533	227,388	234,264
2016								163,792	238,657	258,190
2017									120,708	183,609
2018										105,877
									Total	$1,639,107
All outstanding reserves for unpaid losses and LAE prior to 2009, net of reinsurance										450
Total outstanding reserves for unpaid losses and LAE, net of reinsurance										$ 139,724

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). Cumulative number of reported claims are on a per-claimant basis.

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
2009	$ 142,756	$ —	78,607
2010	134,007	—	71,138
2011	125,628	9	66,312
2012	141,014	138	73,547
2013	144,641	363	74,075
2014	170,996	947	85,369
2015	239,181	3,182	109,983
2016	272,000	9,787	118,420
2017	212,134	20,570	89,425
2018	196,023	55,787	74,630

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	61.0%	26.3%	7.3%	3.0%	1.2%	0.5%	0.1%	0.1%	0.0%	0.0%

10. Debentures Payable and Term Loan from Principal Stockholder

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 securities are callable. The debentures paid a fixed rate of 9.277% until July 30, 2012, after which the rate became variable (Three-Month LIBOR plus 375 basis points, resetting quarterly). The interest rate related to the debentures ranged from 5.128% to 6.270% during 2018. In January 2019, the interest rate reset to 6.500% through April 2019.

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 deferments.

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 and comprehensive income (loss). At December 31, 2018, the unamortized debt discount and issuance costs of $0.8 million are being amortized to interest expense over the term of the debentures.

On June 29, 2015, to finance the acquisition of the Titan Agencies, the Company borrowed the full amount under a $30 million Loan Agreement (the "Loan Agreement") with Diamond Family Investments, LP, an affiliate of Gerald J. Ford, the Company's controlling stockholder. The Loan Agreement provided a $30 million interest-only senior term loan facility, maturing in full on June 29, 2025. Commencing June 29, 2016, the Company has the right to prepay the loan in whole or in part, in cash, without premium or penalty, upon written notice to the lender. Amounts prepaid under the Loan Agreement may not be reborrowed. The term loan outstanding under the Loan Agreement bears interest at a rate of 8% per annum. The Loan Agreement contains certain representations, warranties and covenants. The Loan Agreement also contains customary events of default, including but not limited to: nonpayment; material inaccuracy of representations and warranties; violations of covenants; cross-default to material indebtedness; certain material judgments; certain bankruptcies and liquidations; invalidity of the loan documents and related events; and a change of control (as defined in the Loan Agreement). At December 31, 2018 the unamortized loan issuance costs of $0.2 million are being amortized to interest expense over the term of the loan.

At December 31, 2018, the Company was in compliance with the covenants related to these borrowings. Such borrowings are not obligations of the Company's regulated insurance company subsidiaries. The Company believes that it has sufficient liquidity to meet its current obligations in the foreseeable future, including the payment of interest on these borrowings which it currently funds through the cash flows of its agency operations which are generated outside the Company's regulated insurance company subsidiaries.

11. Income Taxes

The Tax Cuts and Jobs Act (the "Act") was enacted on December 22, 2017. The Act made broad changes to U.S. federal tax law including but not limited to a reduction in the federal corporate tax rate from 35% to 21%, and temporary differences related to the computation of tax loss and loss adjustment expense reserves and potential limitations on the interest expense deduction. The SEC staff issued Staff Accounting Bulletin No. 118, which was later codified by the FASB into ASU 2018-05, to address situations where a registrant did not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting under ASC Topic 740 for certain income tax effects of the Act for the reporting period of enactment. ASU 2018-05 allowed the Company to provide a provisional estimate of the impacts of the Act during a measurement period similar to the measurement period used when accounting for business combinations. Adjustments to provisional estimates and additional impacts from Tax Reform were required to be recorded as they were identified during the measurement period as provided for in ASU 2018-05.

At December 31, 2017, the Company made an estimate of the effects on its existing deferred tax balances and recognized a provisional amount of $12.5 million which was included as a component of the provision for income taxes for the year ended December 31, 2017. The Company remeasured certain deferred tax assets and liabilities based on the rates at which they were expected to reverse in the future, which was 21% for federal purposes. The Company has now determined that the estimate made at December 31, 2017 for the accounting impact of the Tax Cuts and Jobs Act did not require any material adjustment.

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

	Year Ended December 31,		
	2018	2017	2016
Federal:			
Current	$ (1,095)	$ 123	$ —
Deferred	5,629	14,760	(16,024)
	4,534	14,883	(16,024)
State:			
Current	292	184	328
Deferred	62	123	(152)
	354	307	176
	$ 4,888	$ 15,190	$ (15,848)

The provision (benefit) for income taxes differs from the amounts computed by applying the statutory federal corporate tax rates of 21% for the year ended December 31, 2018 and 35% for the years ended December 31, 2017 and 2016 to income (loss) before income taxes as a result of the following (in thousands).

	Year Ended December 31,		
	2018	2017	2016
Provision (benefit) for income taxes at statutory rate	$ 4,747	$ 2,305	$ (15,796)
Tax effect of:			
Tax-exempt investment income	(36)	(66)	(48)
Change in the beginning of the period balance of the valuation allowance for deferred tax assets allocated to federal income taxes	3	1	(157)
Stock-based compensation	86	229	64
State income taxes, net of federal income tax benefit and state valuation allowance	293	243	60
Effect of federal tax law change	—	12,509	—
Other items	(205)	(31)	29
	$ 4,888	$ 15,190	$ (15,848)

