FIRST ACCEPTANCE CORPORATION

3813 Green Hills Village Drive
Nashville, TN 37215

Telephone: (615) 844-2800

QUARTERLY REPORT

FOR THE QUARTER ENDED JUNE 30, 2026

ISSUER'S EQUITY SECURITIES

Common Stock
Par Value $.01 per share
75,000,000 Shares Authorized
36,957,161 Shares Outstanding at June 30, 2026

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

FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES
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This report reviews the financial condition and results of operations of First Acceptance Corporation. The information in this report updates the Annual Information and Disclosure Statement and Annual Report for the year ended December 31, 2025, previously filed by the Company with the OTCQX. Accordingly, this report should be reviewed in conjunction with these year-end reports and any other interim reports or updates provided since.

Forward-Looking Statements

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

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

We believe that our expectations are based on reasonable assumptions. However, these forward-looking statements involve known and unknown risks, uncertainties, and other important factors that could cause our actual results, performance or achievements, or industry results to differ materially from our expectations of future results, performance or achievements expressed or implied by these forward-looking statements. In addition, our past results of operations do not necessarily indicate our future results. We discuss these and other uncertainties in "Risk Factors" of our Annual Report for the year ended December 31, 2025, filed by the Company with the OTCQX.

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

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

Name of the Company or Issuer:
First Acceptance Corporation

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

Item 2. Shares Outstanding

Common shares	6/30/2026	12/31/2025
Authorized:	75,000,000 shares	75,000,000 shares
Outstanding:	36,957,161 shares	36,694,638 shares
Freely Tradable (public float):	9,896,175 shares	9,770,574 shares
Number of beneficial holders owning at least 100 shares:	approx. 1,300 holders	approx. 1,300 holders
Number of registered holders:	199 holders	206 holders
Preferred shares		
Authorized:	10,000,000 shares	10,000,000 shares
Outstanding:	0 shares	0 shares
Freely Tradable (public float):	0 shares	0 shares
Number of record holders:	0 holders	0 holders

Item 3. Interim Consolidated Financial Statements

The interim consolidated financial statements of First Acceptance Corporation as of June 30, 2026 are attached hereto as Exhibit 3.1 and are hereby incorporated by reference into this Quarterly Report, including:

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

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

Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such a difference include those discussed in "Risk Factors" in our Annual Report for the year ended December 31, 2025, filed by the Company with OTCQX. The following discussion should be read in conjunction with our consolidated financial statements included with this report and our consolidated financial statements and related Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2025 included in our Annual Report for the year ended December 31, 2025 filed by the Company with the OTCQX.

General

First Acceptance is an insurance company headquartered in Nashville, Tennessee. We offer non-standard personal automobile insurance through our own underwritten insurance policies solely through independent agents in 16 states, and we are also licensed to write insurance in 10 other states that are not currently utilized. Non-standard personal automobile insurance is sought by individuals who are unable or unwilling to obtain standard coverage due to factors such as payment preferences, failure to maintain continuous coverage, or a poor driving record. Our mission is to provide automobile insurance for underserved and higher-risk drivers, especially those with limited liquidity or difficulty managing large upfront payments. We offer dependable coverage designed around how our customers earn, spend, and manage their money. We also sell an insurance product for renters that we underwrite.

For the six months ended June 30, 2026, two single independent agent groups produced 52% and 36% of premiums earned, respectively. At June 30, 2026, we also had approximately 1,200 other active independent agent locations that represent the balance of the Company's business.

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

Current Underwriting Outlook

The Company entered 2026 from a position of underwriting discipline, supported by targeted pricing actions, improved operational efficiency, and continued investment in data-driven decision-making. While the external environment remains uncertain, management continues to emphasize profitable growth, customer affordability, disciplined risk selection, and responsible innovation as the primary drivers of long-term shareholder value. Through continued refinement of underwriting practices, pricing sophistication, and technology-enabled operations, the Company believes it is well positioned to navigate changing market conditions while delivering sustainable underwriting performance.

Macroeconomic and Loss Cost Environment

The operating environment for the automobile insurance industry continues to reflect elevated, though moderating, loss cost pressures. Inflation in vehicle repair and replacement costs remains above historical norms, driven by higher labor rates, increasing vehicle complexity, supply chain disruptions affecting certain components, and the lingering effects of trade policies on vehicles, replacement parts, and manufacturing inputs. While some of these cost pressures have become more predictable than they were during 2025 and prior, the Company continues to monitor economic conditions, regulatory developments, and industry repair trends that could affect future loss severities. The impact of trade policies, despite some judicial clarity, continues to be a major source of uncertainty. Broad economic trends, including higher fuel costs, seem to have contributed to a general downward trend in driving and, by extension, claims frequency.

Consumers within the non-standard automobile insurance market continue to experience affordability pressures resulting from elevated borrowing costs, persistent inflation in essential household expenses, and ongoing financial strain on discretionary income. These conditions have increased price sensitivity while reinforcing the importance of disciplined pricing, flexible underwriting, and effective customer retention strategies. Although broader economic conditions have remained relatively resilient overall, management continues to closely monitor consumer behavior, shopping activity, and policy retention as indicators of changing market conditions with an acute focus on the non-standard market and its unique economic indicators and facets.

