

FIRST ACCEPTANCE CORPORATION



2025 ANNUAL REPORT

**FIRST ACCEPTANCE CORPORATION  
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## ***Stock Market Information***

Our common stock is listed on the OTCQX market under the symbol “FACO.” 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.

	<b>Price Range</b>	
	<b>High</b>	<b>Low</b>
<b>Year Ended December 31, 2024:</b>		
First Quarter	\$ 2.85	\$ 1.97
Second Quarter	\$ 4.10	\$ 2.64
Third Quarter	\$ 4.03	\$ 3.06
Fourth Quarter	\$ 3.69	\$ 2.95
<b>Year Ended December 31, 2025:</b>		
First Quarter	\$ 3.80	\$ 2.98
Second Quarter	\$ 3.90	\$ 3.14
Third Quarter	\$ 3.70	\$ 3.18
Fourth Quarter	\$ 4.42	\$ 3.24

The closing price of our common stock on March 2, 2026 was \$4.20.

### **Holders**

According to the records of our transfer agent, there were 203 registered holders of record of our common stock on February 28, 2026, including record holders such as banks and brokerage firms who hold shares for beneficial holders, and 36,694,539 shares of our common stock were outstanding.

### **Dividends**

There were no dividends paid in 2025, 2024 or 2023. Any future determination to pay dividends will be at the discretion of our Board of Directors and will depend upon, among other factors, our results of operations, financial condition, capital requirements and contractual restrictions.

## Selected Financial Data

The following tables provide selected historical consolidated financial data of the Company at the dates and for the periods indicated. In conjunction with the data provided in the following tables and in order to understand our historical consolidated financial and operating data more fully, you should also read our “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our “Consolidated Financial Statements” and the accompanying notes included in this report. We derived our selected historical consolidated financial data as of December 31, 2025, and 2024 and for the years ended December 31, 2025, 2024, and 2023 from our consolidated financial statements included in this report. We derived our selected historical consolidated financial data as of December 31, 2023, 2022 and 2021 and for the years ended December 31, 2022, and 2021 from our consolidated financial statements which are not included in this report. The results for past periods are not necessarily indicative of the results expected for any future period.

	Year Ended December 31,				
	2025	2024	2023	2022	2021
<b>Statement of Operations Data:</b>	(in thousands, except per share data)				
<b>Revenues:</b>					
Premiums earned	\$ 443,543	\$ 491,782	\$ 397,171	\$ 230,529	\$ 209,043
Commission and fee income	40,136	48,340	80,071	68,943	65,029
Investment income	19,907	18,350	8,654	3,895	3,638
Net other gains (losses)	2,754	955	74,680	(1,071)	7,537
	<u>506,340</u>	<u>559,427</u>	<u>560,576</u>	<u>302,296</u>	<u>285,247</u>
<b>Costs and expenses:</b>					
Losses and loss adjustment expenses	305,454	361,765	276,461	181,260	154,849
Insurance operating expenses	155,732	157,131	177,601	136,150	128,348
Other expenses	1,002	977	780	931	809
Stock-based compensation	1,046	940	338	280	242
Depreciation and amortization	1,090	1,294	2,545	3,322	1,896
Interest expense	3,495	3,902	3,818	2,386	1,684
	<u>467,819</u>	<u>526,009</u>	<u>461,543</u>	<u>324,329</u>	<u>287,828</u>
Income (loss) before income taxes	38,521	33,418	99,033	(22,033)	(2,581)
Provision (benefit) for income taxes	8,295	7,127	25,121	(4,545)	(1,353)
Net income (loss)	<u>\$ 30,226</u>	<u>\$ 26,291</u>	<u>\$ 73,912</u>	<u>\$ (17,488)</u>	<u>\$ (1,228)</u>
Net income (loss) per basic shares	<u>\$ 0.82</u>	<u>\$ 0.69</u>	<u>\$ 1.94</u>	<u>\$ (0.46)</u>	<u>\$ (0.03)</u>
Net income (loss) per diluted shares	<u>\$ 0.80</u>	<u>\$ 0.67</u>	<u>\$ 1.92</u>	<u>\$ (0.46)</u>	<u>\$ (0.03)</u>

	Year Ended December 31,				
	2025	2024	2023	2022	2021
<b>Balance Sheet Data:</b>					
Cash and invested assets	\$ 468,017	\$ 407,818	\$ 318,964	\$ 176,834	\$ 197,746
Total assets	835,432	680,388	557,424	355,939	322,648
Loss and loss adjustment expense reserves	267,230	240,447	165,346	107,100	93,278
Debentures payable	40,712	40,666	40,621	40,575	40,530
Total liabilities	635,557	510,827	415,576	290,417	229,751
Total stockholders' equity	199,875	169,561	141,848	65,522	92,897
Book value per common share	\$ 5.45	\$ 4.44	\$ 3.71	\$ 1.73	\$ 2.44

*Consolidated Financial Statements*

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

	December 31,	
	2025	2024
<b>ASSETS</b>		
Investments in fixed maturities, available-for-sale at fair value (amortized cost of \$354,812 and \$304,547, respectively)	\$ 355,064	\$ 298,064
Investments in equity securities at fair value (cost of \$21,827 and \$14,114, respectively)	26,267	16,115
Cash, cash equivalents, and restricted cash	78,296	85,917
Premiums and fees receivable, net of credit loss of \$444 and \$431, respectively	218,567	155,458
Consideration receivable from sale of insurance agency, at fair value (Note 17)	18,704	26,734
Deferred tax assets, net	2,879	2,767
Other investments	8,390	7,722
Other assets	10,031	22,656
Operating lease right-of-use assets	4,489	4,381
Reinsurance recoverables	51,205	28,572
Prepaid reinsurance premiums	58,612	28,552
Property, equipment and identifiable intangible assets, net	2,928	3,450
<b>TOTAL ASSETS</b>	<b>\$ 835,432</b>	<b>\$ 680,388</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Loss and loss adjustment expense reserves	\$ 267,230	\$ 240,447
Unearned premiums and fees	213,210	168,129
Debentures payable	40,712	40,666
Operating lease liabilities	4,817	4,734
Income taxes payable	1,526	3,152
Deferred ceding commissions, net	11,117	2,207
Amounts due to reinsurers	56,268	26,710
Other liabilities	40,677	24,782
Total liabilities	635,557	510,827
Stockholders' equity:		
Preferred stock, \$.01 par value, 10,000 shares authorized, no shares issued or outstanding	—	—
Common stock, \$.01 par value, 75,000 shares authorized; 36,695 and 38,191 issued and outstanding, respectively	366	381
Additional paid-in capital	451,586	456,804
Accumulated other comprehensive income (loss), net of tax of \$(1,128) and \$(2,543), respectively	1,380	(3,941)
Accumulated deficit	(253,457)	(283,683)
Total stockholders' equity	199,875	169,561
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 835,432</b>	<b>\$ 680,388</b>

See notes to consolidated financial statements.

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

	Year Ended December 31,		
	2025	2024	2023
<b>Revenues:</b>			
Premiums earned	\$ 443,543	\$ 491,782	\$ 397,171
Commission and fee income	40,136	48,340	80,071
Investment income	19,907	18,350	8,654
Gain on sale of insurance agency (Note 17)	—	—	73,034
Net gains on investments	2,754	955	1,646
<b>Total revenues</b>	<b>506,340</b>	<b>559,427</b>	<b>560,576</b>
<b>Costs and expenses:</b>			
Losses and loss adjustment expenses	305,454	361,765	276,461
Insurance operating expenses	155,732	157,131	177,601
Other operating expenses	1,002	977	780
Stock-based compensation	1,046	940	338
Depreciation and amortization	1,090	1,294	2,545
Interest expense	3,495	3,902	3,818
<b>Total costs and expenses</b>	<b>467,819</b>	<b>526,009</b>	<b>461,543</b>
Income before income taxes	38,521	33,418	99,033
Provision for income taxes	8,295	7,127	25,121
<b>Net income</b>	<b>\$ 30,226</b>	<b>\$ 26,291</b>	<b>\$ 73,912</b>
<b>Net income per share:</b>			
Basic	\$ 0.82	\$ 0.69	\$ 1.94
Diluted	\$ 0.80	\$ 0.67	\$ 1.92
<b>Number of shares used to calculate net income per share:</b>			
Basic	36,945	38,128	38,086
Diluted	37,903	39,095	38,409
<b>Reconciliation of net income to comprehensive income:</b>			
Net income	\$ 30,226	\$ 26,291	\$ 73,912
Unrealized change in investments arising during the period, net of tax expense of \$1,414, \$247 and \$530, respectively	5,321	928	1,993
Reclassification of net realized losses and other-than-temporary impairment ("OTTI") on investments, included in net income	—	100	—
<b>Comprehensive income</b>	<b>\$ 35,547</b>	<b>\$ 27,319</b>	<b>\$ 75,905</b>
<b>Detail of net gains on investments:</b>			
Net realized gains on sales and redemptions	\$ 315	\$ 582	\$ 500
Net unrealized gains on equity securities, includes \$246, \$804 and \$511 of reclassification for realized gains, respectively	2,439	466	1,146
Other-than-temporary impairment ("OTTI") of fixed maturities, available for sale	—	(93)	—
<b>Net gains on investments</b>	<b>\$ 2,754</b>	<b>\$ 955</b>	<b>\$ 1,646</b>

See notes to consolidated financial statements.

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

	Common Stock		Additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulated deficit	Total stockholders' equity
	Shares	Amount				
Balances at December 31, 2022	37,868	\$ 379	\$ 455,891	\$ (6,862)	\$ (383,886)	\$ 65,522
Net income	—	—	—	—	73,912	73,912
Net unrealized change on investments (net of tax expense of \$530)	—	—	—	1,993	—	1,993
Stock-based compensation	7	—	338	—	—	338
Issuance of shares under Employee Stock Purchase Plan	149	2	114	—	—	116
Vested restricted stock units, net of repurchases	241	1	(34)	—	—	(33)
Balances at December 31, 2023	38,265	382	456,309	(4,869)	(309,974)	141,848
Net income	—	—	—	—	26,291	26,291
Net unrealized change on investments (net of tax expense of \$247)	—	—	—	928	—	928
Stock-based compensation	31	—	940	—	—	940
Issuance of shares under Employee Stock Purchase Plan	74	1	189	—	—	190
Vested restricted stock units, net of repurchases	106	1	—	—	—	1
Retirement of treasury stock	(285)	(3)	(634)	—	—	(637)
Balances at December 31, 2024	38,191	381	456,804	(3,941)	(283,683)	169,561
Net income	—	—	—	—	30,226	30,226
Net unrealized change on investments (net of tax expense of \$1,414)	—	—	—	5,321	—	5,321
Stock-based compensation	8	—	1,046	—	—	1,046
Issuance of shares under Employee Stock Purchase Plan	117	1	368	—	—	369
Vested restricted stock units	96	1	(93)	—	—	(92)
Retirement of treasury stock	(1,717)	(17)	(6,539)	—	—	(6,556)
Balances at December 31, 2025	36,695	\$ 366	\$ 451,586	\$ 1,380	\$ (253,457)	\$ 199,875

See notes to consolidated financial statements.