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, 2018	Year Ended December 31, 2017
Deferred tax assets:		
Net operating loss carryforwards	$ 8,877	$ 13,380
Stock-based compensation	145	164
Unearned premiums and loss and loss adjustment expense reserves	4,593	5,408
Goodwill and identifiable intangible assets	—	853
Net unrealized change on investments in fixed maturities	806	—
Alternative minimum tax (“AMT”) credit carryforwards	1,062	1,991
Accrued expenses and other nondeductible items	1,603	1,292
Other	2,754	2,434
	19,840	25,522
Deferred tax liabilities:		
Deferred acquisition costs	(806)	(1,039)
Identifiable intangible assets	(1,200)	(1,200)
Loss reserve discounting transition adjustment	(668)	(1,206)
Net unrealized change on investments in equity securities	(56)	—
Goodwill and identifiable intangible assets	(149)	—
Other	—	(191)
	(2,879)	(3,636)
Total net deferred tax asset	16,961	21,886
Less: Valuation allowance	(2,251)	(1,337)
Net deferred tax asset	$ 14,710	$ 20,549

The Company had a valuation allowance of $2.3 and $1.3 million at December 31, 2018 and 2017, respectively, relating to capital losses that are deductible only to the extent of capital gains which are not currently anticipated and state income taxes for specific entities in certain jurisdictions where future taxable income is not forecasted. In assessing our ability to realize the remaining deferred tax asset (“DTA”), both positive and negative evidence are used to evaluate the allowance. Although the Company incurred a pre-tax loss of $45.1 million in 2016, which is a source of negative evidence, placing greater weight on the Company’s pre-tax income in 2017 and 2018 and outlook for future taxable income over the allowable time period for realization of the DTA, the Company has 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, at December 31, 2018, the Company had $42.4 million of net operating loss carryforwards that do not expire until 2036. Additionally, $1.1 million in AMT (“Alternative Minimum Tax”) tax credit carryforwards are fully refundable by 2021 under the new tax legislation if not utilized. 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, 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 securities with a right to purchase or convert into common stock.

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,		
	2018	2017	2016
Net income (loss)	$ 17,718	$ (8,604)	$ (29,282)
Weighted average common basic shares	41,316	41,181	41,085
Effect of dilutive securities	300	—	—
Weighted average common dilutive shares	41,616	41,181	41,085
Basic and diluted net income (loss) per share	$ 0.43	$ (0.21)	$ (0.71)

For the year ended December 31, 2018, the computation of diluted net income per share includes all outstanding securities with a right to purchase or convert into common stock.

For the year ended December 31, 2017, the computation of diluted net loss per share did not include restricted stock units convertible into 755 thousand shares, a dilutive effect of 103 thousand shares, since their inclusion would have been anti-dilutive. Options to purchase 120 thousand shares for the year ended December 31, 2017 were not included in the computation of diluted net loss per share as their exercise prices were in excess of the average stock prices for the year.

For the year ended December 31, 2016, the computation of diluted net loss per share did not include options to purchase 750 thousand shares, a dilutive effect of 127 thousand shares, and restricted stock units convertible into 169 thousand shares, a dilutive effect of 17 thousand shares, since their inclusion would have been anti-dilutive. Options to purchase 220 thousand shares for the year ended December 31, 2016 were not included in the computation of diluted net loss per share as their exercise prices were in excess of the average stock prices for the year.

13. Concentrations of Credit Risk

At December 31, 2018, 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 $77.9 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.

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 loss or state that 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 and comprehensive income (loss) in losses and loss adjustment expenses for bad faith claims and in insurance 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. The Insurance Companies are required to report their risk-based capital ("RBC") each December 31. Failure to maintain an adequate RBC could subject the Insurance Companies to regulatory action and could restrict the payment of dividends. At December 31, 2018, the RBC levels of the Insurance Companies did not subject them to regulatory action.

At December 31, 2018 and 2017, on a consolidated statutory basis, the capital and surplus of the Insurance Companies was $94.8 million and $66.1 million, respectively. For the years ended December 31, 2018, 2017 and 2016, consolidated statutory net income (loss) of the Insurance Companies was $22.4 million, $2.8 million and ($52.0) million, respectively.

The maximum amount of dividends which can be paid by 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 at December 31st of the next preceding year or net income for the year. In addition, dividends may only be paid from unassigned funds (surplus) and an insurance company's remaining surplus must be both reasonable in relation to its outstanding liabilities and adequate to its financial needs. At December 31, 2018, FAIC could not pay any dividends to the Company due to a negative unassigned surplus position.

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, 2018. 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. On a combined basis, the ratio for the insurance company subsidiaries of net premiums written for the last twelve months to statutory capital and surplus was 2.69-to-1 at December 31, 2018 which is in compliance with the suggested guidelines.

16. Related Parties

In April 2016, the Company entered into standard agreements for Treasury and Custodial Services with a bank indirectly owned 17% by Gerald J. Ford, the Company's controlling stockholder. The fees under these agreements for the years ended December 31, 2018, 2017 and 2016 were $115 thousand, $167 thousand and $112 thousand, respectively.

As further detailed in Note 10, in June 2015, the Company borrowed $30 million from Diamond Family Investments, LP, an affiliate of the Company's controlling stockholder.

Report of Independent Auditors

To the Stockholders and Board of Directors
First Acceptance Corporation
Nashville, Tennessee

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of First Acceptance Corporation, which comprise the balance sheet as of December 31, 2018, and the related consolidated statements of operations and comprehensive income, stockholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Acceptance Corporation as of December 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

(Continued)

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the claims development information for periods prior to 2018, and average annual percentage payout of incurred claims information, included in Note 9, be presented to supplement the basic consolidated financial statements. Such information, although not 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 supplemental 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.

Other Matter

The consolidated financial statements of First Acceptance Corporation as of December 31, 2017, were audited by other auditors whose report dated March 6, 2018, expressed an unmodified opinion on those statements.

