

FIRST ACCEPTANCE CORPORATION



3813 Green Hills Village Drive

Nashville, TN 37215

Telephone: (615) 844-2800

QUARTERLY REPORT

FOR THE QUARTER ENDED JUNE 30, 2025

ISSUER'S EQUITY SECURITIES

Common Stock

Par Value \$.01 per share

75,000,000 Shares Authorized

36,646,366 Shares Outstanding at June 30, 2025

First Acceptance Corporation is responsible for the content of this Quarterly Report. The securities described in this document are not registered with, and the information contained in this report has not been filed with, or approved by, the U.S. Securities and Exchange Commission.

FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES
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This report reviews the financial condition and results of operations of First Acceptance Corporation. The information in this report updates the Annual Information and Disclosure Statement and Annual Report for the year ended December 31, 2024, previously filed by the Company with the OTCQX. Accordingly, this report should therefore be reviewed in conjunction with these year-end reports and any other interim reports or updates since provided.

Forward-Looking Statements

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

- the accuracy and adequacy of our loss reserving methodologies;
- income, income 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 “Risk Factors” of our Annual Report for the year ended December 31, 2024, filed by the Company with the OTCQX.

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.

Item 1. Exact Name of the Issuer and Address and Telephone Number of Issuer's Principal Office

Name of the Company or Issuer:
First Acceptance Corporation

Address of Principal Office:
3813 Green Hills Village Drive
Nashville, TN 37215
Telephone: 615-844-2800
Web: www.firstacceptance.com

Item 2. Shares Outstanding

	<u>Common shares</u>	<u>6/30/2025</u>	<u>12/31/2024</u>
Authorized:		75,000,000 shares	75,000,000 shares
Outstanding:		36,646,366 shares	38,191,217 shares
Freely Tradable (public float):		9,632,239 shares	10,410,461 shares
Number of beneficial holders owning at least 100 shares:		approx. 1,100 holders	approx. 1,100 holders
Number of registered holders:		217 holders	226 holders
 <u>Preferred shares</u>			
Authorized:		10,000,000 shares	10,000,000 shares
Outstanding:		0 shares	0 shares
Freely Tradable (public float):		0 shares	0 shares
Number of record holders:		0 holders	0 holders

Item 3. Interim Consolidated Financial Statements

The interim consolidated financial statements of First Acceptance Corporation as of June 30, 2025 are attached hereto as Exhibit 3.1 and are hereby incorporated by reference into this Quarterly Report, including:

- (1) Consolidated Balance Sheets;
- (2) Consolidated Statements of Income;
- (3) Consolidated Statements of Stockholders' Equity;
- (4) Consolidated Statements of Cash Flows; and
- (5) Notes to Consolidated Financial Statements

Item 4. Management's Discussion and Analysis of Financial Condition and Consolidated Results of Operations

Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such a difference include those discussed in "Risk Factors" in our Annual Report for the year ended December 31, 2024, filed by the Company with OTCQX. The following discussion should be read in conjunction with our consolidated financial statements included with this report and our consolidated financial statements and related Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2024 included in our Annual Report for the year ended December 31, 2024 filed by the Company with the OTCQX.

General

First Acceptance is an insurance company headquartered in Nashville, Tennessee. We offer non-standard personal automobile insurance through our own underwritten insurance policies solely through independent agents in 15 states, and we are also licensed to write insurance in 11 other states that are not currently utilized. Non-standard personal automobile insurance is sought after by individuals because of their inability or unwillingness to obtain standard insurance coverage due to various factors including their payment preference, failure to have maintained continuous insurance coverage, or their driving record. We also sell an insurance product for renters that we underwrite.

For the six months ended June 30, 2025, two single independent agent groups produced 46% and 37% of premiums earned, respectively. At June 30, 2025, we also had approximately 700 other active independent agent locations who represent the balance of the Company's business.

The Company's largest independent agent operates primarily from retail locations, including the ones that it purchased from the Company in December 2023. The second largest agent utilizes a technology-driven method of distribution.

Current Underwriting Outlook

On April 3, 2025, the United States implemented a 25% tariff on all imported vehicles, and on May 3, 2025, this tariff was also applied to imported auto parts. Tariffs of at least 10% have also been applied to most imported production inputs for domestically manufactured parts. Additionally, past and further recent retaliatory actions that impact the supply of rare earth elements seem to be further increasing the costs of some vehicle components. On May 30, 2025, a federal appeals court stayed a decision by the US Court of International Trade that found the Trump administration had not met the legal requirements to levy the tariffs and scheduled oral arguments for July 31, 2025. No decision has yet been issued by the US Court, and the tariffs currently remain in place. On June 4, 2025, the administration put a 50% tariff on all steel and aluminum, and that tariff has not been stayed. In light of the court stay, and the fact that the administration has modified some of the various tariffs it has thus far enacted, much uncertainty remains as to the final status of the tariffs related to vehicles and auto parts.