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

	Year Ended December 31,		
	2025	2024	2023
<b>Cash flows from operating activities:</b>			
Net income	\$ 30,226	\$ 26,291	\$ 73,912
Adjustments to reconcile net income to cash provided by operating activities:			
Unrealized gains on equity securities	(2,439)	(466)	(1,146)
Depreciation and amortization	1,090	1,294	2,545
Accretion of present value discount of sales consideration receivable	(1,970)	(3,159)	(301)
Stock-based compensation	1,046	940	338
Deferred income taxes	(1,526)	(7,596)	18,214
Investment income from other investments	(774)	(598)	(691)
Realized gains on sales and redemptions of investments	(315)	(582)	(500)
Gain on sale of insurance agency (Note 17)	—	—	(73,034)
Other	(550)	110	(294)
Change in:			
Premiums, fees, and commission receivable	(63,096)	(5,750)	(55,370)
Loss and loss adjustment expense reserves	26,783	75,101	58,246
Unearned premiums and fees	45,081	3,650	60,545
Reinsurance recoverables	(22,633)	(28,572)	—
Prepaid insurance premiums	(30,060)	(28,552)	—
Other assets	12,625	(12,679)	(382)
Income taxes payable	(1,626)	(2,581)	—
Deferred ceding commissions, net of deferred acquisition costs	8,910	11,659	(2,390)
Amount due to reinsurers	29,558	26,710	—
Other liabilities	15,895	(3,146)	3,010
Other	22	41	1,579
Net cash provided by operating activities	<u>46,247</u>	<u>52,115</u>	<u>84,281</u>
<b>Cash flows from investing activities:</b>			
Purchases of investments	(144,151)	(141,529)	(94,814)
Maturities and redemptions of investments	52,257	30,997	14,889
Sales of investments	34,768	2,067	2,664
Purchase of other investments	(783)	(2,109)	—
Distributions from other investments	889	624	877
Capital expenditures	(568)	(322)	(1,339)
Receivable/payable for securities	—	(1,510)	—
Net proceeds from sale of insurance agency	—	—	54,067
Collections on consideration receivable from sale of insurance agency	10,000	36,250	—
Net cash used in investing activities	<u>(47,588)</u>	<u>(75,532)</u>	<u>(23,656)</u>
<b>Cash flows from financing activities:</b>			
Purchase of treasury stock at cost	(6,556)	(637)	—
Net proceeds from employee issuance of common stock	369	191	116
Other	(93)	—	(33)
Net cash (used in) provided by financing activities	<u>(6,280)</u>	<u>(446)</u>	<u>83</u>
Net change in cash, cash equivalents, and restricted cash equivalents	(7,621)	(23,863)	60,708
Cash, cash equivalents, and restricted cash equivalents, beginning of period	<u>85,917</u>	<u>109,780</u>	<u>49,072</u>
Cash, cash equivalents, and restricted cash equivalents, end of period	<u>\$ 78,296</u>	<u>\$ 85,917</u>	<u>\$ 109,780</u>

See notes to consolidated financial statements.

**FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Summary of Significant Accounting Policies**

***General***

First Acceptance Corporation (the “Company”) is a holding company based in Nashville, Tennessee with operating subsidiaries whose primary operations have included the selling, servicing, and underwriting of non-standard personal automobile insurance and related products. Through December 1, 2023, the Company generated revenue from selling non-standard personal automobile insurance products and related products in 15 states. Subsequently, the Company now solely offers its products primarily through independent agents in these 15 states.

The Company issues policies of insurance through a subsidiary First Acceptance Insurance Company, Inc., and its subsidiaries: First Acceptance Insurance Company of Georgia, Inc. and First Acceptance Insurance Company of Tennessee, Inc. (collectively, the “Insurance Companies”) and had operated as an insurance agency through another subsidiary, Acceptance Insurance Agency of Tennessee, Inc. (“the Insurance Agency”), which was sold effective December 1, 2023 (see Note 17).

For the year ended December 31, 2025, two individual independent agents produced 44% and 40% of premiums earned, totaling 84%. For the year ended December 31, 2024, two individual independent agents produced 44% and 35% of premiums earned, totaling 79%.

***Basis of Consolidation and Reporting***

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

***Reclassification***

Certain prior year amounts have been reclassified to conform to the current year presentation.

***Use of Estimates***

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

***Subsequent Events***

In connection with the preparation of these consolidated financial statements, the Company has evaluated subsequent events through March 3, 2026, which is the date the consolidated financial statements were available to be issued.

***Investments***

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

Investments in equity securities at fair value consist of mutual funds. These securities are carried at fair value, and the corresponding unrealized appreciation or depreciation is reported in net income.

Premiums and discounts on collateralized mortgage obligations (“CMOs”) and asset-backed securities are amortized over a period based on estimated future principal payments, including prepayments, with premiums amortized through the earliest call date if

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

applicable. Prepayment assumptions are reviewed periodically and adjusted to reflect actual prepayments and changes in expectations. The most significant determinants of prepayments are the difference between interest rates on the underlying collateral and the current loan rates and the structure of the security. Other factors affecting prepayments include the size, type, and age of underlying collateral, the geographic location of the collateral, 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. For available-for-sale fixed maturities in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of the amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For available-for-sale fixed maturities that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the maturity by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the maturity. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

Management reviews investments in fixed maturities, available-for-sale for credit losses on a quarterly basis. Changes in the allowance for credit losses are recorded as credit loss expense (or reversal). Losses are charged against the allowance when management believes the uncollectibility of an available-for-sale fixed maturity is confirmed or when either of the criteria regarding intent or requirement to sell is met.

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 reinsurance contracts and deposits with state insurance regulators, consist of highly liquid investments and are stated at cost which approximates fair value. All investments with maturities of three months or less at the date of purchase are considered cash equivalents. On December 31, 2025, and December 31, 2024, the Company had restricted cash of \$11.3 million and \$9.4 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 of limited partnership interests are based upon their GAAP financial statements which are required to be audited annually.

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

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

***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 and fees receivable are recorded net of an estimated allowance for uncollectible amounts.

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

Prior to December 1, 2023, commission and fee income of the Insurance Agency included commissions paid by third-party insurance carriers which were earned upon the effective date of bound coverage, less an estimated allowance for returned commissions based upon historical experience, since no performance obligation remained in these arrangements after coverage was bound and the control of the underlying insurance policy transferred to the third-party carrier. Commission and fee income also included commissions paid by a third-party entity on the sale of ancillary insurance products that were earned on a pro-rata basis over the life of the underlying contracts, since the Company maintained control of the contract with the customer and has a contractual performance obligation for these contracts. In calculating such commission and fee income, the Company estimated the amount of consideration that will be received for which a significant reversal of revenue was not probable. As a result of the sale of the Insurance Agency, the Company no longer receives commission and fee income from third-party insurance companies and the sale of ancillary products. The Company does, however, continue to receive managing general agency fees on premiums written in certain states.

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

The primary performance obligation of the Insurance Agency in return for the commission income from the third-party insurers was to complete the sale of the policy and deliver control of the policy to the insurer at the policy effective date. In addition, the Insurance Agency may have provided administrative services to the insurer or the policyholder subsequent to the sale of the policy, including processing of endorsements, collection of premiums, and answering general questions concerning the policyholder's account. The administrative services and the costs to perform such services were deemed immaterial in the context of the contract and to the Company's consolidated financial statements, and such services were not identified as a separate performance obligation. Additionally, the costs to perform such services were not accrued at the time of the sale of the policy but were expensed as incurred as part of the overall operating expenses. Managing general agency fees are related to the insurance contracts issued by the Insurance Companies and are recognized on a pro-rata basis over the respective terms of the contracts.

The total revenue from the sale of a policy was recognized upon the effective date of bound coverage when the sale was complete as all the material aspects of the performance obligation were satisfied and the insurer was deemed to obtain control of the insurance policy at that time. Any commission income considered to be variable is constrained such that the revenue was recognized only to the extent that it is probable that there was not a significant reversal of that revenue. Any commission income not received when the sale was complete was recognized as commission income receivable, which was included in premiums, fees, and commissions receivable in the Company's consolidated balance sheets.

A refund liability was recorded for the expected amount of the commission income that had to be returned to the insurers based on estimated policy cancellations. The refund liability was computed for the entire portfolio of contracts as a practical expedient, rather than for each contract or performance obligation. The estimated policy cancellations and the resulting refund liability were computed using the expected value method based on all relevant information, including historical experience.

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

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

As of December 31, 2025, 2024 and 2023, the Company had no contract assets, contract liabilities, or capitalized costs to obtain or fulfill a contract, associated with revenues from contracts with customers.

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

***Reinsurance***

In the normal course of business, the Company seeks to reduce its loss exposure by reinsuring certain risks with a reinsurer. Reinsurance is accounted for in accordance with FASB ASC 944, "Financial Services - Insurance." Ceded premium is expensed over the period that coverage is provided. Prepaid reinsurance premiums are calculated on a daily pro-rata basis for the unexpired terms of the related policies in force. Amounts recoverable for losses and loss adjustment expenses from the reinsurer are estimated in a manner consistent with the reinsured policies. As these estimates change, any adjustment is recorded in the current period. The Company evaluates the financial strength of its reinsurer and continually monitors their financial condition through periodic review of their credit quality.

***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 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 occur.

The Company accounts for income tax uncertainties under the provisions of FASB ASC 740, "Income Taxes." At December 31, 2025 and 2024, the Company recognized an additional liability for deferred state taxes for unrecognized tax benefits of \$1.3 million. We believe that it is reasonably possible that an increase in unrecognized tax benefits related to non-recurring state tax exposures may occur in the future. 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 2018. These tax years are open due to the creation and utilization of net operating loss carryforwards.

***Property Equipment and Identifiable Intangible Assets***

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 expensed as incurred.

Identifiable intangible assets were initially recorded at their estimated fair values at their dates of acquisition. Identifiable intangible assets with an indefinite life (state insurance licenses) were not amortized for financial statement purposes, while those with a definite life (primarily software licenses) are amortized in proportion to projected policy expirations or life of the asset.

All goodwill and identifiable intangible assets associated with the Insurance Agency were charged against the gain on the sale of the Insurance Agency in 2023 (Note 17), in the amount of \$28.8 million and \$4.0 million, respectively.

The Company follows the accounting guidelines, which allows companies to waive comparing the fair value of 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 intangible assets is greater than their carrying amounts. Based on a review of the relevant factors, the Company did not indicate any impairment analysis was necessary.

***Deferred Acquisition Costs and Deferred Ceding Commissions***

Deferred acquisition costs include premium taxes, commissions paid to independent agents, and other variable underwriting and direct sales costs incurred in connection with writing successful new and renewal business. Deferred acquisition costs are presented net of deferred ceding commissions from reinsurance. These net 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 part of deferred acquisition costs. Amortization expense for the years ended December 31, 2025, 2024 and 2023 was \$23.8 million, \$27.2 million, and \$24.4 million, respectively, and is included within operating expenses in the accompanying consolidated statements of income. At December 31, 2025, deferred ceding commissions of \$19.3 million are presented net of \$8.2 million of deferred acquisition costs. At December 31, 2024, deferred ceding commissions of \$9.3 million are presented net of \$7.1 million of deferred acquisition costs.

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

***Sale of Insurance Agency Subsidiary***

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

***Loss and Loss Adjustment Expense Reserves***

Loss and loss adjustment expense reserves are undiscounted and represent case-basis estimates of reported losses and estimates based on certain actuarial assumptions regarding the past experience of reported losses, including an estimate of losses incurred but not reported. Management believes 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.

***Recent Accounting Pronouncements***

**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 11 – Income Taxes to the consolidated financial statements.

**Accounting Pronouncements Issued But Not Yet Adopted**

In November 2024, the FASB issued ASU 2024-03, “*Income Statement – Reporting Comprehensive Income – Expense Disaggregation Disclosures (Topic 220)*.” This standard requires disclosure of specific information about costs and expenses. ASU 2024-03 is effective for fiscal years beginning after December 15, 2026 and interim reporting periods beginning after December 15, 2027. The Company is currently evaluating the potential effect the updated standard will have on its consolidated financial statements.