Competitive Market Environment

The competitive landscape within the non-standard automobile insurance market continues to evolve as many carriers transition from restoring rate adequacy to pursuing measured premium growth. Following several years of significant industry-wide pricing actions, competitive activity has increased in selected markets as insurers seek to expand writings while maintaining underwriting discipline. Although pricing conditions have become more competitive in certain states and customer segments, underwriting standards across the industry generally remain more disciplined than in prior market cycles.

The Company continues to evaluate competitive pricing, underwriting appetite, market capacity, and distribution trends on a state-by-state basis to ensure its products remain appropriately positioned. Management believes sustainable profitability is best achieved through disciplined underwriting, accurate risk segmentation, and prudent pricing rather than pursuing premium growth at the expense of long-term underwriting performance.

At the same time, the Company recognizes that affordability remains a primary consideration for customers in the non-standard market. Accordingly, management continues to balance rate adequacy with customer retention through targeted pricing actions, product simplification, enhanced underwriting precision, and ongoing improvements to the customer experience. The Company believes this balanced approach positions it to compete effectively while maintaining underwriting discipline and creating long-term value for policyholders and shareholders.

The Company has also noted that unique market conditions in Florida have caused a rapid, countercyclical softening that has persisted. Several major carriers have been required by regulators to issue premium refunds and have subsequently filed significant rate decreases in an effort to avoid additional refunds. Other carriers have followed with rate reductions of their own to preserve market share. The Company has observed that this softening has spread into other regional markets and believes this is an indirect result of key competitors, disproportionately concentrated in Florida, seeking additional premium across their remaining footprints to offset market share losses in the state. While the softening has impacted the Company, the diversity of distribution and the ability to leverage our largely variable expense structure have allowed us to price better for the long-term state-specific outlook, rather than be forced to chase volume at the cost of real margin.

The Company also continues to pursue disciplined geographic expansion opportunities that align with its underwriting philosophy and long-term growth objectives. During 2026, the Company successfully launched operations in Louisiana, further expanding its presence within the non-standard automobile insurance market. Consistent with its measured approach to market entry, the Company has initially partnered with a large distribution partner to establish an operational foothold, validated underwriting performance, and refined state-specific processes before pursuing broader distribution.

Management believes this phased market entry strategy reduces execution risk by allowing underwriting, pricing, operational workflows, and regulatory processes to mature before expanding distribution relationships. This measured expansion strategy reflects the Company's broader approach to growth—prioritizing disciplined execution, operational readiness, and sustainable profitability over rapid premium expansion. Management believes this approach creates a stronger foundation for long-term success while preserving flexibility to adapt underwriting and distribution strategies as each market matures.

Vehicle Repair Complexity and Severity Trends

Physical damage claim severity remains elevated relative to historical experience as modern vehicles increasingly incorporate advanced driver assistance systems ("ADAS"), connected technologies, sensors, cameras, and other electronic components that increase both repair complexity and replacement costs. Even relatively minor accidents frequently require calibration procedures and specialized repairs that were uncommon in prior years.

In addition to structural changes in vehicle repair costs, continued uncertainty surrounding international trade policy, including tariffs affecting vehicles and replacement parts, together with ongoing volatility in energy markets, has increased uncertainty around future loss costs. Fluctuations in oil prices directly affect transportation, manufacturing, and logistics costs throughout the automotive repair supply chain, while changes in tariff policy can rapidly alter the cost and availability of replacement parts. These factors make future claim severity more difficult to forecast with precision and reduce confidence in long-term pricing assumptions. As a result, the Company has adopted a more conservative approach to pricing, underwriting, and risk selection than would otherwise be necessary under a more stable operating environment, seeking to preserve rate adequacy while maintaining appropriate flexibility as market conditions evolve. This necessary posture serves to reduce availability broadly and consequently increases costs to consumers generally.

Repair cycle times have generally improved from the disruptions experienced during the pandemic but remain susceptible to delays involving specialized components and newer vehicle technologies. The Company expects these structural changes in vehicle design to remain an important driver of claim severity regardless of broader inflation trends.

Claim frequency has remained relatively stable in the Company’s core markets. The Company continues to monitor driving patterns, economic conditions, underwriting mix, geographic trends, and emerging fraud indicators that may affect future frequency and severity. The Company recognizes that customers have a minimum necessary level of driving, which may limit future frequency declines by creating an effective floor for miles driven.

Pricing and Underwriting Actions

The Company continues to implement disciplined pricing and underwriting strategies designed to maintain rate adequacy while balancing affordability for policyholders. Rate filings approved during 2025 and 2026 continue to earn into the portfolio and are expected to improve underwriting margins as they become fully reflected in earned premium. Targeted changes taken by the Company can improve margin beyond the traditionally measured impact when they change the underlying mix of business written either by leveraging or refining existing segmentation or by adding new risk-based pricing levers.

Management continues to refine underwriting guidelines and pricing segmentation using expanded internal analytics, vehicle characteristics, geographic factors, driving behavior, and external data sources to improve risk selection and pricing precision. The Company also continues to evaluate emerging loss trends and regulatory developments to ensure pricing remains responsive to changing market conditions while maintaining fairness, transparency, and regulatory compliance.

The Company continues to invest in predictive analytics and enhanced portfolio monitoring to identify emerging trends earlier, enabling more targeted underwriting and pricing actions that improve profitability while supporting long-term customer retention.