Crowe LLP

Crowe LLP

Franklin, Tennessee
March 6, 2019

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 within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. 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 statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. 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 developments or events;
- 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

We are principally a retailer, servicer and underwriter of non-standard personal automobile insurance. Non-standard personal automobile insurance is made available to individuals because of their inability or unwillingness to obtain standard insurance coverage due to various factors, including payment history, payment preference, and failure in the past to maintain continuous insurance coverage, driving record and/or vehicle type. At December 31, 2018, we also owned a tract of land in San Antonio, Texas that is held for sale.

At December 31, 2018, we maintained retail locations in 15 states, and our operations generated revenue from selling non-standard personal automobile insurance products and related products in 16 states. (Virginia is Internet and Call Center only.) In 2018, we conducted our insurance servicing and underwriting operations in 15 states and operated only as an insurance agency in two states. In December 2016, we ceased writing new business in the state of Missouri and currently offer only renewals. We are also licensed as an insurance company in 12 states where we do not conduct any underwriting operations.

Our employee-agents also sell certain ancillary products, including "other-than-auto" insurance products (commercial, term life, renters, motorcycle and homeowners), as well as roadside assistance and other related products.

In 2018, we completed the process of deploying a long-term strategic plan with the goal of fully capitalizing on the strengths of our recently-adopted "agency model" going forward. While the objectives of 2017 entailed returning to profitability and building team member morale, in the near and longer term, we were looking to capitalize on our key internal capabilities and manage external risks.

In this regard, we have now fully implemented a program intended to leverage the strengths of our captive model (i.e. physical retail locations, employee-agents, carrier relationships, technology and support staff) across our footprint so that we can allocate our insurance company capital and surplus to the markets where it will generate the highest return. This plan involves the use of more 3PC business, as well as an increased emphasis on “other-than-auto” insurance products.

In late 2017, we started a transition to this agency model by adding 3PC business into our legacy markets across Illinois and other selected states. Throughout 2018, we have now converted and trained all our stores to this agency model including California where all stores now sell Acceptance business in addition to 3PC business. This practice enables us to earn commission income from non-standard automobile insurance customers whose underwriting profile finds them better suited for an insurer carrier other than one of our own. “Other-than-auto” efforts were also expanded in all markets.

In response to consumer demand to purchase personal automobile insurance over the phone and through the internet, we also offer customers the choice to purchase a policy through an employee-agent in our call center or via our www.acceptance.com website and mobile platform. As of December 31, 2018, approximately 11% and 7% of our policies in force were sold through our website and call center, respectively. Our call center also operates on the agency model selling both Acceptance and 3PC business.

The following table shows the number of our retail locations. Retail location counts are based upon the date that a location commenced or ceased writing business.

	Year Ended December 31,	
	2018	2017
Retail locations – beginning of period	350	355
Opened	2	—
Closed	(2)	(5)
Retail locations – end of period	350	350

The following table shows the number of our retail locations by state.

	December 31,		
	2018	2017	2016
Alabama	24	23	23
Arizona	10	10	10
California	46	46	47
Florida	34	34	34
Georgia	49	49	50
Illinois	36	37	39
Indiana	16	16	16
Mississippi	6	6	6
Nevada	4	4	4
New Mexico	5	5	5
Ohio	27	27	27
Pennsylvania	10	11	11
South Carolina	15	15	15
Tennessee	23	22	23
Texas	45	45	45
Total	350	350	355

Consolidated Results of Operations

Overview

In 2018, our insurance operations generated revenues from selling non-standard personal automobile insurance products and related products in 17 states. (In December 2016, we ceased writing new business in the state of Missouri and currently offer only renewals.) We currently conduct our servicing and underwriting operations in 14 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 operate only as an insurance agency through Acceptance Insurance Agency of Tennessee, Inc. in two states. 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;
- 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 and commission and fee income by state (in thousands). Premiums earned are presented in the state in which the underlying insured risk of the related Acceptance business is located, while commission and fee income is presented in the location through which the underlying sales of 3PC business and ancillary products took place.

	Year Ended December 31,					
	2018		2017		2016	
	Premium Earned	Commission and Fee Income	Premium Earned	Commission and Fee Income	Premium Earned	Commission and Fee Income
Georgia	$ 68,522	$ 5,059	$ 67,313	$ 4,967	$ 63,332	$ 5,736
Florida	35,940	4,253	40,058	4,792	45,880	5,666
Alabama	35,897	3,062	32,591	2,810	28,163	2,518
Tennessee	24,002	1,704	20,649	1,414	19,330	1,260
Texas	23,818	3,737	31,057	3,987	41,154	4,539
Ohio	22,727	1,769	28,162	1,866	30,376	1,788
South Carolina	15,222	1,084	19,234	1,119	25,515	1,779
Indiana	9,309	787	9,546	730	9,244	676
Pennsylvania	9,204	847	9,263	705	9,618	673
Illinois	7,253	2,870	13,978	2,152	20,733	3,256
Mississippi	4,649	299	4,272	278	3,872	274
California	2,388	13,973	1,795	15,207	316	17,716
Virginia	222	—	360	1	848	4
Missouri	73	4	368	27	5,397	359
Arizona	35	1,190	—	1,287	—	1,311
New Mexico	—	757	—	905	—	940
Nevada	—	518	—	574	—	740
Internet and Call Center	—	2,983	—	2,797	—	3,565
	259,261	$ 44,896	278,646	$ 45,618	303,778	$ 52,800
Premiums ceded	(370)		(425)		(450)	
	$258,891		$278,221		$303,328	

We 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 operating expenses (including depreciation and amortization) to net premiums earned. Insurance operating expenses are reduced by commission and fee income, and billing fees and service charges. This is a measurement that illustrates relative management efficiency in administering our operations.

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.