***Supplemental Cash Flow Information***

During the years ended December 31, 2025, 2024 and 2023, the Company paid \$11.5 million, \$17.5 million and \$0.9 million in income taxes, respectively. During the years ended December 31, 2025, 2024 and 2023, the Company paid \$3.5 million, \$3.8 million, and \$3.7 million in interest on debentures payable, respectively (see Note 10).

***Basic and Diluted Net Income Per Share***

Basic net income per share is computed by dividing net income available to common stockholders by the weighted average number of common shares, while diluted net income per share is computed by dividing net income 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.

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

**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 used the relief-from-royalty method, which requires the Company to estimate the future revenue for the related brands, the appropriate royalty rate, and the weighted average cost of capital. To determine the fair value of acquired state insurance licenses, the Company used the market approach.

***Fair Value of Financial Instruments***

The carrying values and fair values of certain financial instruments held by the Company are as follows (in thousands).

	December 31, 2025		December 31, 2024	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Assets:</b>				
Cash, cash equivalents, and restricted cash equivalents	\$ 78,296	\$ 78,296	\$ 85,917	\$ 85,917
Investments in fixed maturities, available-for-sale	355,064	355,064	298,064	298,064
Investment in equity securities	26,267	26,267	16,115	16,115
Other investments	8,390	8,390	7,722	7,722
Consideration receivable from the sale of insurance agency	18,704	18,704	26,734	26,734
<b>Liabilities:</b>				
Debentures payable	40,712	38,132	40,666	34,496

The fair values as presented represent the Company's best estimates and may not be substantiated by comparisons to independent markets. The fair value of the debentures payable is categorized as Level 3, since it was based on current market rates offered for debt with similar risks and maturities, an unobservable input categorized as Level 3. Carrying values of certain financial instruments, such as premiums and fees 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.

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

In connection with the sale of the Insurance Agency, the Company is entitled to receive additional consideration contingent upon the achievement of specified performance targets by the buyer. The contingent consideration receivable represents a financial instrument within the scope of ASC 825, Financial Instruments, and is measured at fair value on a recurring basis. The following table presents a reconciliation of the beginning and ending balances (in thousands) of the contingent consideration receivable measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	December 31, 2025	December 31, 2024
Beginning balance	\$ 26,734	\$ 59,825
Less: payments received	(10,000)	(36,250)
Accretion of present value	1,970	3,159
	<u>\$ 18,704</u>	<u>\$ 26,734</u>

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

	Total	Fair Value Measurements Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Proportionate Share of Net Assets (NAV)
<b>December 31, 2025</b>					
Fixed maturities, available-for-sale:					
U.S. government and agencies	\$ 37,765	\$ 37,765	\$ —	\$ —	\$ —
Political subdivisions	1,771	—	1,771	—	—
Revenue and assessment	16,458	—	16,458	—	—
Corporate bonds	147,145	—	147,145	—	—
Asset-backed securities	68,029	—	68,029	—	—
Collateralized mortgage obligations:					
Agency backed	82,034	—	82,034	—	—
Non-agency backed – residential	1,199	—	1,199	—	—
Non-agency backed – commercial	663	—	663	—	—
Total fixed maturities, available-for-sale	355,064	37,765	317,299	—	—
Mutual funds, available-for-sale	26,267	26,267	—	—	—
Total debt and equity securities	381,331	64,032	—	—	—
Other investments	8,390	—	—	1,989	6,401
Total	<u>\$ 389,721</u>	<u>\$ 64,032</u>	<u>\$ 317,299</u>	<u>\$ 1,989</u>	<u>\$ 6,401</u>

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

	Total	Fair Value Measurements Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Proportionate Share of Net Assets (NAV)
<b>December 31, 2024</b>					
Fixed maturities, available-for-sale:					
U.S. government and agencies	\$ 33,499	\$ 33,499	\$ —	\$ —	\$ —
Political subdivisions	2,949	—	2,949	—	—
Revenue and assessment	20,004	—	20,004	—	—
Corporate bonds	116,375	—	116,375	—	—
Asset-backed securities	56,113	—	56,113	—	—
Collateralized mortgage obligations:					
Agency backed	66,972	—	66,972	—	—
Non-agency backed – residential	1,220	—	1,220	—	—
Non-agency backed – commercial	932	—	932	—	—
Total fixed maturities, available-for-sale	298,064	33,499	264,565	—	—
Mutual funds, available-for-sale	16,115	16,115	—	—	—
Total debt and equity securities	314,179	49,614	—	—	—
Other investments	7,722	—	—	1,989	5,733
<b>Total</b>	<b>\$ 321,901</b>	<b>\$ 49,614</b>	<b>\$ 264,565</b>	<b>\$ 1,989</b>	<b>\$ 5,733</b>

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

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

### 3. Investments

The following tables summarize the Company's investments in fixed maturities for the years ended December 31, 2025, and December 31, 2024 (in thousands).

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>December 31, 2025</b>				
Fixed maturities, available-for-sale:				
U.S. government and agencies	\$ 37,519	\$ 276	\$ (30)	\$ 37,765
Political subdivisions	1,771	13	(13)	1,771
Revenue and assessment	16,330	135	(7)	16,458
Corporate bonds	144,981	2,322	(158)	147,145
Asset-backed securities	67,284	757	(12)	68,029
Collateralized mortgage obligations:				
Agency backed	85,572	1,083	(4,621)	82,034
Non-agency backed – residential	692	525	(18)	1,199
Non-agency backed – commercial	663	—	—	663
Total fixed maturities, available-for-sale	<u>\$ 354,812</u>	<u>\$ 5,111</u>	<u>\$ (4,859)</u>	<u>\$ 355,064</u>

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

<b>December 31, 2024</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
<b>Fixed maturities, available-for-sale:</b>				
U.S. government and agencies	\$ 33,550	\$ 76	\$ (127)	\$ 33,499
Political subdivisions	3,010	4	(65)	2,949
Revenue and assessment	20,165	33	(194)	20,004
Corporate bonds	116,670	516	(811)	116,375
Asset-backed securities	55,924	280	(91)	56,113
<b>Collateralized mortgage obligations:</b>				
Agency backed	73,591	261	(6,880)	66,972
Non-agency backed – residential	704	516	—	1,220
Non-agency backed – commercial	933	—	(1)	932
<b>Total fixed maturities, available-for-sale</b>	<b>\$ 304,547</b>	<b>\$ 1,686</b>	<b>\$ (8,169)</b>	<b>\$ 298,064</b>

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.

<b>December 31, 2025</b>	<b>Securities with Unrealized Gains</b>	<b>Securities with Unrealized Losses</b>	<b>Securities with No Unrealized Gains or Losses</b>	<b>All Fixed Maturity Securities</b>
One year or less	\$ 19,779	\$ 10,395	\$ —	\$ 30,174
After one through five years	134,307	4,571	—	138,878
After five through ten years	68,001	20,905	—	88,906
After ten years	6,411	6,799	—	13,210
No single maturity date	45,966	37,916	14	83,896
	<u>\$ 274,464</u>	<u>\$ 80,586</u>	<u>\$ 14</u>	<u>\$ 355,064</u>

The fair value and gross unrealized losses of investments in fixed maturities for the years ended December 31, 2025, and 2024, by the length of time that individual securities have been in a continuous unrealized loss position follows (in thousands).

<b>December 31, 2025</b>	<b>Less than 12 months</b>		<b>12 months or longer</b>		<b>Total Gross Losses</b>
	<b>Fair Value</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>	<b>Gross Unrealized Losses</b>	
<b>Fixed maturities, available-for-sale:</b>					
U.S. government and agencies	\$ 7,448	\$ (30)	\$ —	\$ —	\$ (30)
Political subdivisions	—	—	786	(13)	(13)
Revenue and assessment	1,113	(1)	994	(6)	(7)
Corporate bonds	18,503	(93)	9,609	(65)	(158)
Asset-backed securities	5,265	(12)	—	—	(12)
<b>Collateralized mortgage obligations:</b>					
Agency backed	7,001	(113)	30,012	(4,508)	(4,621)
Non-agency backed – residential	254	(18)	—	—	(18)
Non-agency backed – commercial	649	—	—	—	—
<b>Total fixed maturities, available-for-sale</b>	<b>\$ 40,233</b>	<b>\$ (267)</b>	<b>\$ 41,401</b>	<b>\$ (4,592)</b>	<b>\$ (4,859)</b>

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

	Less than 12 months		12 months or longer		Total Gross Losses
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	
<b>December 31, 2024</b>					
Fixed maturities, available-for-sale:					
U.S. government and agencies	\$ 14,852	\$ (121)	\$ 1,010	\$ (6)	\$ (127)
Political subdivisions	432	(10)	2,000	(55)	(65)
Revenue and assessment	5,559	(76)	7,623	(118)	(194)
Corporate bonds	30,213	(189)	26,458	(622)	(811)
Asset-backed securities	10,648	(54)	3,039	(37)	(91)
Collateralized mortgage obligations:					
Agency backed	21,246	(400)	31,818	(6,480)	(6,880)
Non-agency backed-commercial	—	—	919	(1)	(1)
Total fixed maturities, available-for-sale	<u>\$ 82,950</u>	<u>\$ (850)</u>	<u>\$ 72,867</u>	<u>\$ (7,319)</u>	<u>\$ (8,169)</u>

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.

<u>At:</u>	Gross Unrealized Losses		Gross Unrealized Gains
	Less than or equal to 12 months	Greater than 12 months	
December 31, 2025	40	34	294
December 31, 2024	79	61	165

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).

<u>Gross Unrealized Losses at December 31, 2025:</u>	Number of Securities	Fair Value	Gross Unrealized Losses
	Less than or equal to 10%	21	\$ 19,520
Greater than 10%	13	21,881	(4,209)
	<u>34</u>	<u>\$ 41,401</u>	<u>\$ (4,592)</u>
<u>Gross Unrealized Losses at December 31, 2024</u>	Number of Securities	Fair Value	Gross Unrealized Losses
Less than or equal to 10%	49	\$ 48,760	\$ (1,454)
Greater than 10%	12	24,107	(5,865)
	<u>61</u>	<u>\$ 72,867</u>	<u>\$ (7,319)</u>

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

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

Length of Gross Unrealized Losses at December 31, 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	\$ 33,547	\$ (149)	\$ (149)	\$ —	\$ —
Six months	4,896	(36)	(36)	—	—
Nine months	1,186	(48)	(35)	(13)	—
Twelve months	604	(34)	(29)	(5)	—
Greater than twelve months	41,401	(4,592)	(210)	(173)	(4,209)
Total	<u>\$ 81,634</u>	<u>\$ (4,859)</u>	<u>\$ (459)</u>	<u>\$ (191)</u>	<u>\$ (4,209)</u>

Length of Gross Unrealized Losses at December 31, 2024:	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	\$ 81,233	\$ (755)	\$ (708)	\$ (47)	\$ —
Six months	1,717	(95)	(35)	(60)	—
Greater than twelve months	72,867	(7,319)	(867)	(587)	(5,865)
Total	<u>\$ 155,817</u>	<u>\$ (8,169)</u>	<u>\$ (1,610)</u>	<u>\$ (694)</u>	<u>\$ (5,865)</u>

***Other Investments***

Other investments consist of the common stock of a REIT and limited partnership interests in four funds that invest in (i) undervalued international publicly-traded equities (ii) a pre-identified pool of select buyout private equity funds and (iii) middle-market infrastructure equity and equity-like investments and (iv) secondary fund investments in private equity. These investments have redemption and transfer restrictions. The Company does not intend to sell any of these investments, and it is more likely than not that the Company will not be required to sell them before the expiration of such restrictions. As of December 31, 2025, the Company had unfunded commitments of \$6.1 million with four of these investments.