Technology, Data, and Human-Centered Artificial Intelligence

The Company continues to expand the use of artificial intelligence ("AI"), advanced analytics, and workflow supportive automation across underwriting, pricing, claims operations, customer service, and other operational functions. The Company's strategy is intentionally human-centered, deploying AI to support employees by improving consistency, accelerating routine decision-making, identifying actionable insights, and reducing administrative effort while preserving meaningful human oversight for decisions requiring professional judgment, regulatory compliance, and customer engagement.

Rather than replacing employees, AI enables underwriting and claims professionals to devote more time to complex decisions, customer interactions, and exception handling where experience, empathy, and sound judgment provide the greatest value. Management believes that combining AI-driven consistency with human accountability produces better business outcomes than relying exclusively on either approach. This balanced operating model improves operational efficiency, enhances decision quality, reduces operating costs, and strengthens governance while maintaining accountability for underwriting and claims decisions.

The Company also believes this disciplined approach helps avoid many of the implementation challenges experienced across the broader industry, including overreliance on fully autonomous decision-making, inadequate model governance, regulatory uncertainty, inconsistent customer experiences, and the operational complexity associated with large-scale AI implementations. By maintaining human oversight while automating repetitive, analytical, and administrative tasks, the Company seeks to capture the benefits of AI while preserving the flexibility, transparency, and judgment necessary to effectively serve customers, regulators, and business partners.

The Company expects continued investment in AI-enabled decision support, predictive analytics, fraud detection, workflow automation, and model governance to strengthen underwriting performance, improve customer service, enhance operating efficiency, and support long-term profitability.

Operational Excellence and Customer Experience

The Company continues to invest in operational improvements that enhance scalability, improve service levels, and reduce operating costs while maintaining a high-quality customer experience. Workflow automation, digital capabilities, and decision support tools continue to streamline routine processes, allowing employees to devote greater attention to complex underwriting, claims, and customer service activities.

These initiatives support the Company's objective of delivering efficient operations while maintaining strong relationships with policyholders, independent agents, distribution partners, and regulators. The Company's focus on continuous process improvement, employee enablement, and responsible technology adoption is intended to improve both operational performance and customer outcomes. Management believes this combination of underwriting discipline, operational excellence, and human-centered innovation represents an important competitive differentiator within the non-standard automobile insurance market.

Outlook

Looking ahead, the Company expects vehicle repair costs and claim severities to remain above long-term historical averages as increasing vehicle technology, repair complexity, and labor costs continue to influence physical damage losses. Although inflationary pressures have moderated relative to recent years, management believes structural changes in vehicle design, repair processes, and customer expectations will continue to place upward pressure on claim costs. The Company continues to anticipate shocks, both short- and long-term, to the economic outlook driven by uncertain and inconsistent trade postures as well as disruptions from global conflicts and emerging technologies.

The Company will continue to emphasize disciplined pricing, refined underwriting, and data-driven risk selection while balancing customer affordability and retention. Continued investment in technology, artificial intelligence, operational efficiency, and analytical capabilities is expected to enhance underwriting performance, improve expense efficiency, and strengthen the Company's competitive position.

Management expects the combination of disciplined underwriting execution, thoughtful use of technology, operational efficiency initiatives, and continued investment in employees to position the Company for sustainable, profitable growth. While macroeconomic conditions, regulatory developments, competitive dynamics, and industry loss trends remain subject to uncertainty, the Company believes its balanced approach—combining data-driven consistency with experienced human judgment—provides a durable foundation for long-term success.

The Company's investments in advanced analytics, more frequent portfolio monitoring, and targeted state-level pricing actions are intended to improve responsiveness to these changing conditions; however, management believes maintaining underwriting discipline remains the most appropriate course until greater stability returns to the underlying cost environment.

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 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. (This has been increased to $187.5 million for the period from July 1, 2026 to June 30, 2027.) 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

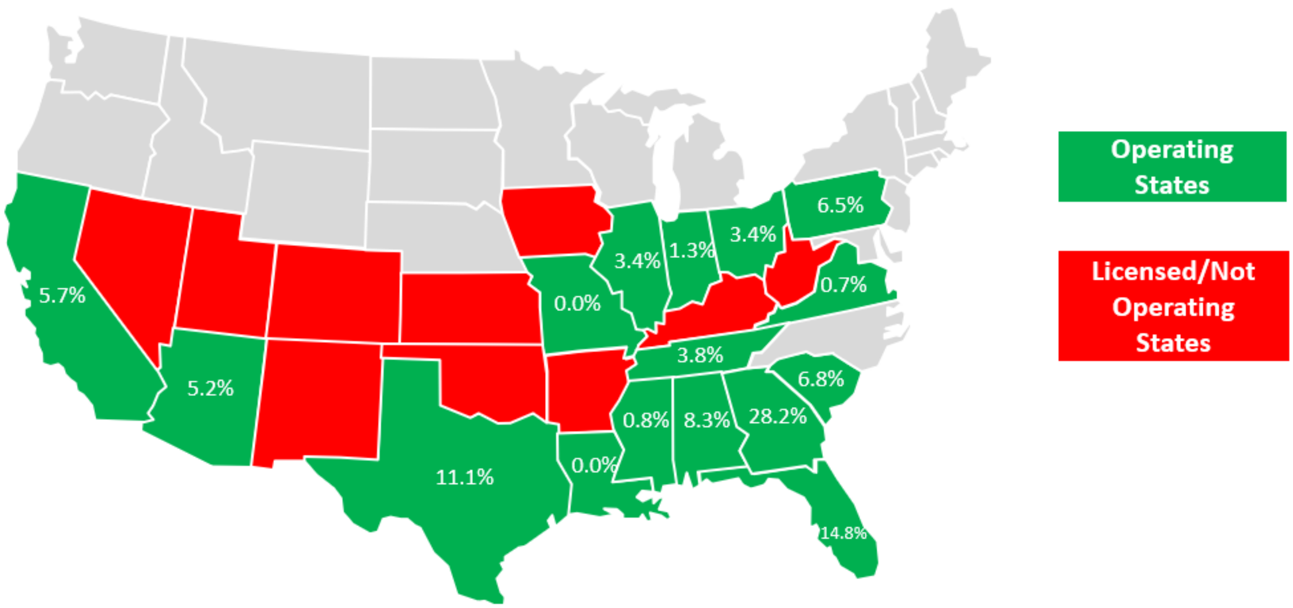
Our insurance operations generated revenues from selling non-standard personal automobile insurance policies. We currently conduct our underwriting operations in 16 states through three insurance company subsidiaries: First Acceptance Insurance Company, Inc., First Acceptance Insurance Company of Georgia, Inc., and First Acceptance Insurance Company of Tennessee, Inc. Our revenues were primarily generated from:

- premiums earned, including policy and renewal fees and managing general agency fees from sales of policies written and assumed by our insurance company subsidiaries;
- billing fees and service charges on policies written and assumed by our insurance company subsidiaries; and
- investment income earned on the invested assets of the insurance company subsidiaries.

The following tables present premiums earned by state (in thousands). Premiums earned are presented in the state in which the underlying insured risk of the related insurance policy is located.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2026	2025	2026	2025
Georgia	$ 50,841	$ 38,352	$ 99,576	$ 73,304
Florida	16,797	29,987	36,085	62,213
Texas	15,459	10,047	29,023	18,606
South Carolina	11,667	12,773	23,255	25,070
Alabama	11,042	9,340	21,077	17,363
Pennsylvania	9,528	8,692	18,228	16,190
California	6,604	6,397	12,299	12,540
Arizona	6,034	8,977	12,569	17,391
Illinois	5,543	3,483	10,806	6,732
Tennessee	4,634	5,643	9,593	11,133
Ohio	4,352	4,190	7,972	8,122
Indiana	1,830	2,055	3,627	4,094
Virginia	1,025	936	2,084	1,671
Mississippi	928	1,225	1,787	2,483
Missouri	11	19	23	39
Louisiana	1	—	1	—
	$ 146,296	$ 142,116	$ 288,005	$ 276,951
Premiums ceded	(37,657)	(24,896)	(73,302)	(48,192)
	$ 108,639	$ 117,220	$ 214,703	$ 228,759

The following map presents the percentage of net premiums earned by state for the six months ended June 30, 2026:



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

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

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2026	2025	2026	2025
Loss	69.8%	69.1%	66.3%	73.8%
Expense	23.8%	26.8%	27.6%	24.0%
Combined	93.6%	95.9%	93.9%	97.8%

Three and Six Months Ended June 30, 2026 Compared with the Three and Six Months Ended June 30, 2025

Consolidated Results

Revenues before ceded reinsurance for the three months ended June 30, 2026 decreased 3% to $160.8 million from $165.6 million in the same period in the prior year. Revenues for the three months ended June 30, 2026 and 2025, were reduced by ceded premiums earned of $37.7 million and $24.9 million, respectively. Revenues after ceded reinsurance for the three months ended June 30, 2026, decreased 13% to $123.1 million from $140.7 million in the same period in the prior year.

Income before income taxes, for the three months ended June 30, 2026 was $12.9 million, compared with $10.1 million for the three months ended June 30, 2025. Net income for the three months ended June 30, 2026 was $10.1 million, compared with $7.9 million for the three months ended June 30, 2025. Diluted net income per share was $0.26 for the three months ended June 30, 2026, compared with $0.21 for the same period in the prior year.

For the three months ended June 30, 2026, we recognized favorable prior period loss and LAE development of $8.8 million compared with $7.8 million for the same period in the prior year. As a result of this development, for the three months ended June 30, 2026, we recognized an increase in commission expense of $2.6 million from a contingent commission adjustment to an independent agent, compared with $1.8 million in the prior year.

Revenues before ceded reinsurance for the six months ended June 30, 2026 increased slightly to $314.8 million from $313.9 million in the same period in the prior year. Revenues for the six months ended June 30, 2026 and 2025, were reduced by ceded premiums earned of $73.3 million and $48.2 million, respectively. Revenues after ceded reinsurance for the six months ended June 30, 2026, decreased 9% to $241.5 million from $265.7 million in the same period in the prior year.

Income before income taxes, for the six months ended June 30, 2026 was $23.1 million, compared with $13.9 million for the six months ended June 30, 2025. Net income for the six months ended June 30, 2026 was $18.3 million, compared with $10.8 million for the six months ended June 30, 2025. Diluted net income per share was $0.48 for the six months ended June 30, 2026, compared with diluted $0.28 for the same period in the prior year.

For the six months ended June 30, 2026, we recognized $20.8 million of favorable prior period loss and LAE development compared with $4.5 million for the same period in the prior year. As a result of this development, for the six months ended June 30, 2026, we recognized an increase in commission expense of $9.2 million from a contingent commission adjustment to an independent agent, compared with $1.8 million in the prior year.