	Year Ended December 31,		
	2018	2017	2016
Loss	69.4%	79.4%	101.9%
Expense	20.6%	17.8%	14.7%
Combined	90.0%	97.2%	116.6%

Investments

We use the services of an independent investment manager to manage our investment portfolio. The investment manager 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 by the investment manager and guidelines as to asset allocation, duration and credit quality. Management and the Investment Committee meet quarterly with our investment manager 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, 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 from time to time as changes are made to our holdings based upon changes in interest rates or the credit quality of specific securities, or to increase the statutory capital and surplus of the insurance company subsidiaries who carry fixed maturity securities at amortized cost.

The value of our consolidated fixed maturities, available-for-sale investment portfolio was $153.1 million at December 31, 2018 and consisted of fixed maturity securities carried at fair value with unrealized gains and losses reported as a separate component of stockholders' equity. At December 31, 2018, we had gross unrealized gains of $1.2 million and gross unrealized losses of $5.0 million in our consolidated investments in fixed maturities, available-for-sale portfolio.

The value of our investment in equity securities portfolio was $14.4 million at December 31, 2018 and consisted of preferred stock and investments in mutual funds, both carried at fair value. Based on recently adopted accounting pronouncement, effective in 2018, these unrealized gains and losses are now reported as a component of net income, whereas previously they were a component of stockholders' equity along with fixed maturities. At December 31, 2018, we had gross unrealized gains of $0.5 and gross unrealized losses of $1.0 million in our investments in equity securities portfolio.

The value of our other investments was $8.9 million at December 31, 2018 and consisted of three limited partnership interests carried at net asset value, which approximated fair value, with unrealized gains and losses reported as investment income, and a privately-held real estate investment trust carried at fair value, with any unrealized gains and losses reported in net income. At December 31, 2018, we had gross unrealized gains attributable to our privately-held real estate investment trust of $0.7 million in our consolidated other investments portfolio that were recognized as a component of stockholders' equity prior to the January 1, 2018 adoption of a new accounting pronouncement.

At December 31, 2018, 98% 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, 2018 Compared with the Year Ended December 31, 2017

Consolidated Results

Revenues for the year ended December 31, 2018 decreased 7% to $323.8 million from $347.5 million in the prior year. Income before income taxes for the year ended December 31, 2018 was $22.6 million, compared with $6.6 million for the year ended December 31, 2017. Net income for the year ended December 31, 2018 was $17.7 million, compared with net loss of $8.6 million for the year ended December 31, 2017. Basic and diluted net income per share was $0.43, for the year ended December 31, 2018, compared with basic and diluted net loss per share of $0.21 for the year ended December 31, 2017.

For the years ended December 31, 2018 and 2017, we recognized favorable prior period loss and LAE development of $16.2 million and $2.3 million, respectively. The year ended December 31, 2017 was also unfavorably impacted by $2.4 million in catastrophic claims losses during the third quarter.

Net income for the year ended December 31, 2018 included $1.7 million in net unrealized losses on equity securities (See Note 1 to our consolidated financial statements for additional information regarding recently adopted accounting pronouncements).

The net loss for the year ended December 31, 2017 included a reduction in the deferred tax asset of $12.5 million as a result of the enactment of legislation to reduce the corporate income tax rate, and the provision for income taxes for the year ended December 31, 2018 reflects the lowering of the corporate tax rate from 35% to 21%.

Premiums Earned

Premiums earned decreased by $19.3 million, or 6.9%, to $258.9 million for the year ended December 31, 2018, from $278.2 million for the year ended December 31, 2017. Less new business was written in 2018 due to rate actions and underwriting improvements implemented in the latter half of 2016 and in 2017, in addition to selling 3PC business in most retail locations.

Commission and Fee Income

Commission and fee income decreased by $0.7 million, or 2%, to $44.9 million for the year ended December 31, 2018, from $45.6 million for the year ended December 31, 2017. This decrease was primarily the result of less 3PC business automobile commissions from a decline in the number of new policies sold, and to a lesser extent, less ancillary products sold as a result of the previously-mentioned decline in Acceptance business. 3PC business automobile commissions in 2018 were also impacted by a decline in the renewals of automobile insurance policies in 2017 sold in California.

Billing Fees and Service Charges

Billing fees and service charges decreased by $2.2 million, or 12%, to $16.8 million for the year ended December 31, 2018, from $19.0 million for the year ended December 31, 2017. This decrease was primarily the result of a decrease in monthly billing fees as a result of the previously-mentioned decline in Acceptance business.

Investment Income

Investment income increased slightly to $4.9 million during the year ended December 31, 2018 from $4.7 million during the year ended December 31, 2017 primarily as a result of higher yields on short-term cash equivalents.

At December 31, 2018 and 2017, the book yields for our fixed maturities and cash equivalents portfolio were 2.6% and 1.9%, respectively, with effective durations of 2.64 and 2.48 years, respectively.

Net (Losses) Gains on Investments

Net (losses) gains on investments during the year ended December 31, 2018 included $1.7 million of net unrealized losses on equity securities. Prior to the January 1, 2018 adoption of a new accounting pronouncement, net unrealized (losses) gains on equity securities was included in other comprehensive income (loss).

Losses and Loss Adjustment Expenses

The loss ratio was 69.4% for the year ended December 31, 2018, compared with 79.4% for the year ended December 31, 2017. We experienced favorable development related to prior fiscal years of $16.2 million for the year ended December 31, 2018, compared with $2.3 million for the year ended December 31, 2017. The favorable loss development for the year ended December 31, 2018 was primarily attributable to better-than-expected severity across all coverages for the 2017 and 2016 accident periods. The favorable loss development for the year ended December 31, 2017 was the net result of favorable LAE development related to bodily injury claims over the 2014-2016 accident years, offset by unfavorable development on losses related to bodily injury severity over the 2014-2016 accident years.