***Restrictions***

As of December 31, 2025 and 2024, fixed maturities and cash equivalents with a fair value and amortized cost of \$6.8 million and \$6.7 million, respectively, were on deposit with various insurance departments as a requirement of doing business in those states. As of December 31, 2025 and 2024, cash equivalents with a fair value and amortized cost of \$8.5 million and \$7.6 million, respectively, were on deposit with other insurance companies as collateral for assumed reinsurance contracts.

***Investment Income and Net Realized Gains and Losses***

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

	Year Ended December 31,		
	2025	2024	2023
Fixed maturities, available-for-sale	\$ 14,115	\$ 10,511	\$ 4,874
Equity securities	822	595	557
Income from other investments	774	598	691
Cash and cash equivalents	2,657	4,077	2,768
Investment expenses	(431)	(590)	(537)
Accretion income	1,970	3,159	301
	<u>\$ 19,907</u>	<u>\$ 18,350</u>	<u>\$ 8,654</u>

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

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

	Year Ended December 31,		
	2025	2024	2023
Unrealized gain on equity securities	\$ 2,439	\$ 466	\$ 1,146
Realized gains	315	588	511
Realized losses	—	(99)	(11)
	<u>\$ 2,754</u>	<u>\$ 955</u>	<u>\$ 1,646</u>

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

***Allowance for Credit Losses on Available for Sale Debt Securities***

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

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

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

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

There were no OTTI charges in net income in 2025 and 2023. The Company recognized OTTI charges in net income of \$93 thousand relating to three non-agency backed CMOs for the year ended December 31, 2024.

The Company believes that the remaining securities having unrealized losses as of December 31, 2025, 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.

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

**4. Premiums and Reinsurance**

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

	Year Ended December 31,					
	2025		2024		2023	
	Written	Earned	Written	Earned	Written	Earned
Direct	\$ 577,791	\$ 537,022	\$ 527,625	\$ 524,623	\$ 447,987	\$ 390,632
Assumed	17,879	13,697	15,063	14,520	9,087	6,539
Ceded	(137,236)	(107,176)	(75,914)	(47,361)	—	—
Total	<u>\$ 458,434</u>	<u>\$ 443,543</u>	<u>\$ 466,774</u>	<u>\$ 491,782</u>	<u>\$ 457,074</u>	<u>\$ 397,171</u>

Effective for business in force since July 1, 2024 and new and renewal business after this date, the Company utilizes quota-share reinsurance with an unaffiliated reinsurer to reinsure 50% 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. For the period from July 1, 2024 through June 30, 2025, the reinsurance was limited to a combined total of \$137.5 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. The Company's ceding commission income received from the reinsurer is on a sliding scale commission structure under which commission rates are adjustable and contingent upon the estimated loss and loss adjustment expense ratio.

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.

At December 31, 2025 and 2024, the Company had unsecured aggregate reinsurance receivables of \$51.2 million and \$28.6 million, respectively. These receivables were all from a single reinsurer that is rated A++ (Superior) by AM Best.

The following table presents a summary of reinsurance recoverables:

	Years Ended	
	December 31,	
	2025	2024
Paid loss and loss adjustment expense	\$ 3,766	\$ 1,926
Ceded loss and loss adjustment expense reserves	47,439	23,347
Ceding commission income	—	3,299
Total reinsurance recoverables	<u>\$ 51,205</u>	<u>\$ 28,572</u>

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

	Years Ended	
	December 31,	
	2025	2024
Ceded premiums earned	\$ 107,176	\$ 47,361
Reinsurance recovered on losses and LAE	\$ 72,655	\$ 33,032

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

**5. Stock-Based Compensation Plans**

***Employee Stock-Based Incentive Plan***

The Company has issued restricted stock units to employees and common stock to directors under its Amended and Restated First Acceptance Corporation 2002 Long Term Incentive Plan (the “Plan”) and accounts for such issuances in accordance with FASB ASC 718, “*Compensation – Stock Compensation*”. As of December 31, 2025, there were 4,083,504 shares remaining available for issuance under the Plan.

The following table summarizes restricted stock units that the Compensation Committee of the Board of Directors of the Company awarded to executive officers (in thousands, except weighted average information). Such restricted stock units typically vest with an equal number of shares of common stock deliverable upon the third anniversary of the dates of grants. Compensation expense related to the units was calculated based upon the closing market prices of the common stock on the dates of grants and is recorded on a straight-line basis over the vesting period. Expected future compensation related to the issuance of restricted stock units is \$1.2 million, which will be amortized through September 2028.

	Number of Restricted Stock Units	Weighted Average Grant-Date Fair Value per Share
Non-vested at December 31, 2022	521	\$ 1.32
Granted	1,282	1.70
Vested	(241)	0.74
Forfeited	(113)	0.89
Non-vested at December 31, 2023	1,449	1.79
Granted	167	2.27
Vested	(106)	1.99
Forfeited	—	—
Non-vested at December 31, 2024	1,510	1.82
Granted	162	3.15
Vested	(96)	2.08
Forfeited	(19)	2.08
Non-vested at December 31, 2025	<u>1,557</u>	<u>\$ 1.94</u>

***Employee Stock Purchase Plan***

The Company’s Board of Directors adopted the First Acceptance Corporation Employee Stock Purchase Plan (“ESPP”) whereby eligible employees may purchase shares of the Company’s common stock at a price equal to the lower of the closing market price on the first or last trading day of a six-month period. ESPP participants can authorize payroll deductions, administered through an independent plan custodian, of up to 15% of their salary to purchase semi-annually (June 30 and December 31) up to \$25,000 of the Company’s common stock during each calendar year. The Company’s Board of Directors may at any time amend the ESPP in any respect, including termination of the ESPP, without notice to the employees. The Company has reserved 1,300,000 shares of common stock for issuance under the ESPP and as of December 31, 2025, 96,055 shares remain available for issuance. Employees purchased approximately 117,000, 74,000, and 149,000 shares during the years ended December 31, 2025, 2024 and 2023, respectively. Compensation expense attributable to subscriptions to purchase shares under the ESPP was \$37 thousand, \$12 thousand, and \$25 thousand for the years ended December 31, 2025, 2024 and 2023, respectively.

**6. Employee Benefit Plan**

The Company sponsors a defined contribution retirement plan (“401k Plan”) under Section 401(k) of the Internal Revenue Code. The 401k Plan covers substantially all employees who meet specified service requirements. Under the 401k Plan, the Company may, at its discretion, 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, 2025, 2024 and 2023 were \$1.2 million, \$1.1 million, and \$1.7 million, respectively, and are included within costs and expenses in the accompanying consolidated statements of income.

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

**7. Property and Equipment and Identifiable Intangible Assets**

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

	Year Ended December 31,	
	2025	2024
Furniture, equipment and software	\$ 11,001	\$ 14,233
Leasehold improvements	2,957	3,101
Identifiable intangible assets	1,500	1,560
	15,458	17,334
Less: Accumulated depreciation	(12,530)	(15,444)
Property and equipment and identifiable intangible assets, net	<u>\$ 2,928</u>	<u>\$ 3,450</u>

Depreciation and amortization expense was \$1.1 million, \$1.3 million, and \$2.5 million for the years ended December 31, 2025, 2024 and 2023, respectively.

**8. Lease and Service Contract Commitments**

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

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

The Company has operating leases, which include corporate offices, certain equipment and vehicles. The leases have remaining lease terms of three years to six years. Operating lease costs for each of the years ended December 31, 2025, 2024 and 2023 were \$1.2 million, \$1.2 million and \$1.3 million, respectively. Cash flows for each of the years ended December 31, 2025, 2024 and 2023 were \$1.1 million, \$1.2 million, and \$1.5 million, respectively.

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

	Year Ended December 31,	
	2025	2024
Operating lease right-of-use assets	\$ 4,489	\$ 4,381
Operating lease liabilities	4,817	4,734
Weighted average remaining lease term	5.59 years	5.86 years
Weighted average discount rate	6.55%	6.50%

Maturities of operating lease liabilities were as follows as of December 31, 2025 (in thousands):

For the Year Ended December 31,	Amount
2026	\$ 1,150
2027	1,167
2028	952
2029	789
2030	768
Thereafter	890
Total lease payments	<u>\$ 5,716</u>
Less imputed interest	(899)
Total	<u>\$ 4,817</u>

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

**Note 9. Losses and Loss Adjustment Expenses Incurred and Paid**

The Company underwrites primarily a single product in the form of a non-standard personal automobile policy. Although this product can vary in terms of its coverages (liability and physical damage), disaggregation by these coverages is not considered meaningful due to the relative immateriality of the physical damage component which is only approximately less than 2% of the ending liability for unpaid losses and loss adjustment expenses (“LAE”). Additionally, the amount of renters’ coverage sold as an optional product is immaterial. Information regarding the reserve for unpaid losses and LAE is as follows (in thousands).

	<u>Year Ended December 31,</u>		
	<u>2025</u>	<u>2024</u>	<u>2023</u>
Liability for unpaid losses and LAE at beginning of year, gross	\$ 240,447	\$ 165,346	\$ 107,100
Reinsurance balances recoverable	(23,347)	(2)	(97)
Liability for unpaid losses and LAE at beginning of year, net	<u>217,100</u>	<u>165,344</u>	<u>107,003</u>
Add: Provision for losses and LAE:			
Current year	319,258	348,482	274,747
Prior year	(13,804)	13,283	1,714
Net losses and LAE incurred	305,454	361,765	276,461
Less: Losses and LAE paid:			
Current year	162,347	180,023	141,424
Prior year	140,416	129,986	76,696
Net losses and LAE paid	<u>302,763</u>	<u>310,009</u>	<u>218,120</u>
Liability for unpaid losses and LAE at end of year, net	219,791	217,100	165,344
Reinsurance balances recoverable	47,439	23,347	2
Liability for unpaid losses and LAE at end of year, gross	<u>\$ 267,230</u>	<u>\$ 240,447</u>	<u>\$ 165,346</u>

The favorable development of \$13.8 million for the year ending December 31, 2025 was primarily attributable to lower-than-expected severity on personal injury protection (“PIP”), bodily injury and property damage losses, in the 2024 accident year.

The unfavorable development of \$13.3 million for the year ending December 31, 2024 was primarily attributable to higher-than-expected property damage and bodily injury losses in the 2023 accident year.

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

The information that follows about incurred and paid claims development for the 2016 to 2024 years, and the average annual percentage payout of incurred claims by age as of December 31, 2025, is presented as required unaudited supplementary information.