Premiums Earned

After reinsurance, net premiums earned decreased by $8.6 million, or 7%, to $108.6 million for the three months ended June 30, 2026, from $117.2 million for the three months ended June 30, 2025. Before reinsurance, direct and assumed premiums earned increased by $4.2 million or 3%, to $146.3 million for the three months ended June 30, 2026 from $142.1 million for the three months ended June 30, 2025.

For the six months ended June 30, 2026, after reinsurance, net premiums earned decreased by $14.1 million, or 6%, to $214.7 million from $228.8 million for the six months ended June 30, 2025. Before reinsurance, direct and assumed premiums earned increased by $11.1 million or 4%, to $288.0 million for the six months ended June 30, 2026 from $276.9 million for the six months ended June 30, 2025.

This decrease in net premiums earned was driven primarily by the increase in ceded premiums earned, since the growth in direct premiums earned came primarily from business subject to reinsurance.

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.

Billing Fees, Service Charges and Managing General Agency Fees

Billing fees, service charges and managing general agency fees decreased by $10.0 million, or 58%, to $7.1 million for the three months ended June 30, 2026, from $17.1 million for the three months ended June 30, 2025. For the six months ended June 30, 2026, billing fees, service charges and managing general agency fees decreased by $12.4 million, or 47%, to $13.8 million from $26.2

million for the six months ended June 30, 2025. This decrease was driven primarily by a decrease in Florida business, where the Company earns managing general agency (“MGA”) fees, as well as lower average billing fees and service charges per policy.

Investment Income

Investment income increased by $0.3 million, or 6%, to $5.3 million for the three months ended June 30, 2026, from $5.0 million for the three months ended June 30, 2025. For the six months ended June 30, 2026, investment income increased by $1.1 million, or 11%, to $10.7 million, from $9.6 million for the same period in the prior year. These increases were primarily the result of an increase in invested assets and higher returns from fixed maturities.

At June 30, 2026 and 2025, the tax-equivalent book yields for our managed fixed maturities and cash equivalents portfolio were both 4.3%, with effective durations of 3.41 and 2.88 years, respectively. While yield has stabilized, duration has increased as a result of the sales of fixed maturities over the past year and their longer-duration reinvestment to lock in current yields in a potentially declining rate environment.

Loss and Loss Adjustment Expenses

The loss ratio was 69.8% for the three months ended June 30, 2026, compared with 69.1% for the three months ended June 30, 2025. For the six months ended June 30, 2026, the loss ratio was 66.3% compared with 73.8% for the six months ended June 30, 2025.

We experienced favorable development related to prior periods of $8.8 million and $20.8 million for the three and six months ended June 30, 2026 compared to $7.8 million and $4.5 million for the three and six months ended June 30, 2025, respectively.

The favorable development for the three and six months ended June 30, 2026 was primarily attributable to lower-than-expected frequency on bodily injury and lesser-than-expected severity in the 2025 accident year. The favorable development for the three and six months ended June 30, 2025 was primarily attributable to lower-than-expected frequency on bodily injury losses and lesser-than-expected severity on physical damage losses in the 2024 accident year.

Excluding the development related to prior periods, the loss ratio for the three months ended June 30, 2026 was 77.9% as compared with 76.1% for the three months ended June 30, 2025. Excluding the development related to prior periods, the loss ratio was 76.0% for both the six months ended June 30, 2026 and 2025.

The higher loss ratio for the three months ended June 30, 2026 was primarily attributable to increased severity on bodily injury and physical damage losses.

Insurance Operating Expenses

Insurance operating expenses decreased 31% to $32.8 million for the three months ended June 30, 2026 from $47.4 million for the three months ended June 30, 2025. For the six months ended June 30, 2026, insurance operating expenses decreased 8% to $72.8 million from $79.0 million for the six months ended June 30, 2025.

Insurance operating expenses include significant variable components that are directly related to the volume of premiums earned. The largest of these expenses are commissions and premium taxes, which represented 49% and 10% of insurance operating expenses for the six months ended June 30, 2026, respectively. Commissions and premium taxes represented 57% and 9% of insurance operating expenses for the six months ended June 30, 2025, respectively. Because these costs generally vary with premium volume, fluctuations in insurance operating expenses from period to period are largely driven by changes in premiums earned. Accordingly, the decrease in insurance operating expenses during the current period primarily reflects the decrease in premiums earned.

Provision for Income Taxes

Income tax expense was $2.8 million for the three months ended June 30, 2026, compared with $2.2 million for the three months ended June 30, 2025. For the six months ended June 30, 2026, income tax expense was $4.8 million compared with $3.1 million for the six months ended June 30, 2025. The effective tax rate was 20.8% and 22.3% for the six months ended June 30, 2026 and 2025, respectively. The decrease in the effective rate was primarily attributable to a reduction in state income taxes and an increase in stock-based compensation benefits realized.

Interest Expense

For the three and six months ended June 30, 2026, interest expense decreased slightly primarily as a result of a modest decrease in the applicable variable interest rate. For additional information, see "Liquidity and Capital Resources" in this report.

Liquidity and Capital Resources

Our primary sources of funds are premiums, billing fees, service charges, managing general agency fees and investment income from our insurance company subsidiaries. Our primary uses of funds are the payment of claims and operating expenses. Net cash provided by operating activities for the six months ended June 30, 2026 was $9.9 million, compared with $25.2 million for the same period in the prior year. This decrease was primarily the result of the increase in ceded premiums earned from reinsurance.