During the third quarter of 2018, Hurricane Florence impacted North and South Carolina. We experienced incidental store closures in South Carolina, but claims activity from the storm was not significant. In October, Hurricane Michael struck the Florida Panhandle and the state of Georgia. While over 100 claims were reported, our total losses did not exceed $250 thousand. However, the storm did result in the total devastation of one of our Florida retail stores which needed to be reconstructed.

During the third quarter of 2017, Hurricanes Harvey and Irma impacted Texas and Florida, respectively. We received approximately 800 claims and incurred approximately $2.4 million in losses and LAE during the third quarter of 2017 from these events.

Excluding the development related to prior fiscal years and the impact of the hurricanes in 2017, the loss ratios for the years ended December 31, 2018 and 2017 were 75.7% and 79.3%, respectively. We believe that this improvement in the loss ratio was the result of our aggressive rate and underwriting actions and improved claims-handling practices.

Insurance Operating Expenses

Insurance operating expenses increased year-over-year by only $1.4 million, or 1.3%. This increase included $0.6 million related to employee severance and lease termination costs related to the closing of our Chicago regional office.

The expense ratio was 20.6% for the year ended December 31, 2018, compared with 17.8% for the year ended December 31, 2017. The year-over-year increase in the expense ratio was primarily due to the decrease in premiums earned which resulted in a higher percentage of fixed expenses and the previously-mentioned decline in both commission and fee income, and billing fees and service charges, which are components of the expense ratio.

Overall, the combined ratio decreased to 90.0% for the year ended December 31, 2018 from 97.2% for the year ended December 31, 2017.

Provision (Benefit) for Income Taxes

The provision for income taxes was $4.9 million for the year ended December 31, 2018, compared with $15.2 million at the year ended December 31, 2017. The provision for income taxes for the year ended December 31, 2017 included a reduction in the deferred tax asset of $12.5 million as a result of the enactment of legislation to reduce the corporate income tax rate, while the provision for the year ended December 31, 2018 reflects the lowering of the federal corporate tax rate to 21% from 35% in the prior year.

In assessing our ability to realize our DTA, both positive and negative evidence are used to evaluate the allowance. Although we incurred a pre-tax loss of $45.1 million in 2016 which is a source of negative evidence, we placed greater weight on the Company's pre-tax income in 2017 and 2018 and 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, at December 31, 2018, the Company had $42.4 million of net operating loss carryforwards that do not expire until 2036. Additionally, $1.1 million in AMT ("Alternative Minimum Tax") tax carryforwards are fully refundable by 2021 under the new tax legislation if not utilized. 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.

Year Ended December 31, 2017 Compared with the Year Ended December 31, 2016

Consolidated Results

Revenues for the year ended December 31, 2017 decreased 11% to $347.5 million from $389.6 million in the prior year. Income before income taxes for the year ended December 31, 2017 was $6.6 million, compared with loss before income taxes of $45.1 million for the year ended December 31, 2016. Net loss for the year ended December 31, 2017 was $8.6 million, compared with $29.3 million for the year ended December 31, 2016. Basic and diluted net loss per share was $0.21, for the year ended December 31, 2017, compared with $0.71 for the year ended December 31, 2016.

For the year ended December 31, 2017, we recognized $2.3 million of favorable prior period loss development, compared with $30.6 million of unfavorable prior period loss development for the year ended December 31, 2016. The year ended December 31, 2017 was unfavorably impacted by $2.4 million in catastrophic claims losses during the third quarter. Conversely, the year ended December 31, 2016 was favorably impacted by a $1.2 million gain on the sale of foreclosed real estate along with net realized gains on investments of $4.8 million from the sales of fixed maturities that were sold to increase the statutory capital and surplus of our insurance company subsidiaries.

The net loss for the year ended December 31, 2017 included a reduction in the deferred tax asset of $12.5 million as a result of the enactment of legislation to reduce the corporate income tax rate.

Premiums Earned

Premiums earned decreased by $25.1 million, or 8.3%, to $278.2 million for the year ended December 31, 2017, from $303.3 million for the year ended December 31, 2016. This decrease was the result of a targeted decline in new policies written through the closing of 53 poorly performing stores, increasing rates and the tightening of underwriting standards. These actions resulted in a 14% decrease in our year-over-year policies in force which was partially offset by a 10% year-over-year increase in our average in-force premium that was driven by our recent rate actions.

Commission and Fee Income

Commission and fee income decreased by $7.2 million, or 13.6%, to $45.6 million for the year ended December 31, 2017, from $52.8 million for the year ended December 31, 2016. This decrease was the result of earning less commission as a result of a decline in the renewals of automobile insurance policies sold in California on behalf of third-party carriers.

Billing Fees and Service Charges

Billing fees and service charges decreased by $3.8 million, or 16.8%, to $19.0 million for the year ended December 31, 2017, from $22.8 million for the year ended December 31, 2016. This decrease was primarily the result of a decrease in monthly billing fees as a result of the previously-mentioned decline in the number of policies in force.

Investment Income

Investment income increased slightly to $4.7 million during the year ended December 31, 2017 from $4.6 million during the year ended December 31, 2016.

In September 2016, in order to increase the statutory capital and surplus of our insurance company subsidiaries by realizing gains on fixed maturities carried at amortized cost for statutory purposes, we sold $66.9 million of available-for-sale securities yielding 3.6% and reinvested the proceeds at 2.2%. As a result, our investment income from fixed maturities in subsequent periods has declined from the reduced yield in our fixed maturities portfolio. Recent results however have been favorable as a result of increased yields on cash and cash equivalents while returns from limited partnership investments, although favorable, have fluctuated from period-to-period.