However, while the ultimate impact of these tariffs and possible supply-chain disruption remains unknown, the automobile insurance industry continues to brace for increased physical damage loss severities resulting from higher prices for foreign-built vehicles, as well as domestic-built vehicles using parts manufactured in other countries. The Company believes that the increased loss severity it experienced during the first quarter of 2025 was largely attributable to price increases in anticipation of these tariffs and the market uncertainty surrounding these actions. During the second quarter of 2025, this increased loss severity continued but appears to have stabilized. It remains uncertain to what extent these tariffs will ultimately add to future inflationary trends. Increased costs of vehicles and auto parts have led to the Company actively seeking to offset increased loss severities by modifying its underwriting standards and filing additional selected premium rate increases which have been filed for regulatory approval.

Consolidated Results of Operations

Overview

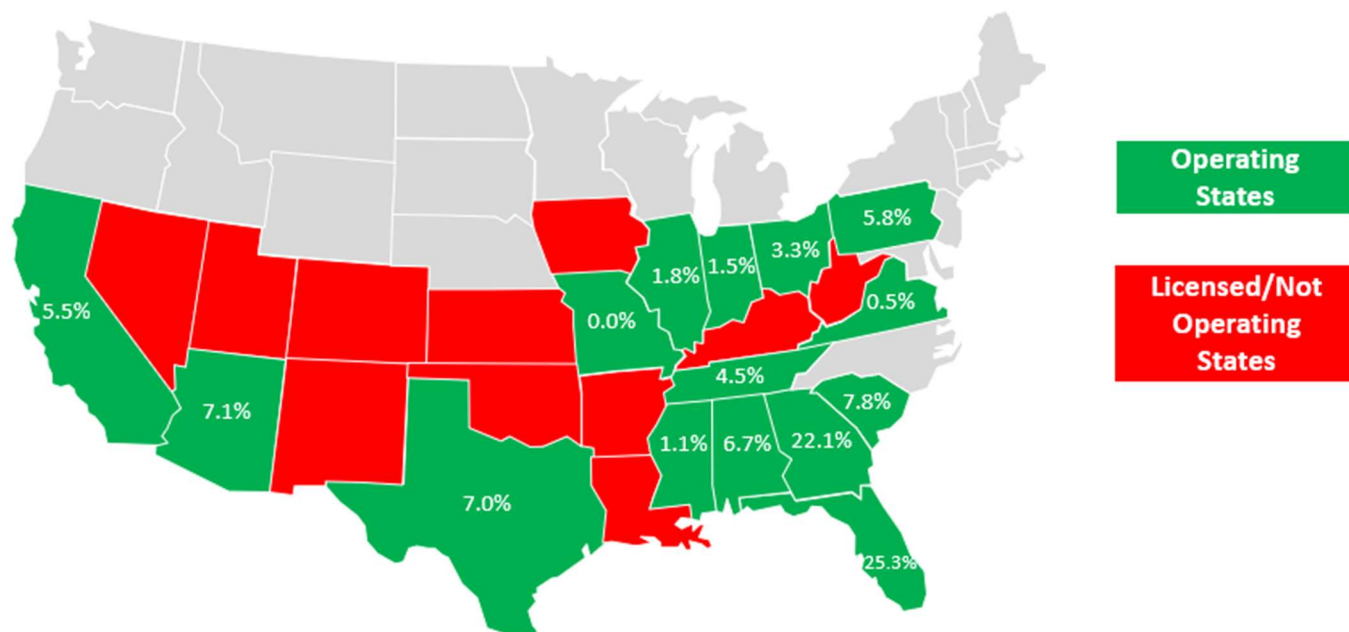
Our insurance operations generated revenues from selling non-standard personal automobile insurance policies. We currently conduct our underwriting operations in 15 states through three insurance company subsidiaries: First Acceptance Insurance Company, Inc., First Acceptance Insurance Company of Georgia, Inc., and First Acceptance Insurance Company of Tennessee, Inc. Our revenues were primarily generated from:

- premiums earned, including policy and renewal fees and managing general agency fees from sales of policies written and assumed by our insurance company subsidiaries;
- 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 tables present premiums earned by state (in thousands). Premiums earned are presented in the state in which the underlying insured risk of the related insurance policy is located.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2025	2024	2025	2024
Georgia	\$ 38,352	\$ 40,677	\$ 73,304	\$ 79,717
Florida	29,987	36,893	62,213	71,807
South Carolina	12,773	10,419	25,070	20,036
Texas	10,047	5,961	18,606	10,148
Alabama	9,340	8,303	17,363	16,848
Arizona	8,977	7,157	17,391	12,606
Pennsylvania	8,692	5,345	16,190	10,709
California	6,397	5,706	12,540	11,308
Tennessee	5,643	6,331	11,133	12,914
Ohio	4,190	4,898	8,122	9,760
Illinois	3,483	2,653	6,732	4,683
Indiana	2,055	2,254	4,094	4,759
Mississippi	1,225	1,699	2,483	3,397
Virginia	936	287	1,671	415
Missouri	19	27	39	53
	\$ 142,116	\$ 138,610	\$ 276,951	\$ 269,160
Premiums ceded	(24,896)	—	(48,192)	—
	\$ 117,220	\$ 138,610	\$ 228,759	\$ 269,160

The following map presents the percentage of net premiums earned by state for the six months ended June 30, 2025:



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

Loss Ratio - Loss ratio is the ratio (expressed as a percentage) of losses and loss adjustment expenses (“LAE”) 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 billing fees and service charges from insureds. This is a measurement that illustrates relative management efficiency in administering our insurance companies.