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

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

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

Accident year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
2016	\$ 278,366	\$ 275,768	\$ 272,000	\$ 269,026	\$ 269,159	\$ 270,515	\$ 270,497	\$ 271,176	\$ 271,185	\$ 271,208
2017		223,066	212,134	206,784	206,659	207,193	207,213	207,053	207,113	207,125
2018			196,023	179,060	178,172	179,381	179,394	179,539	179,512	179,638
2019				170,434	166,600	165,052	164,781	164,251	164,106	164,164
2020					138,014	134,543	133,602	132,672	132,406	132,979
2021						156,437	162,147	160,487	159,920	161,930
2022							176,444	180,431	182,989	183,745
2023								274,382	285,979	284,071
2024									348,545	332,956
2025										319,258
									Total	\$ 2,237,074

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

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

Accident year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
2016	\$ 163,792	\$ 238,657	\$ 258,190	\$ 264,474	\$ 267,019	\$ 268,912	\$ 270,045	\$ 271,025	\$ 271,094	\$ 271,137
2017		120,673	183,609	197,573	202,766	205,280	206,438	206,844	207,042	207,063
2018			105,877	157,360	169,662	174,891	177,592	178,860	179,299	179,525
2019				99,966	147,341	157,245	161,272	162,851	163,670	163,983
2020					81,479	118,400	126,511	129,669	131,168	132,583
2021						95,715	144,198	153,327	156,820	160,862
2022							101,118	161,069	175,477	179,498
2023								141,061	250,037	269,652
2024									180,079	290,666
2025										162,347
									Total	\$2,017,317
									All outstanding reserves for unpaid losses and LAE prior to 2016, net of reinsurance	34
									Total outstanding reserves for unpaid losses and LAE, net of reinsurance	\$ 219,791

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

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

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
2016	\$ 271,208	\$ (2)	118,638
2017	207,125	(10)	89,824
2018	179,638	9	78,430
2019	164,164	56	68,888
2020	132,979	161	54,587
2021	161,930	535	61,321
2022	183,745	3,041	62,831
2023	284,071	11,380	100,442
2024	332,956	32,871	124,842
2025	319,258	116,867	115,657

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	57.6%	30.5%	6.6%	2.5%	1.1%	0.6%	0.3%	0.2%	0.0%	0.0%

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

**10. Debentures Payable**

In June 2007, First Acceptance Statutory Trust I (“FAST I”), an unconsolidated subsidiary trust of the Company, issued 40,000 shares of preferred securities at \$1,000 per share to outside investors and 1,240 shares of common securities to the Company, also at \$1,000 per share. FAST I used the proceeds from the sale of the preferred securities to purchase \$41.2 million of junior subordinated debentures from the Company. The sole assets of FAST I are \$41.2 million of junior subordinated debentures issued by the Company. The debentures will mature on July 30, 2037 and are currently redeemable by the Company in whole or in part and the preferred securities are callable. The debentures paid a fixed rate of 9.277% until July 30, 2012, after which the rate became variable (Currently three-Month CME term SOFR plus the spread adjustment of 0.26161 percent, resetting quarterly). The interest rate related to the debentures for the year ended December 31, 2025, ranged from 7.850% to 8.601%. The interest rate related to the debentures for the year ended December 31, 2024, ranged from 8.601% to 9.402%. In January 2026, the interest rate reset to 7.678% through April 2026.

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

The debentures are classified as debentures payable in the Company’s consolidated balance sheets and the interest paid on these debentures is classified as interest expense in the consolidated statements of income. As of December 31, 2025, the unamortized debt discount and issuance costs of \$0.5 million are being amortized to interest expense over the term of the debentures.

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

As of December 31, 2025 and 2024, the Company was in compliance with the covenants related to the debentures payable. Such borrowing is not an obligation of the Company’s regulated insurance company subsidiaries. The Company believes that it has sufficient liquidity outside the Company’s regulated insurance company subsidiaries to meet its current obligations in the foreseeable future, including the payment of interest on this borrowing.

**11. Income Taxes**

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

	<b>Year Ended December 31,</b>		
	<b>2025</b>	<b>2024</b>	<b>2023</b>
<b>Federal:</b>			
Current	\$ 9,301	\$ 13,505	\$ 5,627
Deferred	(1,507)	(6,692)	15,855
	7,794	6,813	21,482
<b>State:</b>			
Current	520	1,218	1,280
Deferred	(19)	(904)	2,359
	501	314	3,639
	<u>\$ 8,295</u>	<u>\$ 7,127</u>	<u>\$ 25,121</u>

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

The provision for income taxes differs from the amounts computed by applying the statutory federal corporate tax rate of 21% for the years ended December 31, 2025, 2024 and 2023 to income before income taxes as a result of the following (in thousands).

	Year Ended December 31,					
	2025		2024		2023	
Provision (benefit) for income taxes at statutory rate	\$ 8,089	21.0%	\$ 7,018	21.0%	\$ 20,798	21.0%
Tax effect of:						
Tax-exempt investment income	(79)	-0.2%	(47)	-0.1%	(19)	0.0%
Change in valuation allowance for deferred tax assets allocated to federal income tax	—	0.0%	19	0.1%	—	0.0%
Stock-based compensation benefits not realized	(25)	-0.1%	(1)	0.0%	(38)	0.0%
State income taxes, net of federal income tax benefit and state valuation allowance	392	1.0%	58	0.2%	3,369	3.4%
Other	(82)	-0.2%	80	0.1%	15	0.0%
Section 453A interest on installment of insurance agency	—	0.0%	—	0.0%	996	1.0%
	<u>\$ 8,295</u>	<u>21.5%</u>	<u>\$ 7,127</u>	<u>21.3%</u>	<u>\$ 25,121</u>	<u>25.4%</u>

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

	Year Ended December 31,	
	2025	2024
Deferred tax assets:		
State net operating loss carryforwards	\$ 2,754	\$ 1,804
Stock-based compensation	467	282
Unearned premiums and loss and loss adjustment expense reserves	8,415	7,599
Accrued expenses and other nondeductible items	1,356	1,074
Net unrealized change on investments in fixed maturities	(53)	1,362
Operating lease liabilities	1,011	994
Other	(67)	329
	<u>13,883</u>	<u>13,444</u>
Deferred tax liabilities:		
Deferred acquisition costs	(1,723)	(1,492)
Identifiable intangible assets	(390)	(375)
Net unrealized change on investments in equity securities	(932)	(420)
Operating lease right-of-use assets	(943)	(920)
Deferred gain on installment sale of insurance agency	(2,653)	(3,677)
Other	(1,291)	(1,685)
	<u>(7,932)</u>	<u>(8,569)</u>
Total net deferred tax asset	5,951	4,875
Less: Valuation allowance	(3,072)	(2,108)
Net deferred tax asset	<u>\$ 2,879</u>	<u>\$ 2,767</u>

ASC Topic 740, *Income Taxes*, establishes procedures to measure deferred tax assets and liabilities and assesses 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 these assets based on the weight of available positive and negative evidence. Management determined that a valuation allowance of \$3.1 million and \$2.1 million, for December 31, 2025 and 2024, respectively, was necessary relative to certain state taxes net operating loss carryforwards and OTTI which are not expected to be realized. Management also determined at December 31, 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.

As of December 31, 2025, the Company has gross state operating losses of \$50.5 million of which the entire balance has been deemed not more likely than not to be utilized, thus a valuation allowance has been recognized against these gross state operating loss carryforwards.

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

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

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

The calculation of the Company's tax liability as of December 31, 2025 includes uncertainty in the application of tax laws and regulations in certain state jurisdictions across the Company's operations. ASC 740 states that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained. We (1) record unrecognized tax benefits as a liability in accordance with ASC 740 and (2) adjust this liability when our judgment changes as a result of the evaluation of new information not previously available. Because of the complexity of this uncertainty, the ultimate resolution may result in a payment that is different from the Company's current estimate of the unrecognized tax benefit liabilities. This difference will be reflected as an increase or decrease to income tax expense in the period in which the new information becomes available. We believe that it is reasonably possible that an increase of up to \$1.3 million in unrecognized tax benefits related to non-recurring state tax exposures may occur in the future.

## 12. Net Income Per Share

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

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

	Year Ended December 31,		
	2025	2024	2023
Net income	\$ 30,226	\$ 26,291	\$ 73,912
Weighted average common basic shares	36,945	38,128	38,086
Effect of dilutive securities	958	967	323
Weighted average common dilutive shares	37,903	39,095	38,409
Basic net income per share	\$ 0.82	\$ 0.69	\$ 1.94
Diluted net income per share	\$ 0.80	\$ 0.67	\$ 1.92

For the year ended December 31, 2025, 2024 and 2023 the computations of diluted net income per share included all outstanding financial instruments with a right to purchase or convert into common stock.

## 13. Concentrations of Credit Risk

As of December 31, 2025 and 2024, 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 \$78.3 million and \$85.9 million, respectively. The Federal Deposit Insurance Corporation ("FDIC") insures cash balances up to \$250,000 per depositor, per bank. For purposes of evaluating credit risk, the stability of financial institutions conducting business with the Company and the amount of available FDIC 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 through independently owned insurance agencies who write non-standard personal automobile insurance policies on behalf of the Company. Direct policyholders can make payments directly to the Company or to an independent agency. 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 independent agencies may 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 and contingent commission adjustments are unsecured.

At December 31, 2025 and 2024, the Company had total consideration receivable gross of discount of \$20.0 million and \$30.0 million from the sale of the Insurance Agency, respectively (Note 17).

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

At December 31, 2025 and 2024, the Company had unsecured aggregate reinsurance receivables from a single carrier, with an AM Best Rating of A++, of \$44.8 million and \$28.6 million, respectively. The Company evaluates the financial strength of its reinsurer and continually monitors their financial condition through periodic review of their credit quality.

**14. Litigation**

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

**15. Statutory Financial Information and Accounting Policies**

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

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

As of December 31, 2025, and 2024, on a consolidated statutory basis, the capital and surplus of the Insurance Companies was \$196.9 million and \$166.3 million, respectively. For the years ended December 31, 2025, 2024 and 2023, consolidated statutory net income of the Insurance Companies was \$26.2 million, \$25.6 million, and \$14.9 million, respectively.

The maximum amount of dividends which can be paid within a 12-month period by the lead insurance company, First Acceptance Insurance Company, Inc. ("FAIC"), to the Company, without the prior approval of the Texas insurance commissioner, is limited to the greater of 10% of statutory capital and surplus as of December 31 of the next preceding year or net income for the year. In addition, dividends may only be paid from unassigned surplus and an insurance company's remaining surplus must be both reasonable in relation to its outstanding liabilities and adequate to meet its financial needs. The dividend limitation for FAIC in 2026 is \$19.9 million, of which \$15.0 million was paid on January 23, 2026.

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, 2025. Failure to maintain an adequate RBC could subject the Insurance Companies to regulatory action and could restrict the payment of dividends. There are also statutory guidelines that suggest that on an annual calendar year basis an insurance company should not exceed a ratio of net premiums written to statutory capital and surplus of 3-to-1. For the year ended December 31, 2025, each insurance company subsidiary was within this guideline.

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

**16. Related Parties**

The Company operates under standard agreements for Treasury and Custodial Services with a bank indirectly owned 27% by Gerald J. Ford, the Company's controlling stockholder. The fees under these agreements for the years ended December 31, 2025, 2024 and 2023 were \$107 thousand, \$132 thousand, and \$141 thousand, respectively.

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.

**17. Sale of Insurance Agency Subsidiary**

On December 1, 2023, the Company entered into a securities purchase agreement with the buyer to sell 100% of its issued and outstanding shares of capital stock of its wholly-owned subsidiary, the Insurance Agency, for net cash consideration of up to \$120 million which included \$55 million paid at closing and \$20 million held in escrow which was released monthly from March 2024 through December 2024. The Company received additional contingent consideration of \$10 million in December 2025 and \$15 million in December 2024, respectively, and is eligible to receive additional contingent consideration of \$20 million on December 1, 2026, based upon achievement of certain annual premium production targets. At December 31, 2025 the Company remained confident in meeting the remaining 2026 target.

At December 31, 2025 and 2024, future consideration receivable from this sale of \$18.7 million and \$26.7 million, respectively, is recorded at fair value, utilizing a discounted cash flow approach.

The purchase agreement provides that the Company will receive its additional contingent consideration in its entirety should the buyer fail to submit applications within the applicable underwriting guidelines of the Insurance Companies, provided that the Company has not breached any of its agreements with the buyer. The agreement also provides that the Company maintain \$100 million of capital and surplus in the Insurance Companies through December 31, 2026. As of December 31, 2025 and March 3, 2026, the Company is not in breach of contract.