At December 31, 2017 and 2016, the book yields for our fixed maturities and cash equivalents portfolio were 1.9% and 1.5%, respectively, with effective durations of 2.48 and 2.52 years, respectively.

Net (Losses) Gains on Investments

Net realized losses on investments during the year ended December 31, 2017 included $3.0 thousand from redemptions. Net realized gains on investments during the year ended December 31, 2016 included $4.8 million from the previously-mentioned sale of fixed maturities. Such realized gains are net of $147 thousand of charges related to other-than-temporary-impairment ("OTTI") on a mutual fund and other net realized gains from redemptions.

Losses and Loss Adjustment Expenses

The loss ratio was 79.4% for the year ended December 31, 2017, compared with 101.9% for the year ended December 31, 2016. We experienced favorable development related to prior fiscal years of $2.3 million for the year ended December 31, 2017, compared with unfavorable development of $30.6 million for the year ended December 31, 2016. The favorable loss development for the year ended December 31, 2017 was the net result of favorable LAE development related to bodily injury claims over the 2014-2016 accident years, offset by unfavorable development on losses related to bodily injury severity over the 2014-2016 accident years. The unfavorable loss development for the year ending December 31, 2016 was the result of increased losses primarily from the 2015 accident year across all major coverages. The most significant causes of the development were a greater than usual emergence of reported claims and higher bodily injury severity.

During the third quarter of 2017, Hurricanes Harvey and Irma impacted Texas and Florida, respectively. We received approximately 800 claims and incurred approximately $2.4 million in losses and LAE during the third quarter of 2017 from these events.

Excluding the development related to prior fiscal years and the impact of the hurricanes, the loss ratios for the years ended December 31, 2017 and 2016 were 79.3% and 91.8%, respectively. We believe that this improvement in the loss ratio was the result of our aggressive rate and underwriting actions in addition to a moderate reduction in claims frequency.

Insurance Operating Expenses

Insurance operating expenses decreased 4.5% to $111.3 million for the year ended December 31, 2017 from $116.5 million for the year ended December 31, 2016. This decrease in operating expenses was primarily due to the costs savings from the recent store closures, a reduction in advertising costs, and reduced variable expenses (e.g. underwriting reports and postage) as a result of the decline in new business written.

During 2016, we closed 53 poorly-performing stores. The cost of these closures, primarily for lease buyouts, was $1.0 million and is included in insurance operating expenses.

The expense ratio was 17.8% for the year ended December 31, 2017, compared with 14.6% for the year ended December 31, 2016. The year-over-year increase in the expense ratio was primarily due to the decrease in premiums earned which resulted in a higher percentage of fixed expenses and the previously-mentioned decline in commission and fee income, which is a component of the expense ratio.

Overall, the combined ratio decreased to 97.2% for the year ended December 31, 2017 from 116.5% for the year ended December 31, 2016.

Provision (Benefit) for Income Taxes

The provision for income taxes was $15.2 million for the year ended December 31, 2017, compared with a benefit for income taxes of $15.8 million at the year ended December 31, 2016. The provision (benefit) for income taxes for the year ended December 31, 2017 includes a reduction in the deferred tax asset of $12.5 million as a result of the enactment of legislation to reduce the corporate income tax rate.

In assessing our ability to realize our DTA, both positive and negative evidence are used to evaluate the allowance. Although we incurred a pre-tax loss of $45.1 million in 2016 which is a source of negative evidence, we placed greater weight on our 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, at December 31, 2017, $13.4 million of the DTA related to net operating loss carryforwards do not expire until 2032 through 2036 and $2.0 million in AMT ("Alternative Minimum Tax") carryforwards are fully refundable by 2021 under the new tax legislation if not utilized. 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.

Liquidity and Capital Resources

Our primary sources of funds are premiums, billing fees and service charges, and investment income from our insurance company subsidiaries, and 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, 2018 was $7.2 million, compared with $9.0 million for the year ended December 31, 2017. This decrease was primarily the result of the reduction in the Company's loss and loss adjustment expense reserves. Net cash used in investing activities for the year ended December 31, 2018 was $44.8 million, compared with $12.3 million for the year ended December 31, 2017. This change was the result of purchases of investments in fixed maturities, available-for-sale.

Our holding company requires cash for general corporate overhead expenses and for debt service related to our debentures and term loan payable. The holding company's primary source of unrestricted cash to meet its obligations is the sale of insurance policies and ancillary products and on behalf of third-party carriers by our agency operations. At December 31, 2018, our holding company had $2.6 million available in unrestricted cash and investments. These funds and the additional unrestricted cash from the sources noted above will be used to pay our future cash requirements outside of the insurance company subsidiaries.

The holding company has debt service requirements related to the debentures payable and the term loan to a principal stockholder. The debentures are interest-only and mature in full in July 2037. The debentures accrue interest at a variable rate equal to Three-Month LIBOR plus 375 basis points, which resets quarterly. The interest rate related to the debentures for the year ended December 31, 2018 ranged from 5.128% to 6.270%. In January 2019 the interest rate reset to 6.500% through April 2019. The term loan is interest-only and matures in full in June 2025. The interest rate on the term loan is 8%.

State insurance laws limit the amount of dividends that may be paid from our insurance company subsidiaries. At December 31, 2018, our insurance company subsidiaries could not pay any dividends due to a negative unassigned surplus position.