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2025	2024	2025	2024
Loss	69.1%	72.4%	73.8%	71.3%
Expense	26.8%	27.5%	24.0%	26.8%
Combined	95.9%	99.9%	97.8%	98.1%

Three and Six Months Ended June 30, 2025 Compared with the Three and Six Months Ended June 30, 2024

Consolidated Results

Revenues for the three months ended June 30, 2025 decreased 11% to \$140.7 million from \$157.7 million in the same period in the prior year. Revenues for the three months ended June 30, 2025 were reduced by ceded premiums earned of \$24.9 million from the new reinsurance contract that was effective July 1, 2024.

Income before income taxes, for the three months ended June 30, 2025 was \$10.1 million, compared with \$8.1 million for the three months ended June 30, 2024. Net income for the three months ended June 30, 2025 was \$7.9 million, compared with \$5.8 million for the three months ended June 30, 2024. Diluted net income per share was \$0.21 for the three months ended June 30, 2025, compared with \$0.15 for the same period in the prior year.

For the three months ended June 30, 2025, we recognized favorable prior period loss and LAE development of \$7.8 million compared with unfavorable prior period loss and LAE development of \$4.8 million for the same period in the prior year. As a result of this development, for the three months ended June 30, 2025, we recognized an increase in commission expense of \$1.8 million from a contingent commission adjustment to an independent agent that was related to the 2024 accident year.

Revenues for the six months ended June 30, 2025 decreased 12% to \$265.7 million from \$302.9 million in the same period in the prior year. Revenues for the six months ended June 30, 2025 were reduced by ceded premiums earned of \$48.2 million from the new reinsurance contract that was effective July 1, 2024.

Income before income taxes, for the six months ended June 30, 2025 was \$13.9 million, compared with \$17.0 million for the six months ended June 30, 2024. Net income for the six months ended June 30, 2025 was \$10.8 million, compared with \$12.7 million for the six months ended June 30, 2024. Diluted net income per share was \$0.28 for the six months ended June 30, 2025, compared with diluted \$0.33 for the same period in the prior year.

For the six months ended June 30, 2025, we recognized \$4.5 million of favorable prior period loss and LAE development compared with unfavorable prior period loss and LAE development of \$8.8 million for the same period in the prior year. As a result of this development, for the three months ended June 30, 2025, we recognized an increase in commission expense of \$1.8 million from a contingent commission adjustment to an independent agent that was related to the 2024 accident year.

Premiums Earned

After reinsurance, net premiums earned decreased by \$21.4 million, or 15%, to \$117.2 million for the three months ended June 30, 2025, from \$138.6 million for the three months ended June 30, 2024. Before reinsurance, direct and assumed premiums earned increased by \$3.5 million or 2.5%, to \$142.1 million for the three months ended June 30, 2025 from \$138.6 million for the three months ended June 30, 2024.

For the six months ended June 30, 2025, after reinsurance, net premiums earned decreased by \$40.4 million, or 15%, to \$228.8 million from \$269.2 million for the six months ended June 30, 2024. Before reinsurance, direct and assumed premiums earned increased by \$7.8 million or 2.9%, to \$276.9 million for the six months ended June 30, 2025 from \$269.2 million for the six months ended June 30, 2024.

These increases before reinsurance were driven primarily by an increase in policies in-force compared to the prior year.

Billing Fees, Service Charges and Managing General Agency Fees

Billing fees, service charges and managing general agency fees increased by \$2.9 million, or 20%, to \$17.1 million for the three months ended June 30, 2025, from \$14.2 million for the three months ended June 30, 2024. For the six months ended June 30, 2025, billing fees, service charges and managing general agency fees increased by \$2.2 million, or 9%, to \$26.2 million from \$24.0 million for the six months ended June 30, 2024.

Investment Income and Net Gains on Investments

Investment income increased by \$0.1 million, or 2%, to \$5.0 million for the three months ended June 30, 2025, from \$4.9 million for the three months ended June 30, 2024. For the six months ended June 30, 2025, investment income increased by \$0.4

million, or 4%, to \$9.6 million, from \$9.2 million for the same period in the prior year. These increases were primarily the result of higher returns from fixed maturities and short-term cash.

At June 30, 2025 and 2024, the tax-equivalent book yields for our managed fixed maturities and cash equivalents portfolio were 4.3% and 4.2%, respectively, with effective durations of 2.88 and 2.77 years, respectively. Yield has increased as the Company has taken advantage of the increase in interest rates by investing previously uninvested cash and reinvesting portfolio maturities at higher interest rates.

During the three months ended June 30, 2025, the Company recognized a \$1.4 million unrealized gain on equity securities.

Loss and Loss Adjustment Expenses

The loss ratio was 69.1% for the three months ended June 30, 2025, compared with 72.4% for the three months ended June 30, 2024. For the six months ended June 30, 2025, the loss ratio was 73.8% compared with 71.3% for the six months ended June 30, 2024.