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

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholder of  
First Acceptance Corporation

**Opinion**

We have audited the consolidated financial statements of First Acceptance Corporation (the Company), which comprise the consolidated balance sheets as of December 31, 2025 and 2024, and the related consolidated statements of operations, changes in stockholder's equity, and cash flows for the three-year period ended December 31, 2025 and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2025 and 2024, and the results of its operations and its cash flows for the three-year period ended December 31, 2025 in accordance with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

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

**Responsibilities of Management for the Consolidated Financial Statements**

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

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

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(Continued)

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

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

In performing an audit in accordance with GAAS, we:

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

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

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the claims development information for periods prior to 2025 and average annual percentage payout of incurred claims information, included in Note 9, be presented to supplement the basic consolidated financial statements. Such information is the responsibility of management and, although not a part of the basic consolidated financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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(Continued)

### ***Other Information***

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

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

A handwritten signature in black ink that reads "Crowe LLP". The signature is written in a cursive, flowing style.

Crowe LLP

West Hartford, Connecticut  
March 2, 2026

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

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

### **Forward-Looking Statements**

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

- the accuracy and adequacy of our loss reserving methodologies;
- income, 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 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

First Acceptance is an insurance company headquartered in Nashville, Tennessee. We offer non-standard personal automobile insurance through our own underwritten insurance policies primarily 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 year ended December 31, 2025, two single independent agent groups produced 44% and 40% of premiums earned, respectively, totaling 84%. At December 31, 2025, we also had approximately 850 other active independent agent locations who primarily 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

The trade environment continues to introduce significant uncertainty for vehicle and parts costs. The United States implemented a 25% tariff on all imported vehicles effective April 3, 2025, and extended that tariff to imported auto parts on May 3, 2025. Tariffs of at least 10% have also been applied to most imported production inputs for domestically manufactured parts, increasing cost pressure across both imported and U.S.-assembled vehicles.

In addition, recent retaliatory measures and tightening export controls on rare earth elements ("REE's") and permanent magnets, critical inputs for vehicle electronics and electric powertrains, have emerged as a major supply-chain concern. China's restrictions on REE exports have already disrupted component manufacturing in multiple markets and are contributing to elevated cost inflation and repair delays. These dynamics compound existing tariff effects and create a more volatile cost environment for both imported and domestically assembled vehicles. As of the fourth quarter of 2025, these disruptions have increasingly affected late-model vehicles and advanced driver assistance systems (ADAS), further elevating repair complexity and severity. In February 2026, China expanded export controls affecting multiple Japanese entities (including auto-linked firms), reinforcing the risk of renewed shortages and extended cycle times for magnet- and REE-dependent components. The administration has since announced additional tariffs, including a 50% duty on steel and aluminum and the potential for further increases on Chinese exports in response to REE export controls. The outcome of these proceedings and policy adjustments remains uncertain.

On May 30, 2025, a federal appeals court stayed a decision by the U.S. Court of International Trade that found the administration had not met legal requirements to levy certain tariffs, with oral arguments held on July 31, 2025. On February 20, 2026, the U.S. Supreme Court held that the IEEPA ("International Emergency Economic Powers Act") does not authorize the 'reciprocal' tariffs, materially changing the legal backdrop for the broad-based tariff regime. Refund treatment remains subject to further proceedings and potential legislation. Effective February 24, 2026, the administration implemented a temporary 10% import surcharge for 150 days under Section 122 of the Trade Act of 1974, and has publicly floated a potential increase to 15%. Importantly, the 25% auto and auto-parts tariffs implemented under Section 232 remain in effect, even as the IEEPA-based "reciprocal" tariffs were invalidated.

While the ultimate impact of tariffs and supply-chain disruption cannot yet be fully quantified, the automobile insurance industry continues to experience higher physical damage loss severities stemming from increased vehicle replacement and repair costs. The Company believes that the elevated loss severity experienced through year-end 2025 was driven by both realized cost increases and forward-looking price adjustments by repair networks in response to sustained trade and supply-chain uncertainty. These pressures appear to have stabilized in recent months but remain materially above pre-pandemic and pre-inflationary norms. The continued escalation of REE and component supply risks suggests that normalization of repair and replacement costs is likely to extend into 2026 or later. Extended repair times driven by parts shortages, labor constraints, and reliance on higher-cost substitutes remain meaningful contributors to loss severity.

At the same time, claim frequency has shown modest improvement within the non-standard auto segment. Economic uncertainty and reduced discretionary driving among lower-income consumers have led to fewer miles driven, especially in urban and near-urban markets where costs have risen most sharply. This dynamic has provided a partial offset to inflationary pressure on loss severity. However, frequency trends have shown signs of stabilization late in the year, and the durability of recent improvements remains uncertain amid uneven employment conditions and wage growth.

We are seeing signs of market softening in pockets of the non-standard segment as some competitors lean into growth by tightening their margin targets, expanding eligibility, and pushing more aggressive price/terms to recapture volume—creating heightened competitive risk even as our underlying cost environment remains elevated. This is being amplified by liquidity constraints among our core customers: higher essential-goods inflation, limited savings buffers, and tighter credit are increasing sensitivity to down payment, installment schedule, and total monthly bill, driving more mid-term lapses, higher shopping at renewal, and greater willingness to trade coverage limits for affordability. In that context, even modest competitor moves (lower fees, more flexible pay plans, short-term promotional pricing, reinstatement offers) can disproportionately impact retention and new business conversion, requiring us to stay disciplined on pricing adequacy while selectively defending high-lifetime value segments through targeted retention efforts, friction reduction, and tighter monitoring of quote hit rate, renewal conversion, and lapse-by-payment-plan.

Broadly, 2025 had reflected a “tale of two economies” and we may see this continue into 2026. Equity market appreciation and elevated interest rates had supported strong investment portfolio returns in 2025. Proactive moves to extend duration in the portfolio as well as an investment strategy focused on high quality positions should continue to provide for attractive investment income even if equity markets no longer perform as strongly as in prior years. Yet, for many consumers in the non-standard market, persistent inflation in essential goods, higher borrowing costs, and uneven labor participation have continued to erode real disposable income. This divergence reinforces affordability pressure and heightened sensitivity to rate changes, underscoring the Company’s need for disciplined pricing, clear communication, and retention-focused execution.

In response, the Company has actively adjusted underwriting standards and implemented targeted premium rate changes to better align pricing with observed loss experience and emerging cost drivers. Approved rate actions taken during 2025 are expected to earn in progressively through 2026, partially offsetting elevated loss severities. Ongoing monitoring of cost trends, claim frequency, and macroeconomic indicators will inform additional adjustments as necessary. The Company is also advancing segmentation to refine risk selection and pricing accuracy, while maintaining a continued focus on customer retention, regulatory compliance, and fairness in the non-standard auto market.

Looking ahead to 2026, the Company expects physical damage loss severities to remain elevated relative to historical norms, reflecting the ongoing effects of tariffs, supply-chain constraints, and increased vehicle repair complexity, particularly for newer vehicles with advanced technology features. While repair cost inflation is anticipated to moderate from recent peaks, meaningful normalization is unlikely in the near term. Claim frequency is expected to remain broadly stable, with potential for modest upward pressure should economic conditions improve and driving activity increase. In this environment, the Company will continue to prioritize pricing adequacy, underwriting precision, and disciplined risk selection, while monitoring affordability and retention dynamics closely within the non-standard segment. Earn-in from rate actions taken during 2025, combined with continued refinement of vehicle-level segmentation and underwriting standards, is expected to support gradual improvement in underwriting margins over the course of 2026, subject to economic, regulatory, and trade-policy developments.

## **Reinsurance**

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. Our consolidated financial statements reflect the ceding (i.e. reduction) of premiums and losses ceded under this agreement, as well as ceding commission income to compensate the Company for servicing this business. The ceding commission income is adjustable based upon the loss ratio of the reinsured business. The Company believes that this agreement provides the benefit of allowing this independent agent to expand its business beyond the Company’s current underwriting capacity, while the Company believes it benefits financially from servicing the increased business ceded under this agreement. The Company also believes that this agreement is prudent in managing the planned growth from a risk management perspective.

## Consolidated Results of Operations

### Overview

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

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

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

	Year Ended December 31,		
	2025	2024	2023
Georgia	\$ 159,437	\$ 156,169	\$ 112,098
Florida	109,162	139,889	96,657
South Carolina	48,831	42,324	23,013
Texas	40,819	25,011	13,531
Alabama	35,658	31,769	34,815
Pennsylvania	32,783	22,690	15,782
Arizona	32,707	28,217	17,598
California	23,938	22,898	24,758
Tennessee	21,865	24,428	24,153
Illinois	14,913	10,471	5,094
Ohio	14,793	18,084	14,708
Indiana	7,632	8,988	8,392
Mississippi	4,543	6,423	6,156
Virginia	3,570	1,687	314
Missouri	68	95	102
	\$ 550,719	\$ 539,143	\$ 397,171
Premiums ceded	(107,176)	(47,361)	—
	\$ 443,543	\$ 491,782	\$ 397,171

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

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

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

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

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

	Year Ended December 31,		
	2025	2024	2023
Loss	68.8%	73.6%	69.6%
Expense	26.9%	22.1%	27.6%
Combined	95.7%	95.7%	97.2%

## Investments

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

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

The value of our consolidated fixed maturities, available-for-sale portfolio was \$355.1 million as of December 31, 2025 and consisted of fixed maturity securities carried at fair value with unrealized gains and losses reported as a separate component of stockholders’ equity. As of December 31, 2025, we had gross unrealized gains of \$5.1 million and gross unrealized losses of \$4.9 million in our consolidated investments in fixed maturities, available-for-sale portfolio.

The value of our investment in equity securities portfolio was \$26.3 million as of December 31, 2025 and consisted of investments in mutual funds, carried at fair value with unrealized gains and losses reported as a component of net income. As of December 31, 2025, we had gross unrealized gains of \$5.3 million and gross unrealized losses of \$0.9 million in our investments in equity securities portfolio.

The value of our other investments was \$8.4 million as of December 31, 2025 and consisted of four limited partnership interests carried at net asset value, with unrealized gains and losses reported as investment income.

As of December 31, 2025, 99.8% 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, 2025, Compared with the Year Ended December 31, 2024*

### *Consolidated Results*

Revenues before ceded reinsurance for the year ended December 31, 2025 increased 1% to \$613.5 million from \$606.8 million in the prior year. Revenues for the years ended December 31, 2025 and 2024, were reduced by ceded premiums earned of \$107.2 million and \$47.4 million, respectively, from the new reinsurance contract that went into effect July 1, 2024. (There were twelve months of reinsurance in 2025 compared to six months in 2024.) Revenues after ceded reinsurance for the year ended December 31, 2025 decreased 10% to \$506.3 million from \$559.4 million in the prior year.

Income before income taxes for the year ended December 31, 2025, was \$38.5 million, compared with \$33.4 million for the year ended December 31, 2024. Net income for the year ended December 31, 2025, was \$30.2 million, compared with \$26.3 million for the year ended December 31, 2024. Basic and diluted net income per share were \$0.82 and \$0.80 for the year ended December 31, 2025, respectively, compared with \$0.69 and \$0.67 for the year ended December 31, 2024.

For the year ended December 31, 2025, we recognized favorable prior period loss and LAE development of \$13.8 million compared with unfavorable prior period loss and LAE development of \$13.3 million for the year ended December 31, 2024. This development resulted in contingent commission adjustments to an independent agent that increased commission expense by \$7.3 million for the year ended December 31, 2025, and reduced commission expense by \$4.7 million for the year ended December 31, 2024.