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, 2018 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. On a combined basis, the ratio for our insurance company subsidiaries of net premiums written for the last twelve months to statutory capital and surplus was 2.69-to-1 at December 31, 2018 which is in compliance with the suggested 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 paid a fixed rate of 9.277% until July 30, 2012, after which the rate became variable (Three-Month LIBOR plus 375 basis points, resetting quarterly). During 2018, the interest rate related to the debentures ranged from 5.128% to 6.270%. 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.*

Term Loan from Principal Stockholder

On June 29, 2015, to finance an acquisition, the Company borrowed the full amount under a $30 million Loan Agreement (the "Loan Agreement") with Diamond Family Investments, LP, an affiliate of Gerald J. Ford, the Company's controlling stockholder. The Loan Agreement provided a $30 million interest-only senior term loan facility, maturing in full on June 29, 2025. Commencing June 29, 2016, the Company has the right to prepay the loan in whole or in part, in cash, without premium or penalty, upon written notice to the lender. Amounts prepaid under the Loan Agreement may not be reborrowed. The term loan outstanding under the Loan Agreement bears interest at a rate of 8% per annum. The Loan Agreement contains certain representations, warranties and covenants. The Loan Agreement also contains customary events of default, including but not limited to: nonpayment; material inaccuracy of representations and warranties; violations of covenants; cross-default to material indebtedness; certain material judgments; certain bankruptcies and liquidations; invalidity of the loan documents and related events; and a change of control (as defined in the Loan Agreement).

Off-Balance Sheet Arrangements

We use off-balance sheet arrangements (e.g., operating leases) where the economics and sound business principles warrant their use. For additional information with respect to our operating leases, see Note 8 to our consolidated financial statements.

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 are considered to be our critical accounting estimates.

Valuation of Deferred Tax Asset ("DTA")

Income taxes are accounted for under the liability method, whereby deferred income tax assets and liabilities result from temporary differences. Temporary differences are differences between the tax basis of assets and liabilities and operating loss and tax credit carryforwards and their reported amounts in the consolidated financial statements that will result in taxable or deductible amounts in future years. Valuation of the deferred tax asset is considered a critical accounting estimate because the determination of our ability to utilize the asset involves a number of management assumptions relating to future operations and our ability to generate future taxable income. This could materially affect the determination of the ultimate value and, therefore, the carrying amount of our deferred tax asset.

In establishing a valuation allowance at December 31, 2018, both positive and negative evidence were used to evaluate the allowance and the greatest weight was placed on our outlook for future taxable income and the allowable time period for realization of the DTA. We estimated our future taxable income from our 2019 budget and the long-term forecasts we use to manage our business and concluded that it is more likely than not that the remaining DTA will be realized. A key consideration in our current analysis was the fact that no deferred tax assets have had expiration dates that we believed would be a factor in the timing of their ultimate realization. Regarding the length of time available to realize the DTA, at December 31, 2018, the Company had $42.4 million of net operating loss carryforwards that do not expire until 2036. Additionally, $1.1 million in AMT ("Alternative Minimum Tax") credit carryforwards are fully refundable by 2021 if not utilized.

The resultant valuation allowance at December 31, 2018 was specifically related to capital losses that are deductible only to the extent of capital gains (which we do not currently anticipate) and state income taxes for specific entities in certain jurisdictions where we do not forecast future taxable income.

Goodwill and Identifiable Intangible Assets

Goodwill and identifiable intangible assets were initially recorded at their estimated fair values at their dates of acquisition. Some have an indefinite useful life and are not amortized for financial statement purposes while those with a definite life are amortized. We perform our required annual impairment tests as of October 1st of each fiscal year. We consider the July 1, 2015 acquisition of the Titan Agencies to be a separate reporting unit for goodwill impairment analysis purposes.

We follow the accounting guidelines, which allows companies to waive comparing the fair value of goodwill and identifiable intangible assets to their carrying amounts in assessing their recoverability if, based on qualitative factors, it is more likely than not that the fair value of goodwill and identifiable intangible assets is greater than their carrying amounts. The qualitative factors include such things as our financial performance, legal and regulatory factors, industry and market considerations, and entity-specific events, all of which are subjective. Based on review of these factors, the Company prepared a qualitative analysis for its annual impairment testing as of October 1, 2018, which did not indicate any impairment.

In the event that facts and circumstances indicate that the goodwill or identifiable intangible assets may be impaired, quantitative impairment tests would be required. The valuation techniques utilized would include a discounted cash flow model using revenue and profit forecasts and an analysis of quoted market prices of our common stock for our goodwill. Other quantitative methods would be used for evaluating our acquired identifiable intangible assets: policy renewal rights and customer relationships, trademarks and trade names, and insurance licenses.

These quantitative impairment tests all require us to make significant estimates and judgements in determining what assumptions to use in the calculating the estimated fair value of the goodwill and identifiable intangible assets. These evaluations include multiple assumptions that may change over time. If unfavorable events or trends occur, goodwill and identifiable intangible assets impairment charges may become necessary that could have a materially adverse impact on our results of operations in the period in which the write-off occurs.

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, 2018, we experienced favorable development on reserves at December 31, 2017 of $16.2 million, which decreased our loss and loss adjustment expense for prior accident periods. This favorable development was primarily attributable to better-than-expected severity across all coverages for the 2017 and 2016 accident periods.

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

Investments

Our investments are recorded at fair value, which is typically based on publicly-available quoted prices. From time to time, the carrying value of our investments may be temporarily impaired because of the inherent volatility of publicly-traded investments. Management reviews investments for impairment on a quarterly basis. Any decline in the fair value of any available-for-sale security below cost that is deemed to be other-than-temporary would result in a reduction in the amortized cost of the security.

The determination of whether unrealized losses are "other-than-temporary" requires judgment based on the length of time the security's market value has been below its cost, as well as other subjective and objective factors. We routinely monitor our investment portfolio for changes in fair value that might indicate potential impairments and perform 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 SEC filings for corporate bonds and performance data regarding the underlying loans for CMOs. Securities with declines attributable solely to market or sector declines where we do not intend to sell the security and it is more likely than not that we 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.

In reviewing our investment portfolio for impairment at December 31, 2018, we were able to rely upon the objective factor that the unrealized losses as of this date were related to increases in market interest rates since the date the securities were purchased.