We experienced favorable development related to prior periods of \$7.8 million and \$4.5 million for the three and six months ended June 30, 2025 compared to unfavorable development of \$4.8 million and \$8.8 million for the three and six months ended June 30, 2024, respectively. As a result of this development, for the three and six months ended June 30, 2025, we recognized an increase in commission expense of \$1.8 million from a contingent commission adjustment to an independent agent that was related to the 2024 accident year.

The favorable development for the three and six months ended June 30, 2025 was primarily attributable to lower-than-expected frequency on bodily injury losses and lesser-than-expected severity on physical damage losses in the 2024 accident year. The unfavorable development for the three and six months ended June 30, 2024 was primarily attributable to higher-than-expected loss severity on bodily injury and physical damage losses in the 2023 accident year.

Excluding the development related to prior periods, the loss ratio for the three months ended June 30, 2025 was 76.1% as compared with 68.8% for the three months ended June 30, 2024. Excluding the development related to prior periods, the loss ratio for the six months ended June 30, 2025 was 76.0% as compared with 68.0% for the six months ended June 30, 2024.

The higher loss ratios for the current periods were primarily attributable to increased severity on bodily injury and physical damage losses. The Company believes that this increased loss severity was largely attributable to tariff-related price increases on imported autos and auto parts and the market uncertainty surrounding these actions.

Insurance Operating Expenses

Insurance operating expenses were relatively unchanged at \$47.4 million and \$47.6 million for the three months ended June 30, 2025 and 2024, respectively. For the six months ended June 30, 2025, insurance operating expenses decreased 12.7% to \$79.0 million from \$90.5 million for the six months ended June 30, 2024. Insurance operating expenses for the three and six months ended June 30, 2025 are net of ceding commission income from the new reinsurance contract that was effective July 1, 2024.

The insurance companies' expense ratio was 26.8% for the three months ended June 30, 2025, compared with 27.5% for the three months ended June 30, 2024. The insurance companies' expense ratio was 24.0% for the six months ended June 30, 2025, compared with 26.8% for the six months ended June 30, 2024.

Provision for Income Taxes

Income tax expense was \$2.2 million for the three months ended June 30, 2025, compared with \$2.3 million for the three months ended June 30, 2024. For the six months ended June 30, 2025, income tax expense was \$3.1 million compared with \$4.3 million for the six months ended June 30, 2024. The effective tax rate was 22.3% and 25.3% for the six months ended June 30, 2025 and 2024, respectively. The decrease in the effective rate was primarily attributable to state income taxes.

Interest Expense

For the three and six months ended June 30, 2025 interest expense decreased slightly primarily as a result of a modest decrease in the applicable variable interest rate. For additional information, see "Liquidity and Capital Resources" in this report.

Liquidity and Capital Resources

Our primary sources of funds are premiums, billing fees, service charges, managing general agency fees and investment income from our insurance company subsidiaries. Our primary uses of funds are the payment of claims and operating expenses. Net cash provided by operating activities for the six months ended June 30, 2025 was \$25.2 million, compared with \$43.3 million for the same period in the prior year. This decrease was primarily the result of the new reinsurance contract commencing July 1, 2024.

Net cash used in investing activities for the six months ended June 30, 2025 was \$42.3 million, compared to \$75.6 million for the same period in the prior year. This change was primarily the result of a decrease in the amount of securities purchased in the current period.

Our holding company requires cash for general corporate overhead expenses and debt service related to our debentures payable. Following the sale of the Insurance Agency, the holding company's primary source of unrestricted cash to meet its obligations are managing general agency fees, dividends from the insurance companies, and the remaining proceeds to be received through 2026 from the sale of the insurance agency as noted in the following paragraph. As of June 30, 2025, our holding company had adequate unrestricted cash to meet current obligations. We also believe that these funds and the additional anticipated unrestricted cash from the sources noted above will be sufficient to pay our future cash requirements outside of the insurance company subsidiaries.

As a result of the sale of our insurance agency in December 2023, the Company is eligible to receive additional maximum contingent consideration of \$10 million and \$20 million on December 1, 2025 and 2026, respectively, based upon achievement of certain annual production targets. The cash from the contingent consideration payments to the Company would be unrestricted unless required by the insurance companies to maintain \$100 million of statutory capital and surplus as per the purchase agreement. At June 30, 2025, statutory capital and surplus was \$177.1 million.

The holding company has debt service requirements related to the debentures payable. The debentures are interest-only and mature in full in July 2037. The debentures accrue interest at a variable rate equal to an adjusted Three-Month CME term SOFR rate plus 375 basis points, which resets quarterly. The interest rate related to the debentures for the six months ended June 30, 2025 ranged from 8.291% to 8.601%. In July 2025, the interest rate reset to 8.322% through July 2025.

State insurance laws limit the amount of distributions that may be paid from our insurance company subsidiaries. As of June 30, 2025, the dividend limitation was \$16.6 million.

During the six months ended June 30, 2025, the Company repurchased 1.7 million shares of its common stock at a total of \$6.6 million in five private transactions.

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 June 30, 2025, the insurance company subsidiaries remain above the company action levels. There are also statutory guidelines that suggest that on an annual calendar year basis an insurance company should not exceed a ratio of net premiums written to statutory capital and surplus of 3-to-1. For the three months ended June 30, 2025, each insurance company subsidiary was within this guideline.