Net cash used in investing activities for the six months ended June 30, 2026 was $33.4 million, compared to $42.8 million for the same period in the prior year. This change was primarily the result of a decrease in the amount of securities purchased in the current period.

Our holding company requires cash for general corporate overhead expenses and debt service related to our debentures payable. Following the sale of the Insurance Agency, the holding company's primary sources 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 December 2026 from the sale of the insurance agency as noted in the following paragraph. As of June 30, 2026, our holding company had adequate unrestricted cash of $32.5 million to meet current obligations. We also believe that these funds and the additional anticipated unrestricted cash from the sources noted above will be sufficient to pay our future cash requirements outside of the insurance company subsidiaries.

As a result of the sale of our insurance agency in December 2023, the Company is eligible to receive additional maximum contingent consideration of $20 million on December 1, 2026, based upon achievement of certain annual production targets. The cash from the contingent consideration payments to the Company would be unrestricted unless required by the insurance companies to maintain $100 million of statutory capital and surplus as per the purchase agreement. At June 30, 2026, statutory capital and surplus was $204.9 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. The debentures accrue interest at a variable rate equal to an adjusted Three-Month CME term SOFR rate plus 375 basis points, which resets quarterly. The interest rate related to the debentures for the six months ended June 30, 2026 ranged from 6.675% to 7.850%. In July 2026, the interest rate reset to 7.855% through November 2026.

State insurance laws limit the amount of distributions that may be paid from our insurance company subsidiaries. As of June 30, 2026, the amount of available ordinary dividends that could be paid to the holding company without regulatory approval was $4.9 million. Such amounts reflect the January 2026 $15.0 million dividend paid by the insurance companies, which reduces the regulatory limitation for a twelve-month period.

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

The National Association of Insurance Commissioners ("NAIC") Model Act for risk-based capital provides formulas to determine each December 31 on an annual basis the amount of statutory capital and surplus that an insurance company needs to ensure that it has an acceptable expectation of not becoming financially impaired. Failure to meet applicable risk-based capital requirements could subject our insurance company subsidiaries to further examination or corrective action imposed by state regulators, including limitations on their writing of additional business, state supervision or even liquidation. As of June 30, 2026, 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 trailing twelve months ended June 30, 2026, each insurance company subsidiary was within this guideline.

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

Item 5. Legal Proceedings

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

Item 6. Defaults Upon Senior Securities

None.

Item 7. Other Information

None.

Item 8. Exhibits

3.1 Interim Consolidated Financial Statements

Item 9. Certifications

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

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

August 4, 2026

/s/ Kenneth D. Russell
Kenneth D. Russell
Chief Executive Officer

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

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

August 4, 2026

/s/ Brian Dickman
Brian Dickman
Chief Financial Officer

Exhibit 3.1 Interim Consolidated Financial Statements

FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

	June 30, 2026 (Unaudited)	December 31, 2025
ASSETS		
Investments in fixed maturities, available-for-sale at fair value (amortized cost of $387,296 and $354,812, respectively)	$ 382,407	$ 355,064
Investments in equity securities at fair value (cost of $23,328 and $21,827 respectively)	29,485	26,267
Cash, cash equivalents, and restricted cash equivalents	54,631	78,296
Premiums and fees receivable, net of credit loss of $529 and $444, respectively	234,812	218,567
Consideration receivable from the sale of insurance agency, at fair value	19,352	18,704
Deferred tax asset, net	4,733	2,879
Other investments	9,088	8,390
Other assets	6,989	10,031
Operating lease right-of-use assets	4,076	4,489
Reinsurance recoverables	64,535	51,205
Prepaid reinsurance premiums	63,895	58,612
Property, equipment and identifiable intangible assets, net	2,670	2,928
TOTAL ASSETS	$ 876,673	$ 835,432
LIABILITIES AND STOCKHOLDERS' EQUITY		
Loss and loss adjustment expense reserves	$ 272,586	$ 267,230
Unearned premiums and fees	228,194	213,210
Debentures payable	40,735	40,712
Operating lease liabilities	4,390	4,817
Income taxes payable	1,783	1,526
Deferred ceding commissions, net	17,474	11,117
Amounts due to reinsurers	49,834	56,268
Other liabilities	47,247	40,677
Total liabilities	662,243	635,557
Stockholders' equity:		
Preferred stock, $.01 par value, 10,000 shares authorized	—	—
Common stock, $.01 par value, 75,000 shares authorized; 36,957 and 36,695 issued and outstanding, respectively	368	366
Additional paid-in capital	451,933	451,586
Accumulated other comprehensive (loss) income, net of tax of $(2,208) and $(1,128), respectively	(2,681)	1,380
Accumulated deficit	(235,190)	(253,457)
Total stockholders' equity	214,430	199,875
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 876,673	$ 835,432

See notes to consolidated financial statements.

FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2026	**2025**	**2026**	**2025**
Revenues:				
Premiums earned	$ 108,639	$ 117,220	$ 214,703	$ 228,759
Billing fees, service charges and managing general agency fees	7,077	17,060	13,813	26,165
Investment income	5,290	4,975	10,722	9,606
Net gains on investments	2,131	1,401	2,275	1,213
	123,137	140,656	241,513	265,743
Costs and expenses:				
Losses and loss adjustment expenses	75,872	81,428	142,409	169,457
Insurance operating expenses	32,752	47,438	72,801	79,034
Other operating expenses	299	255	591	517
Stock-based compensation	306	284	567	525
Depreciation and amortization	200	286	453	588
Interest expense	812	876	1,620	1,753
	110,241	130,567	218,441	251,874
Income before income taxes	12,896	10,089	23,072	13,869
Provision for income taxes	2,819	2,216	4,805	3,090
Net income	$ 10,077	$ 7,873	$ 18,267	$ 10,779
Net income per share:				
Basic	$ 0.27	$ 0.21	$ 0.50	$ 0.29
Diluted	$ 0.26	$ 0.21	$ 0.48	$ 0.28
Number of shares used to calculate net income per share:				
Basic	36,907	36,642	36,832	37,249
Diluted	38,067	37,606	37,965	38,082
Reconciliation of net income to other comprehensive income:				
Net income	$ 10,077	$ 7,873	$ 18,267	$ 10,779
Net unrealized change in investments, net of tax of $(421), $311, $(1,080) and $895, respectively	(1,583)	1,170	(4,061)	3,367
Comprehensive income	$ 8,494	$ 9,043	$ 14,206	$ 14,146
Detail of net gains on investments:				
Net realized gains (losses) on sales and redemptions	$ 3	$ (5)	$ 558	$ 234
Net unrealized gains on equity securities, includes $(239) of reclassification for realized gains in 2025	2,128	1,406	1,717	979
Net gains on investments	$ 2,131	$ 1,401	$ 2,275	$ 1,213

See notes to consolidated financial statements.

FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited)

	Common Stock		Additional paid-in capital	Accumulated other comprehensive loss	Accumulated deficit	Total stockholders' equity
	Shares	Amount				
Balances at December 31, 2024	38,191	$ 381	$ 456,804	$ (3,941)	$ (283,683)	$ 169,561
Net income	—	—	—	—	10,779	10,779
Net unrealized change on investments (net of tax provision of $895)	—	—	—	3,367	—	3,367
Stock-based compensation	8	—	525	—	—	525
Issuance of shares under Employee Stock Purchase Plan	68	1	212	—	—	213
Vested restricted stock units, net of repurchases	96	1	(93)	—	—	(92)
Retirement of treasury stock	(1,717)	(18)	(6,540)	—	—	(6,558)
Balances at June 30, 2025	36,646	$ 365	$ 450,908	$ (574)	$ (272,904)	$ 177,795

	Common Stock		Additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulated deficit	Total stockholders' equity
	Shares	Amount				
Balances at December 31, 2025	36,695	$ 366	$ 451,586	$ 1,380	$ (253,457)	$ 199,875
Net income	—	—	—	—	18,267	18,267
Net unrealized change on investments (net of tax benefit of $1,080)	—	—	—	(4,061)	—	(4,061)
Stock-based compensation	10	—	567	—	—	567
Issuance of shares under Employee Stock Purchase Plan	47	1	195	—	—	196
Vested restricted stock units, net of repurchases	220	2	(348)	—	—	(346)
Retirement of treasury stock	(15)	(1)	(67)	—	—	(68)
Balances at June 30, 2026	36,957	$ 368	$ 451,933	$ (2,681)	$ (235,190)	$ 214,430

See notes to consolidated financial statements.

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

(in thousands)

	Six Months Ended June 30, 2026	Six Months Ended June 30, 2025
Cash flows from operating activities:		
Net income	$ 18,267	$ 10,779
Adjustments to reconcile net income to cash provided by operating activities:		
Unrealized gains on equity securities	(1,717)	(979)
Depreciation and amortization	453	588
Accretion of present value discount of sales consideration receivable	(648)	(985)
Stock-based compensation	567	525
Deferred income taxes	(755)	(1,021)
Investment income from other investments	(534)	(289)
Realized gains on sales and redemptions of investments	(558)	(234)
Other	(743)	(245)
Change in:		
Premiums, fees, and commission receivable	(16,160)	(43,021)
Loss and loss adjustment expense reserves	5,356	26,988
Unearned premiums and fees	14,984	35,632
Reinsurance recoverables	(13,330)	(14,724)
Prepaid insurance premiums	(5,283)	(17,769)
Other assets	3,042	7,902
Income taxes payable	257	(1,925)
Deferred ceding commissions, net of deferred acquisition costs	6,357	1,751
Amounts due to reinsurers	(6,434)	15,930
Other liabilities	6,570	6,591
Other	261	(251)
Net cash provided by operating activities	9,952	25,244
Cash flows from investing activities:		
Purchases of investments	(59,582)	(65,590)
Maturities and redemptions of investments	25,390	22,195
Sale of investments	1,161	1,060
Purchases of other investments	(502)	(281)
Distributions from other investments	338	201
Capital expenditures	(204)	(370)
Net cash used in investing activities	(33,399)	(42,785)
Cash flows from financing activities:		
Purchase of treasury stock at cost	(68)	(6,558)
Net proceeds from issuance of common stock	196	213
Taxes remitted in relation to employee restricted stock units exercised	(346)	(92)
Net cash used in financing activities	(218)	(6,437)
Net change in cash, cash equivalents, and restricted cash	(23,665)	(23,978)
Cash, cash equivalents, and restricted cash, beginning of period	78,296	85,917
Cash, cash equivalents, and restricted cash, end of period	$ 54,631	$ 61,939

See notes to consolidated financial statements.

1. General

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

The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full year. These consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements included in its Annual Report for the year ended December 31, 2025 filed by the Company with OTCQX.