### *Premiums Earned*

After reinsurance, net premiums earned decreased by \$48.3 million, or 10%, to \$443.5 million for the year ended December 31, 2025, from \$491.8 million for the year ended December 31, 2024.

Before reinsurance, direct and assumed premiums earned increased by \$11.6 million or 2.1%, to \$550.7 million for the year ended December 31, 2025 from \$539.1 million for the year ended December 31, 2024.

This increase before reinsurance was driven through a combination of an increase in policies in-force compared to the prior year and premium rate increases.

### *Commission and Fee Income*

In 2025 and 2024, commission and fee income consisted of billing fees, services charges and managing general agency fees which decreased by \$8.2 million to \$40.1 million for the year ended December 31, 2025, from \$48.3 million for the year ended December 31, 2024.

### *Investment Income*

Investment income increased to \$19.9 million during the year ended December 31, 2025, from \$18.4 million during the year ended December 31, 2024. This increase was primarily the result of higher returns from fixed maturities and the overall increase in the amount of invested assets. Investment income for the years ended December 31, 2025 and 2024 included \$2.0 million and \$3.1 million, respectively, in accretion of the discounted present value of the consideration receivable from the sale of the Insurance Agency.

As of December 31, 2025, and 2024, the book yields for our fixed maturities and cash equivalents portfolio were 4.3% and 4.1%, respectively, with effective durations of 3.58 and 2.84 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. The duration also increased during the year as a result of the sale of \$34.1 million of fixed maturities and their longer-duration reinvestment.

### *Losses and Loss Adjustment Expenses*

The loss ratio was 68.8% for the year ended December 31, 2025, compared with 73.6% for the year ended December 31, 2024. We experienced favorable development related to prior fiscal years of \$13.8 million for the year ended December 31, 2025, compared with unfavorable development \$13.3 million for the year ended December 31, 2024. The favorable loss development for the year ended December 31, 2025 was primarily attributable to lower-than-expected severity on personal injury protection (“PIP”), bodily injury and property damage losses, in the 2024 accident year. The unfavorable loss development for the year ended December 31, 2024 was primarily attributable to higher-than-expected property damage and bodily injury losses in the 2023 accident year.

Excluding the development related to prior fiscal years, the loss ratios for the years ended December 31, 2025 and 2024 were 72.0% and 70.9%, respectively. The higher loss ratio for the current year was 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 decreased to \$155.7 million for the year ended December 31, 2025 from \$157.1 million for the year ended December 31, 2024. Commissions to independent insurance agents represent the largest component of insurance operating expenses and increased to \$111.3 million for the year ended December 31, 2025 from \$98.4 million for the year ended December 31, 2024. Loss development related to prior periods resulted in contingent commission adjustments to an independent agent that increased commission expense by \$7.3 million for the year ended December 31, 2025, and reduced commission expense by \$4.7 million for the year ended December 31, 2024.

Insurance operating expenses are reduced by ceding commission income on reinsurance. Since the reinsurance contract was not effective until July 1, 2024, the year ended December 31, 2024 reflects only six months of ceding commission income. Ceding commission income was \$28.3 million for the year ended December 31, 2025 which increased from \$11.5 million for the six months ended December 31, 2024.

The insurance companies' expense ratio was 26.9% for the year ended December 31, 2025, compared with 22.1% for the year ended December 31, 2024.

#### *Provision for Income Taxes*

The provision for income taxes was \$8.3 million for the year ended December 31, 2025, compared with \$7.1 million for the year ended December 31, 2024. The effective tax rate increased slightly to 21.5% for the year ended December 31, 2025, from 21.3% in the prior year, primarily attributable to state income taxes.

In assessing our ability to realize deferred tax assets ("DTA"), both positive and negative evidence are used to evaluate the allowance. We placed the greatest weight on the Company's outlook for future taxable income over the allowable time period for realization of the DTA and concluded that it is more likely than not that the remaining DTA will be realized. The DTA valuation allowance may be adjusted in future periods if management determines that it is more likely than not that some portion or all of the DTA will not be realized. In the event the DTA valuation allowance is adjusted, we would record an income tax expense for the adjustment.

#### *Interest Expense*

Interest expense was \$3.5 million for the year ended December 31, 2025, compared with \$3.9 million for year ended December 31, 2024. Interest expense decreased primarily as a result of the year-over-year decrease in the applicable variable interest rate. Interest expense may increase or decrease in the future should interest rates rise or fall. For additional information, see "Liquidity and Capital Resources" in this report.

## *Year Ended December 31, 2024, Compared with the Year Ended December 31, 2023*

### *Consolidated Results*

Revenues for the year ended December 31, 2024 decreased to \$559.4 million from \$560.6 million in the prior year. Revenues for the year ended December 31, 2024 were reduced by ceded premiums earned of \$47.4 million from the new reinsurance contract that was effective July 1, 2024 and also did not include commission and fee income from the Insurance Agency that was sold effective December 1, 2023.

Income before income taxes for the year ended December 31, 2024, was \$33.4 million, compared with \$99.0 million for the year ended December 31, 2023. Excluding the gain on sale of the insurance agency of \$73.0 million, income before income taxes for the year ended December 31, 2023 was \$26.0 million compared with \$33.4 million for the year ended December 31, 2024.

Net income for the year ended December 31, 2024, was \$26.3 million, compared with \$73.9 million for the year ended December 31, 2023. Basic and diluted net income per share were \$0.69 and \$0.67 for the year ended December 31, 2024, respectively, compared with \$1.94 and \$1.92 for the year ended December 31, 2023.

For the year ended December 31, 2024, we recognized unfavorable prior period loss and LAE development of \$13.3 million compared with \$1.7 million for the year ended December 31, 2023. However, as a result of this development, we recognized a reduction in commission expense of \$11.8 million from a contingent commission adjustment to an independent agent.

### *Premiums Earned*

After reinsurance, net premiums earned increased by \$94.6 million, or 24%, to \$491.8 million for the year ended December 31, 2024, from \$397.2 million for the year ended December 31, 2023.

Before reinsurance, direct and assumed premiums earned increased by \$141.9 or 35.7%, to \$539.1 million from \$397.2 million for the year ended December 31, 2023.

This increase in direct and assumed premiums earned was driven significantly by the impact of recent premium rate increases and by an increase in policies in-force compared to the prior year. This increase in policies in-force was primarily driven by the growth of an independent agent that utilizes a technology-driven method of distribution.

### *Commission and Fee Income*

Commission and fee income decreased by \$31.7 million to \$48.3 million for the year ended December 31, 2024, from \$80.1 million for the year ended December 31, 2023. As a result of the December 1, 2023 sale of the Insurance Agency, the Company no longer receives commission and fee income from the sale of third-party insurance and ancillary products. The Company does, however, continue to receive managing general agency fees and on premiums written by the insurance companies in certain states along with billing fees and service charges from the insurance companies in all states.

### *Investment Income*

Investment income increased to \$18.4 million during the year ended December 31, 2024, from \$8.7 million during the year ended December 31, 2023. This increase was primarily the result of higher yields on short-term cash equivalents and fixed maturities as well as improved returns on other investments, in addition to an increase in total invested assets as a result of cash provided from operations during the prior year and from the December 1, 2023 sale of the Insurance Agency. Investment income for the years ended December 31, 2024 and 2023 included \$3.1 million and \$0.3 million, respectively, in accretion of the discounted present value of the consideration receivable from the sale of the Insurance Agency.

As of December 31, 2024, and 2023, the book yields for our fixed maturities and cash equivalents portfolio were 4.1% and 3.9%, respectively, with effective durations of 2.84 and 2.26 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.

### *Losses and Loss Adjustment Expenses*

The loss ratio was 73.6% for the year ended December 31, 2024, compared with 69.6% for the year ended December 31, 2023. We experienced unfavorable development related to prior fiscal years of \$13.3 million for the year ended December 31, 2024, compared with \$1.7 million for the year ended December 31, 2023. The unfavorable loss development for the year ended December 31, 2024 was primarily attributable to higher-than-expected property damage and bodily injury losses in the 2023 accident year. The

unfavorable loss development for the year ended December 31, 2023 was primarily attributable to higher-than-expected collision losses in the 2022 accident year.

These development amounts represent 8.0% and 1.6%, respectively, of the total loss and loss adjustment expense reserves as of the beginning of each year. As a result of this development, however, in 2024, we recognized a reduction in commission expense of \$11.8 million from a contingent commission adjustment to an independent agent.

Excluding the development related to prior fiscal years, the loss ratios for the years ended December 31, 2024 and 2023 were 70.9% and 69.2%, respectively. The higher loss ratio for the current year was primarily attributable to increased severity on bodily injury losses.

#### *Insurance Operating Expenses*

Insurance operating expenses decreased year-over-year by \$20.5 million, or 11.5%. Insurance operating expenses for the year ended December 31, 2024 are net of ceding commission income of \$11.5 million from the new reinsurance contract that was effective July 1, 2024.

Following the December 1, 2023 sale of the Insurance Agency, independent agent commissions, a variable cost, are now the largest component of insurance operating expenses and were \$98.4 million for the year ended December 31, 2024. Commissions payable to the Company's independent agent that utilizes a technology-driven method of distribution are contingent and have been accrued based upon the expected ultimate loss ratio of the business produced by this agent.

The insurance companies' expense ratio was 22.1% for the year ended December 31, 2024, compared with 27.6% for the year ended December 31, 2023.

#### *Provision for Income Taxes*

The provision for income taxes was \$7.1 million for the year ended December 31, 2024, compared with \$25.1 million for the year ended December 31, 2023. The effective tax rate decreased to 21.3% for the year ended December 31, 2024, from 25.4% in the prior year, primarily as a result of a reduction in state taxes following the gain on the sale on the Insurance Agency in the prior year which was subject to state taxes.

In assessing our ability to realize deferred tax assets ("DTA"), both positive and negative evidence are used to evaluate the allowance. We placed the greatest weight on the Company's outlook for future taxable income over the allowable time period for realization of the DTA and concluded that it is more likely than not that the remaining DTA will be realized. The DTA valuation allowance may be adjusted in future periods if management determines that it is more likely than not that some portion or all of the DTA will not be realized. In the event the DTA valuation allowance is adjusted, we would record an income tax expense for the adjustment.

#### *Interest Expense*

Interest expense was \$3.9 million for the year ended December 31, 2024, compared with \$3.8 million for year ended December 31, 2023. Interest expense increased primarily as a result of the year-over-year increase in the applicable variable interest rate. Interest expense may increase or decrease in the future should interest rates rise or fall. For additional information, see "Liquidity and Capital Resources" in this report.

## Liquidity and Capital Resources

Our primary sources of funds are premiums, billing fees and service charges, 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 year ended December 31, 2025, was \$46.2 million, compared with \$52.1 million for the year ended December 31, 2024. This decrease was primarily the result of the new reinsurance contract commencing July 1, 2024 which was only in effect for six of the twelve months ended December 31, 2024.

Net cash used in investing activities for the year ended December 31, 2025, was \$47.6 million, compared with \$75.5 million for the year ended December 31, 2024. This change was primarily the result of the sale of investments in the current year, which included the sale and longer-duration reinvestment of fixed maturities to increase portfolio duration

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 in 2026 from the sale of the Insurance Agency as noted in the following paragraph. As of December 31, 2025, our holding company had adequate unrestricted cash of \$17.1 million to meet current obligations. In addition, on January 23, 2026, the holding company received a \$15.0 million dividend from the insurance companies. 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 \$20 million on December 1, 2026, based upon achievement of an annual production target. The cash from the contingent consideration payment 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 December 31, 2025, statutory capital and surplus was approximately \$196.9 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. Effective July 1, 2023, with the sunset of LIBOR, the debentures now accrue interest at a variable rate equal to an adjusted Three-Month CME term SOFR rate plus 375 basis points, which resets quarterly. The interest rate related to the debentures for the year ended December 31, 2025, ranged from 7.850% to 8.601%. In January 2026, the interest rate reset to 7.678% through April 2026.