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

Item 5. Legal Proceedings

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 comprehensive income in losses and loss adjustment expenses for bad faith claims and in insurance operating expenses for other lawsuits unless otherwise disclosed.

Item 6. Defaults Upon Senior Securities

None.

Item 7. Other Information

None.

Item 8. Exhibits

3.1 Interim Consolidated Financial Statements

Item 9. Certifications

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

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

August 5, 2025

/s/ Kenneth D. Russell

Kenneth D. Russell

Chief Executive Officer

I, Brian Dickman, Chief Financial Officer, certify that:

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

August 5, 2025

/s/ Brian Dickman

Brian Dickman

Chief Financial Officer

Exhibit 3.1 Interim Consolidated Financial Statements

FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

	June 30, 2025 (Unaudited)	December 31, 2024
ASSETS		
Investments in fixed maturities, available-for-sale at fair value (amortized cost of \$341,703 and \$304,547, respectively)	\$ 339,481	\$ 298,064
Investments in equity securities at fair value (cost of \$19,846 and \$17,228, respectively)	22,826	16,115
Cash, cash equivalents, and restricted cash	61,939	85,917
Premiums, fees, and commissions receivable, net of allowance of \$506 and \$324, respectively	198,661	155,458
Consideration receivable from the sale of insurance agency, at fair value	27,719	26,734
Deferred tax asset, net	2,893	2,767
Other investments	8,091	7,722
Other assets	14,754	22,656
Operating lease right-of-use assets	4,136	4,381
Reinsurance recoverables	43,296	28,572
Prepaid reinsurance premiums	46,321	28,552
Property and equipment, net	3,232	3,450
TOTAL ASSETS	\$ 773,349	\$ 680,388
LIABILITIES AND STOCKHOLDERS' EQUITY		
Loss and loss adjustment expense reserves	\$ 267,435	\$ 240,447
Unearned premiums and fees	203,761	168,129
Debentures payable	40,689	40,666
Operating lease liabilities	4,471	4,734
Income taxes payable	1,227	3,152
Deferred ceding commissions, net	3,958	2,207
Amounts due to reinsurers	42,640	26,710
Other liabilities	31,373	24,782
Total liabilities	595,554	510,827
Stockholders' equity:		
Preferred stock, \$.01 par value, 10,000 shares authorized	—	—
Common stock, \$.01 par value, 75,000 shares authorized; 36,646 and 38,191 issued and outstanding, respectively	365	381
Additional paid-in capital	450,908	456,804
Accumulated other comprehensive loss, net of tax of \$(1,648) and \$(2,543), respectively	(574)	(3,941)
Accumulated deficit	(272,904)	(283,683)
Total stockholders' equity	177,795	169,561
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 773,349	\$ 680,388

See notes to consolidated financial statements.

FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)
(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2025	2024	2025	2024
Revenues:				
Premiums earned	\$ 117,220	\$ 138,610	\$ 228,759	\$ 269,160
Billing fees, service charges and managing general agency fees	17,060	14,186	26,165	24,044
Investment income	4,975	4,850	9,606	9,169
Net gains on investments	1,401	29	1,213	566
	<u>140,656</u>	<u>157,675</u>	<u>265,743</u>	<u>302,939</u>
Costs and expenses:				
Losses and loss adjustment expenses	81,428	100,242	169,457	191,741
Insurance operating expenses	47,438	47,569	79,034	90,543
Other operating expenses	255	219	517	530
Stock-based compensation	284	255	525	478
Depreciation and amortization	286	326	588	659
Interest expense	876	985	1,753	1,971
	<u>130,567</u>	<u>149,596</u>	<u>251,874</u>	<u>285,922</u>
Income before income taxes	10,089	8,079	13,869	17,017
Provision for income taxes	2,216	2,290	3,090	4,300
Net income	<u>\$ 7,873</u>	<u>\$ 5,789</u>	<u>\$ 10,779</u>	<u>\$ 12,717</u>
Net income per share:				
Basic	<u>\$ 0.21</u>	<u>\$ 0.15</u>	<u>\$ 0.29</u>	<u>\$ 0.33</u>
Diluted	<u>\$ 0.21</u>	<u>\$ 0.15</u>	<u>\$ 0.28</u>	<u>\$ 0.33</u>
Number of shares used to calculate net income per share:				
Basic	<u>36,642</u>	<u>38,105</u>	<u>37,249</u>	<u>38,104</u>
Diluted	<u>37,606</u>	<u>38,987</u>	<u>38,082</u>	<u>38,898</u>
Reconciliation of net income to other comprehensive income:				
Net income	\$ 7,873	\$ 5,789	\$ 10,779	\$ 12,717
Net unrealized change in investments, net of tax of \$311, \$(182), \$895 and \$204, respectively	1,170	(684)	3,367	(1,602)
Comprehensive income	<u>\$ 9,043</u>	<u>\$ 5,105</u>	<u>\$ 14,146</u>	<u>\$ 11,115</u>
Detail of net gains on investments:				
Net realized (losses) gains on sales and redemptions	\$ (5)	\$ (2)	\$ 234	\$ 21
Net unrealized gains on equity securities, includes \$(239) of reclassification for realized gains in 2025	1,406	31	979	545
Net gains on investments	<u>\$ 1,401</u>	<u>\$ 29</u>	<u>\$ 1,213</u>	<u>\$ 566</u>

See notes to consolidated financial statements.

FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited)

	Common Stock		Additional paid-in	Accumulated other comprehensive	Accumulated	Total stockholders'
	Shares	Amount	capital	loss	deficit	equity
Balances at December 31, 2023	38,265	\$ 382	\$ 456,309	\$ (4,869)	\$ (309,974)	\$ 141,848
Net income	—	—	—	—	12,717	12,717
Net unrealized change on investments (net of tax provision of \$204)	—	—	—	(1,602)	—	(1,602)
Stock-based compensation	31	—	478	—	—	478
Issuance of shares under Employee Stock Purchase Plan	34	1	68	—	—	69
Vested restricted stock units, net of repurchases	106	1	-	—	—	1
Retirement of treasury stock	(285)	(3)	(636)	—	—	(639)
Balances at June 30, 2024	<u>38,151</u>	<u>\$ 381</u>	<u>\$ 456,219</u>	<u>\$ (6,471)</u>	<u>\$ (297,257)</u>	<u>\$ 152,872</u>
	Common Stock		Additional paid-in	Accumulated other comprehensive	Accumulated	Total stockholders'
	Shares	Amount	capital	income	deficit	equity
Balances at December 31, 2024	38,191	\$ 381	\$ 456,804	\$ (3,941)	\$ (283,683)	\$ 169,561
Net income	—	—	—	—	10,779	10,779
Net unrealized change on investments (net of tax provision of \$895)	—	—	—	3,367	—	3,367
Stock-based compensation	8	—	525	—	—	525
Issuance of shares under Employee Stock Purchase Plan	68	1	212	—	—	213
Vested restricted stock units, net of repurchases	96	1	(93)	—	—	(92)
Retirement of treasury stock	(1,717)	(18)	(6,540)	—	—	(6,558)
Balances at June 30, 2025	<u>36,646</u>	<u>\$ 365</u>	<u>\$ 450,908</u>	<u>\$ (574)</u>	<u>\$ (272,904)</u>	<u>\$ 177,795</u>

See notes to consolidated financial statements.

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

(in thousands)

	Six Months Ended June 30,	
	2025	2024
Cash flows from operating activities:		
Net income	\$ 10,779	\$ 12,717
Adjustments to reconcile net income to cash provided by operating activities:		
Unrealized gains on equity securities	(979)	(545)
Depreciation and amortization	588	659
Accretion of present value discount of sales consideration receivable	(985)	(1,721)
Stock-based compensation	525	478
Deferred income taxes	(1,021)	(3,775)
Investment income from other investments	(289)	(441)
Realized gains on sales and redemptions of investments	(234)	(21)
Other	(245)	(163)
Change in:		
Premiums, fees, and commission receivable	(43,021)	(1,519)
Loss and loss adjustment expense reserves	26,988	44,951
Unearned premiums and fees	35,632	963
Reinsurance recoverables	(14,724)	—
Prepaid insurance premiums	(17,769)	—
Other assets	7,902	(3,303)
Income taxes payable	(1,925)	(5,587)
Deferred ceding commissions, net of deferred acquisition costs	1,751	1,848
Amounts due to reinsurers	15,930	—
Other liabilities	6,591	(1,629)
Other	(251)	391
Net cash provided by operating activities	<u>25,244</u>	<u>43,303</u>
Cash flows from investing activities:		
Purchases of investments	(65,590)	(103,882)
Maturities and redemptions of investments	22,195	20,304
Sale of investments	1,060	232
Purchases of other investments	(281)	—
Distributions from other investments	201	181
Capital expenditures	(370)	(135)
Receivable/payable for securities	—	(1,510)
Collections on consideration receivable from sale of insurance agency	—	9,250
Net cash used in investing activities	<u>(42,785)</u>	<u>(75,560)</u>
Cash flows from financing activities:		
Purchase of treasury stock at cost	(6,558)	(636)
Net proceeds from issuance of common stock	213	69
Taxes remitted in relation to employee restricted stock units exercised	(92)	—
Net cash used in financing activities	<u>(6,437)</u>	<u>(567)</u>
Net change in cash, cash equivalents, and restricted cash	(23,978)	(32,824)
Cash, cash equivalents, and restricted cash, beginning of period	<u>85,917</u>	<u>109,780</u>
Cash, cash equivalents, and restricted cash, end of period	<u>\$ 61,939</u>	<u>\$ 76,956</u>

See notes to consolidated financial statements.

FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. General

The consolidated financial statements of First Acceptance Corporation (the “Company”) included herein have been prepared without audit. Accordingly, certain information and disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) have been omitted. In the opinion of management, the consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) necessary for a fair statement of the interim periods.

The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full year. These consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements included in its Annual Report for the year ended December 31, 2024 filed by the Company with OTCQX.

For the six months ended June 30, 2025 and 2024, two single independent agent groups produced 46% and 37% and 46% and 33% of premiums earned, respectively.

2. Investments

Investments, Available-for-Sale

The following tables summarize the Company’s investment in fixed securities (in thousands).