There has been a significant increase in interest rates since the third quarter of 2016 when the Company purchased approximately $63 million of its fixed maturities available-for-sale portfolio. The portfolio benchmark 3-year US Treasury rate was

0.88% at September 30, 2016 and this rate has increased by 180% to 2.46% at December 31, 2018, thus explaining the significant decrease in the market value of these securities.

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)					
	(100)	(50)	0	50	100	200
Fair value of fixed maturities portfolio	$158,710	$155,898	$153,086	$150,276	$147,466	$141,849

The following table provides information about our fixed maturity investments at December 31, 2018 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 fiscal years and collectively for all fiscal 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.

Year Ending December 31,	Securities with Unrealized Gains	Securities with Unrealized Losses	Securities with No Unrealized Gains or Losses	All Fixed Maturity Securities
2019	$1,240	$14,039	$ —	$15,279
2020	17,132	38,185	—	55,317
2021	366	20,335	—	20,701
2022	366	12,781	—	13,147
2023	345	6,200	—	6,545
Thereafter	6,318	38,055	—	44,373
Total	$25,767	$129,595	$ —	$155,362
Fair value	$26,347	$126,739	$ —	$153,086

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 paid a fixed rate of 9.277% until July 30, 2012, after which the rate became variable (Three-Month LIBOR plus 375 basis points, resetting quarterly). The interest rate related to the debentures ranged from 5.128% to 6.270% during 2018. Interest rates on these debentures therefore will reset quarterly based on changes in the Three-Month LIBOR rate.

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 $6.8 million, while our five largest investments totaled $62.8 million.

The following table presents the underlying ratings of our fixed maturities portfolio by nationally recognized statistical rating organizations at December 31, 2018 (in thousands).

Comparable Rating	Amortized Cost	% of Amortized Cost	Fair Value	% of Fair Value
AAA	$1,375	1%	$1,373	1%
AA+, AA, AA-	117,603	75%	115,535	75%
A+, A, A-	15,353	10%	14,466	9%
BBB+, BBB, BBB-	20,699	13%	18,945	12%
Total investment grade	155,030	99%	150,319	97%
Not rated	—	—	—	—
BB+, BB, BB-	178	—	189	—
B+, B, B-	—	—	—	—
CCC+, CCC, CCC-	1,017	1%	1,340	1%
CC+, CC, CC-	—	—	—	—
C+, C, C-	54	—	405	1%
D	647	—	833	1%
Total non-investment grade	1,896	1%	2,767	3%
Total	$156,926	100%	$153,086	100%

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 the SEC and 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 and other negative developments in the non-standard personal automobile insurance industry.

Substantially all of our revenues are generated from sales of 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 and agency 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.

Due to our largely fixed cost structure, our profitability may decline if our revenues decline significantly or if we are unable to maintain agency contracts with a sufficient roster of third-party carriers.

Our reliance on leased retail locations and a call center staffed by employee-agents results in a cost structure that has a high proportion of fixed costs as compared with other more traditional insurers. In times of increasing sales volume, our acquisition cost per policy decreases, improving our expense ratio, which we believe is one of the significant advantages of our core business model. However, in times of declining sales volume, the opposite occurs. Agency contracts with third-party carriers are generally cancellable without cause after a short notification period. Decreases in our sales volume or the ability to sell third-party policies, without corresponding decreases in our costs, would adversely impact our results of operations 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.

During 2016, our statutory capital and surplus and RBC levels decreased as a result of poor operating results, and commencing August 31, 2016, we were required to submit financial statements and other additional information (including estimated RBC) to certain insurance departments on a monthly basis. On October 31, 2018, we were notified by the Texas Department of Insurance that as a result of the steady improvement in our operating results over the past two years, the Company was no longer required to file monthly reports.

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 at December 31, 2018, 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. At December 31, 2018, 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 and collateralized mortgage obligations. Declines in interest rates over the past few years have reduced the available returns on the reinvestment of securities in the portfolio as they mature or are redeemed. However, as rates have once again increased, the fair value of our investments has decreased below its amortized cost resulting in a net unrealized loss. Such loss is recognized in other comprehensive income (loss) for debt securities and in net income (loss) for equity securities, and in both cases, decreased our stockholders’ equity. At December 31, 2018, the amortized cost of our investment portfolio exceeded its fair value by approximately $4.3 million. A further increase in interest rates could further reduce the fair value of our investment portfolio.

In response to the decline in interest rates, we 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, other key managers and employee-agents. 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.

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, hail storms, 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, agency 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 58% 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 and ancillary products, 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, agency and claims services and other products 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.

We may reduce our deferred tax asset or write-off intangible assets.

Our consolidated balance sheet at December 31, 2018 contained a net deferred tax asset of $14.7 million. Realization of this asset is dependent upon our generation of sufficient taxable income in the future. If circumstances change, and we no longer believe that it is more likely than not that our future taxable income will be sufficient to recover the deferred tax asset, an increase in our deferred tax valuation allowance may occur. The amount of any reduction of our deferred tax asset could have a material adverse effect on our results of operations in the period in which any write-off occurs. The deferred tax asset at December 31, 2018 was determined using the new corporate income tax rate of 21%.

As a result of purchase accounting from business combination transactions, our consolidated balance sheet at December 31, 2018 contained intangible assets designated as goodwill totaling $29.4 million and other identifiable intangible assets totaling $6.4 million. On an ongoing basis, we evaluate whether facts and circumstances indicate any impairment of value of these intangible assets. As circumstances change, the value of these intangible assets may not be realized by us. If we determine that a material impairment has occurred, we will be required to write-off the impaired portion of these intangible assets, which could have a material adverse effect on our results of operations in the period in which the write-off occurs.