State insurance laws limit the amount of dividends that may be paid from our insurance company subsidiaries. As of December 31, 2025, the ordinary dividend limitation for 2026 was \$19.9 million, of which \$15.0 million was paid on January 23, 2026 and will be reinstated on January 23, 2027, subject to the sufficiency of unassigned surplus

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, 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 year ended December 31, 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.

## Trust Preferred Securities

On June 15, 2007, First Acceptance Statutory Trust I (“FAST I”), our unconsolidated subsidiary trust entity, completed a private placement whereby FAST I issued 40,000 shares of preferred securities at \$1,000 per share to outside investors and 1,240 shares of common securities to us, also at \$1,000 per share. FAST I used the proceeds from the sale of the preferred securities to purchase \$41.2 million of junior subordinated debentures from us. The debentures will mature on July 30, 2037 and are currently redeemable by the Company in whole or in part and the preferred securities are callable. The debentures currently pay a variable rate equal to an adjusted Three-Month CME term SOFR rate plus 375 basis points, resetting quarterly. During 2025, the interest rate related to the debentures ranged from 7.850% to 8.601%. The obligations of the Company under the junior subordinated debentures represent full and unconditional guarantees by the Company of FAST I’s obligations for the preferred securities. Dividends on the preferred securities are cumulative, payable quarterly in arrears and are deferrable at the Company’s option for up to five years. The dividends on these securities, which have not been deferred, are the same as the interest on the debentures. The Company cannot pay dividends on its common stock during any such deferments. FAST I does not meet the requirements for consolidation of FASB ASC 810, “*Consolidation*”. See note 10 to the consolidated financial statements.

## Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

## Critical Accounting Estimates

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

### *Losses and Loss Adjustment Expense Reserves*

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

We are directly liable for loss and loss adjustment expenses under the terms of the insurance policies underwritten by our insurance company subsidiaries. Each of our insurance company subsidiaries establishes a reserve for all of its unpaid losses, including case reserves and IBNR reserves, and estimates for the cost to settle the claims. We estimate our IBNR reserves by estimating our ultimate liability for loss and loss adjustment expense reserves first and then reducing that amount by the amount of cumulative paid claims and by the amount of our case reserves. We rely primarily on historical loss experience in determining reserve levels, on the assumption that historical loss experience provides a good indication of future loss experience. We also consider various other factors, such as inflation, claims settlement patterns, legislative activity, and litigation trends. Our actuarial staff continually monitors these estimates on a state and coverage level. We utilize our actuarial staff to determine appropriate reserve levels. As experience develops or new information becomes known, we increase or decrease the level of our reserves in the period in which changes to the estimates are determined. These estimates involve a high level of subjectivity and judgment, 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, 2025, we experienced favorable development on reserves of \$13.8 million, which decreased our loss and loss adjustment expense for prior accident periods. This favorable loss development was primarily attributable to lower-than-expected severity on personal injury protection (“PIP”), bodily injury and property damage losses, in the 2024 accident year.

## Quantitative and Qualitative Disclosures About Market Risk

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

### Interest Rate Risk

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

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

	Sensitivity to Instantaneous Interest Rate Changes (basis points)						
	(200)	(100)	(50)	0	50	100	200
Fair value of fixed maturities portfolio	\$380,486	\$368,603	\$361,743	\$355,064	\$348,565	\$342,245	\$330,146

The following table provides information about our fixed maturity investments as of December 31, 2025, which are sensitive to interest rate risk. The table shows expected principal cash flows (at par value, which differs from amortized cost as a result of premiums or discounts at the time of purchase and any expected impairment) by expected maturity date for each of the next five years and collectively for all years thereafter (in thousands). Callable bonds and notes are included based on call date or maturity date depending upon which date produces the most conservative yield. CMOs and sinking fund issues are included based on maturity year adjusted for expected payment patterns. Actual cash flows may differ from those expected.

<u>Year Ending December 31,</u>	<u>Securities with Unrealized Gains</u>	<u>Securities with Unrealized Losses</u>	<u>All Fixed Maturity Securities</u>
2026	\$ 28,796	\$ 13,243	\$ 42,039
2027	26,643	1,000	27,643
2028	43,956	1,361	45,317
2029	57,932	—	57,932
2030	22,415	4,231	26,646
Thereafter	89,628	65,607	155,235
<b>Total</b>	<b>\$ 269,370</b>	<b>\$ 85,442</b>	<b>\$ 354,812</b>
Fair value	\$ 274,464	\$ 80,586	\$ 355,064

On June 15, 2007, our unconsolidated trust entity, FAST I, used the proceeds from its sale of trust preferred securities to purchase \$41.2 million of junior subordinated debentures. The debentures currently pay a variable rate equal to an adjusted Three-Month CME term SOFR rate plus 375 basis points resetting quarterly. The interest rate related to the debentures ranged from 7.850% to 8.601% during 2025. Interest rates on these debentures therefore will reset quarterly based on changes in the Three-Month CME term SOFR rate. In January 2026, the interest rate reset to 7.678% through April 2026. See note 10 to the consolidated financial statements.

## Credit Risk

Credit risk is managed by diversifying our investment portfolio to avoid concentrations in any single industry group or issuer and by limiting investments in securities with lower credit ratings. Our largest single investment, excluding U.S. government and agency securities, is our investment in a single mutual fund with a fair value of \$5.7 million, while our five largest investments totaled \$20.0 million.

The following table presents the underlying ratings of our fixed maturities portfolio by nationally recognized statistical rating organizations as of December 31, 2025 (in thousands).

<b>Comparable Rating</b>	<b>Amortized Cost</b>	<b>% of Amortized Cost</b>	<b>Fair Value</b>	<b>% of Fair Value</b>
AAA	\$ 74,048	20.9%	\$ 74,853	21.1%
AA+, AA, AA-	160,801	45.3%	157,911	44.5%
A+, A, A-	73,750	20.8%	74,911	21.1%
BBB+, BBB, BBB-	45,507	12.8%	46,177	13.0%
Total investment grade	354,106	99.8%	353,852	99.8%
Not rated	316	0.1%	524	0.1%
BB+, BB, BB-	—	0.0%	—	0.0%
B+, B, B-	—	0.0%	—	0.0%
CCC+, CCC, CCC-	169	0.0%	480	0.1%
CC+, CC, CC-	—	0.0%	—	0.0%
C+, C, C-	221	0.1%	208	0.0%
D	—	0.0%	—	0.0%
Total non-investment grade	390	0.1%	688	0.1%
Total	<u>\$ 354,812</u>	<u>100.0%</u>	<u>\$ 355,064</u>	<u>100.0%</u>

## **Risk Factors**

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

***Our business is highly dependent on two independent insurance agencies, with a significant portion of our gross written premiums generated by these agencies. The loss of one or both of these relationships could have a material adverse effect on our business, financial condition, and results of operations.***

For the year ended December 31, 2025, two individual independent agents produced 44% and 40% of premiums earned, totaling 84%. If one or both of these agencies fails to renew their agency agreement, reduces its focus on our products, or begins placing business with a competitor, our premium volume would decrease immediately and significantly.

While we are taking steps to both maintain these relationships and diversify our distribution channels, there is no guarantee that we will be successful in reducing our dependence on these two agencies. If one or both of these relationships is terminated, or either agency fails to produce business in line with our expectations, it would cause a material adverse effect on our financial results and growth prospects.

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

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

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

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

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

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

We establish reserves for the estimated amount of claims under the terms of the insurance policies underwritten by our insurance company subsidiaries. The amount of the reserves is determined based on historical claims information and other factors. The establishment of appropriate reserves is an inherently uncertain process due to several factors, including the difficulty in predicting the frequency and severity of claims, the rate of inflation, changes in trends, ongoing interpretation of insurance policy provisions by courts, and inconsistent decisions in lawsuits regarding coverage and broader theories of liability. Any changes in claims settlement practices can also lead to changes in loss payment patterns, which are used to estimate reserve levels. Our ability to accurately estimate our loss and loss adjustment expense reserves may be made more difficult by changes in our business, including

entry into new markets, changes in sales practices, or changes in our customers' purchasing habits. If our reserves prove to be inadequate, we will be required to increase our loss reserves and the amount of any such increase would reduce our income in the period that the deficiency is recognized. The historic development of reserves for loss and loss adjustment expenses may not necessarily reflect future trends in the development of these amounts. Consequently, our actual losses could materially exceed our loss reserves, which would have a material adverse effect on our results of operations and financial condition.

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

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

Failure to meet applicable minimum RBC requirements or minimum statutory capital and surplus requirements could subject our insurance company subsidiaries to further examination or corrective action imposed by state regulators, including limitations on their writing of additional business, state supervision or even liquidation. Any changes in existing minimum RBC standards or minimum statutory capital and surplus requirements may require our insurance company subsidiaries to increase their statutory capital and surplus levels, which they may be unable to do. These calculations are performed on a calendar year basis, and as of December 31, 2025, our insurance company subsidiaries maintained RBC levels in excess of an amount that would require any corrective actions on their part.

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

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

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

Our results of operations depend, in part, on the performance of our investment portfolio. As of December 31, 2025, the majority of our investment portfolio was invested either directly or indirectly in marketable, investment-grade debt securities and mutual funds, and included U.S. government securities, municipal bonds, corporate bonds, asset-backed securities, and collateralized mortgage obligations. Recent increases in interest rates have reduced the fair value of our investments below amortized cost resulting in a net unrealized loss. Such loss is recognized in comprehensive income for debt securities and in net income for equity securities, and in both cases, reduce our stockholders' equity. As of December 31, 2025, the amortized cost of our fixed maturities, available for sale investment portfolio was lower than its fair value by approximately \$0.3 million. A future increase in interest rates could further reduce the fair value of our investment portfolio.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A single stockholder family, Gerald J. Ford, our former Chairman of the Board and his son, Jeremy B. Ford, our current Chairman, together control approximately 67% of our outstanding common stock. Together, they have the power to control the election and removal of our directors. They would also have significant control over other matters requiring stockholder approval, including the approval of any major corporate transactions or proposed amendments to our certificate of incorporation. This concentration of ownership may delay or prevent any change in control of the Company, as well as frustrate any attempts to replace or remove current management, even when a change may be in the best interests of our other stockholders. Furthermore, their interests may not always coincide with the interests of the Company or other stockholders.

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

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

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

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

*Transactions Between Insurance Companies and Their Affiliates.* Our insurance company subsidiaries are organized and domiciled under the insurance statutes of Texas, Georgia, and Tennessee. The insurance laws in these states provide that all transactions among members of an insurance holding company system must be done at arm's length and shown to be fair and reasonable to the regulated insurer. Transactions between our insurance company subsidiaries and other subsidiaries generally must be disclosed to the state regulators, and prior approval of the applicable regulator generally is required before any material or extraordinary transaction may be consummated. State regulators may refuse to approve or delay approval of such a transaction, which may impact our ability to innovate or operate efficiently.

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

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

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

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

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

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

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

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

We are dependent upon automated information technology processes. A portion of our business operations is conducted over the internet which increases the risk of improper third-party attacks that could cause system failures and disruptions of operations. In

addition, any failure to maintain the security of confidential information belonging to our customers could put us at a competitive disadvantage, result in a loss of customers' confidence in us, and subject us to potential liabilities resulting from litigation, fines, and penalties, which could have a material adverse effect on our results of operations and financial condition.

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