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2025				
Fixed maturities, available-for-sale:				
U.S. government and agencies	\$ 37,058	\$ 287	\$ (319)	\$ 37,340
Political subdivisions	2,185	10	(27)	2,168
Revenue and assessment	20,855	112	(49)	20,918
Corporate bonds	130,589	1,904	(319)	132,174
Asset-backed securities	62,684	526	(31)	63,179
Collateralized mortgage obligations:				
Agency backed	86,895	620	(5,762)	81,753
Non-agency backed – residential	695	517	(4)	1,208
Non-agency backed – commercial	742	—	(1)	741
Total fixed maturities, available-for-sale	<u>\$ 341,703</u>	<u>\$ 3,976</u>	<u>\$ (6,198)</u>	<u>\$ 339,481</u>

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 June 30, 2025:	Fair Value of Securities with		Severity of Gross Unrealized Losses		
	Gross Unrealized Losses	Gross Unrealized Losses	Less than 5%	5% to 10%	Greater than 10%
Less than or equal to:					
Three months	\$ 16,077	\$ (98)	\$ (98)	\$ —	\$ —
Six months	4,507	(44)	(44)	—	—
Nine months	4,729	(23)	(23)	—	—
Twelve months	1,705	(42)	(42)	—	—
Greater than twelve months	60,668	(5,991)	(612)	(163)	(5,216)
Total	<u>\$ 87,686</u>	<u>\$ (6,198)</u>	<u>\$ (819)</u>	<u>\$ (163)</u>	<u>\$ (5,216)</u>

FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The fair value and gross unrealized losses of investments in fixed maturities for the six months ended June 30, 2025 by length of time that individual securities have been in a continuous unrealized loss position follows (in thousands).

	<u>Less than 12 months</u>		<u>12 months or longer</u>		<u>Total Gross Losses</u>
June 30, 2025	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	
Fixed maturities, available-for-sale:					
U.S. government and agencies	\$ 500	\$ —	\$ 510	\$ (5)	\$ (5)
Political subdivisions	447	—	1,194	(27)	(27)
Revenue and assessment	1,005	(5)	6,218	(44)	(49)
Corporate bonds	1,967	(2)	21,497	(317)	(319)
Asset-backed securities	3,934	(10)	1,930	(21)	(31)
Collateralized mortgage obligations:					
Agency backed	18,168	(186)	29,318	(5,576)	(5,762)
Non-agency backed – residential	270	(4)	—	—	(4)
Non-agency backed – commercial	727	(1)	—	—	(1)
Total fixed maturities, available-for-sale	<u>\$ 27,018</u>	<u>\$ (208)</u>	<u>\$ 60,667</u>	<u>\$ (5,990)</u>	<u>\$ (6,198)</u>

For the six months ended June 30, 2025, the Company had 37 fixed maturities with gross unrealized losses that have been in a gross unrealized loss position for less than or equal to 12 months and 47 fixed maturities with gross unrealized losses that have been in a gross unrealized loss position for greater than 12 months.

For the six months ended June 30, 2025 and 2024, the Company did not recognize any other-than-temporary impairment ("OTTI") charges on its fixed maturities, available for sale in net income. Unrealized gains and losses on equity securities (preferred stocks and mutual funds) are recognized as a component of net income. The Company believes that the securities having unrealized losses at June 30, 2025 were not other-than-temporarily impaired and are attributable to the increase in interest rates since the time when they were originally purchased. 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.

FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

3. Losses and Loss Adjustment Expenses Incurred and Paid

Information regarding the reserve for unpaid losses and loss adjustment expenses (“LAE”) is as follows (in thousands).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2025	2024	2025	2024
Liability for unpaid losses and LAE at beginning of period, gross	\$ 256,999	\$ 186,706	\$ 240,447	\$ 165,344
Add: Provision for losses and LAE:				
Current period	89,227	95,396	173,941	182,962
Prior periods	(7,799)	4,846	(4,484)	8,779
Net losses and LAE incurred	81,428	100,242	169,457	191,741
Less: Losses and LAE paid:				
Current period	39,998	38,608	57,135	54,413
Prior periods	71,477	38,044	125,817	92,376
Net losses and LAE paid	111,475	76,652	182,952	146,789
Liability for unpaid losses and LAE at end of period, net	226,952	210,296	226,952	210,296
Reinsurance balances receivable	40,483	1	40,483	1
Liability for unpaid losses and LAE at end of period, gross	<u>\$ 267,435</u>	<u>\$ 210,297</u>	<u>\$ 267,435</u>	<u>\$ 210,297</u>

The favorable development for the three and six months ended June 30, 2025 was primarily attributable to lower-than-expected frequency on bodily injury losses and lesser-than-expected severity on physical damage losses in the 2024 accident year.

The unfavorable development for the three and six months ended June 30, 2024 was primarily attributable to higher-than-expected loss severity on bodily injury and physical damage losses in the 2023 accident year.

4. Income Taxes

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2025	2024	2025	2024
Federal:				
Current	\$ 2,416	\$ 2,340	\$ 3,898	\$ 6,650
Deferred	(335)	(638)	(1,029)	(3,123)
	2,081	1,702	2,869	3,527
State:				
Current	126	922	213	1,425
Deferred	9	(334)	8	(652)
	135	588	221	773
	<u>\$ 2,216</u>	<u>\$ 2,290</u>	<u>\$ 3,090</u>	<u>\$ 4,300</u>

FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The (benefit) provision for income taxes differs from the amounts computed by applying the statutory federal corporate tax rate of 21% to income before income taxes as a result of the following (in thousands).

	Three Months Ended				Six Months Ended				
	June 30,				June 30,				
	2025		2024		2025		2024		
Provision for income taxes at statutory rate	\$	2,118	21.0%	\$	1,697	21.0%	\$	3,574	21.0%
Tax effect of:									
Tax-exempt investment		(15)	-0.1%		(11)	-0.1%		(21)	-0.1%
Stock-based compensation benefits not realized		—	0.0%		—	0.0%		(1)	0.0%
State income taxes, net of federal income tax benefit and state valuation allowance		119	1.2%		402	5.0%		481	2.8%
Other		(6)	-0.1%		202	2.5%		267	1.6%
	\$	2,216	22.0%	\$	2,290	28.3%	\$	4,300	25.3%

ASC Topic 740, *Income Taxes*, establishes procedures to measure deferred tax assets and liabilities and assess whether a valuation allowance relative to existing deferred tax assets is necessary. Management assesses the likelihood of realization of the Company's deferred tax assets and the need for a valuation allowance concerning those assets based on the weight of available positive and negative evidence. As of June 30, 2025 and December 31, 2024, management determined that a valuation allowance of \$2.9 million and \$2.1 million, respectively, was necessary relative to certain state tax net operating loss carryforwards and OTTI which are not expected to be realized. Management also determined at June 30, 2025 and December 31, 2024, that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the remaining deferred tax assets not covered by this valuation allowance.

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

For the six months ended June 30, 2025, \$5.8 million and \$0.2 million of federal and state taxes, respectively, were paid. For the six months ended June 30, 2024, \$11.9 million and \$1.8 million of federal and state taxes, respectively, were paid.

The majority of state income taxes are incurred in the state of Georgia.

5. Leases

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

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

FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The Company has operating leases, which include corporate offices, certain equipment and vehicles. The leases have remaining lease terms of three years to seven years. Operating lease costs and cash flows for the six months ended June 30, 2025 were \$0.4 million and \$0.5 million, respectively. Both operating lease costs and cash flows for the three months ended June 30, 2024 were \$0.6 million. Supplemental balance sheet information related to leases was as follows:

	June 30,	
	2025	2024
Operating lease right-of-use assets	\$ 14,754	\$ 4,693
Operating lease liabilities	4,471	5,060
Weighted average remaining lease term	5.95 years	6.95 years
Weighted average discount rate	6.5%	6.5%

Maturities of operating lease liabilities were as follows:

For the Year Ended December 31,	Amount
2025 (excluding the six months ended June 30, 2025)	\$ 498
2026	1,002
2027	1,015
2028	801
2029	650
Thereafter	1,385
Total lease payments	\$ 5,351
Less imputed interest	(880)
Total	<u>\$ 4,471</u>

6. Premiums and Reinsurance

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

	Three Months Ended June 30, 2025		Six Months Ended June 30, 2025	
	Written	Earned	Written	Earned
Direct	\$ 148,127	\$ 138,741	\$ 304,514	\$ 270,422
Assumed	3,936	3,375	7,939	6,529
Ceded	(37,774)	(24,896)	(65,961)	(48,192)
Total	<u>\$ 114,289</u>	<u>\$ 117,220</u>	<u>\$ 246,492</u>	<u>\$ 228,759</u>

Effective for business in force since July 1, 2024, the Company utilizes quota-share reinsurance with an unaffiliated reinsurer to reinsure a portion of the business produced by its second largest independent agent which utilizes a technology-driven method of distribution. For the period from July 1, 2025 through June 30, 2026, the reinsurance is limited to a combined total of \$150 million of ceded premiums written. Although the reinsurance agreement contractually obligates the reinsurer to reimburse the Company for their share of losses, it does not discharge the primary liability of the Company, which remains contingently liable in the event the reinsurer is unable to meet their contractual obligations.

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.

FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

At June 30, 2025, the Company had unsecured aggregate reinsurance receivables of \$43.3 million. These receivables were all from a single reinsurer that is rated A++ (Superior) by AM Best.

Ceded premiums earned and reinsurance recovered on losses and loss adjustment expenses ("LAE") are summarized as follows (in thousands):

	Three months ended June 30, 2025	Six months ended June 30, 2025
Ceded premiums earned	\$ 24,896	\$ 48,192
Reinsurance recovered on losses and LAE	\$ 19,400	\$ 39,402

7. Related Parties

In March 2025, the Company repurchased 878,240 shares of the Company's common stock from a retiring member of its Board of Directors for total consideration of \$3.6 million.

8. Recent Accounting Pronouncements Adopted

As of January 1, 2025, the Company adopted ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures, which provides for expanded disclosures primarily related to income taxes paid and the rate reconciliation. As a result, the Company has adopted the disclosure requirements of this pronouncement in Note 4 – Income Taxes to the consolidated financial statements.