For the six months ended June 30, 2026 and 2025, two single independent agent groups produced 52% and 36% and 46% and 37% of premiums earned, respectively.

2. Investments

Investments, Available-for-Sale

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

June 30, 2026	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Fixed maturities, available-for-sale:				
U.S. government and agencies	$ 47,895	$ 26	$ (495)	$ 47,426
Political subdivisions	1,765	3	(8)	1,760
Revenue and assessment	16,312	56	(64)	16,304
Corporate bonds	150,244	802	(891)	150,155
Asset-backed securities	78,274	139	(325)	78,088
Collateralized mortgage obligations:				
Agency backed	92,461	599	(4,731)	88,329
Non-agency backed – commercial	345	—	—	345
Total fixed maturities, available-for-sale	$ 387,296	$ 1,625	$ (6,514)	$ 382,407

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

Length of Gross Unrealized Losses at June 30, 2026:	**Fair Value of Securities with Gross Unrealized Losses**	**Gross Unrealized Losses**	**Severity of Gross Unrealized Losses**		
			Less than 5%	**5% to 10%**	**Greater than 10%**
Less than or equal to:					
Three months	$ 80,097	$ (466)	$ (466)	$ —	$ —
Six months	89,135	(1,480)	(1,480)	—	—
Nine months	1,100	(26)	(26)	—	—
Twelve months	1,003	(32)	(32)	—	—
Greater than twelve months	34,597	(4,510)	(186)	(150)	(4,174)
Total	$ 205,932	$ (6,514)	$ (2,190)	$ (150)	$ (4,174)

The fair value and gross unrealized losses of investments in fixed maturities for the six months ended June 30, 2026 by length of time that individual securities have been in a continuous unrealized loss position follows (in thousands).

	Less than 12 months		12 months or longer		
June 30, 2026	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Total Gross Losses**
Fixed maturities, available-for-sale:					
U.S. government and agencies	$ 38,398	$ (495)	$ —	$ —	$ (495)
Political subdivisions	455	(4)	781	(4)	(8)
Revenue and assessment	8,262	(51)	987	(13)	(64)
Corporate bonds	59,190	(877)	4,986	(14)	(891)
Asset-backed securities	41,526	(325)	—	—	(325)
Collateralized mortgage obligations:					
Agency backed	23,174	(252)	27,843	(4,479)	(4,731)
Non-agency backed – commercial	331	—	—	—	—
Total fixed maturities, available-for-sale	$ 171,336	$ (2,004)	$ 34,597	$ (4,510)	$ (6,514)

For the six months ended June 30, 2026, the Company had 171 fixed maturities with gross unrealized losses that have been in a gross unrealized loss position for less than or equal to 12 months and 35 fixed maturities with gross unrealized losses that have been in a gross unrealized loss position for greater than 12 months.

For the six months ended June 30, 2026 and 2025, the Company did not recognize any other-than-temporary impairment ("OTTI") charges on its fixed maturities, available for sale in net income. Unrealized gains and losses on equity securities (preferred stocks and mutual funds) are recognized as a component of net income. The Company believes that the securities having unrealized losses at June 30, 2026 were not other-than-temporarily impaired and are attributable to the increase in interest rates since the time when they were originally purchased. The Company also does not intend to sell any of these securities, and it is more likely than not that the Company will not be required to sell any of these securities before the recovery of their amortized cost basis.

3. Losses and Loss Adjustment Expenses Incurred and Paid

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2026	2025	2026	2025
Liability for unpaid losses and LAE at beginning of period, gross	$ 267,562	$ 256,999	$ 267,230	$ 240,447
Reinsurance balances receivable	(51,478)	(33,105)	(47,439)	(23,347)
Liability for unpaid losses and LAE at beginning of period, net	216,084	223,894	219,791	217,100
Add: Provision for losses and LAE:				
Current period	84,622	89,227	163,159	173,941
Prior periods	(8,750)	(7,799)	(20,750)	(4,484)
Net losses and LAE incurred	75,872	81,428	142,409	169,457
Less: Losses and LAE paid:				
Current period	35,097	39,998	53,651	57,135
Prior periods	88,943	71,477	136,594	125,817
Net losses and LAE paid	124,040	111,475	190,245	182,952
Liability for unpaid losses and LAE at end of period, net	219,394	226,952	219,394	226,952
Reinsurance balances receivable	53,192	40,483	53,192	40,483
Liability for unpaid losses and LAE at end of period, gross	$ 272,586	$ 267,435	$ 272,586	$ 267,435

The favorable development for the three and six months ended June 30, 2026 was primarily attributable to lower-than-expected frequency on bodily injury and lesser-than-expected severity in the 2025 accident year.

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

4. Income Taxes

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2026	2025	2026	2025
Federal:				
Current	$ 3,101	$ 2,416	$ 5,376	$ 3,898
Deferred	(352)	(335)	(734)	(1,029)
	2,749	2,081	4,642	2,869
State:				
Current	122	126	204	213
Deferred	(52)	9	(41)	8
	70	135	163	221
	$ 2,819	$ 2,216	$ 4,805	$ 3,090

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

	Three Months Ended June 30,			
	2026		2025	
Provision for income taxes at statutory rate	$ 2,708	21.0%	$ 2,118	21.0%
Tax effect of:				
State income taxes, net of Federal income tax benefit and state valuation allowance (a)	59	0.5%	119	1.2%
Tax-exempt investment income	(13)	-0.1%	(15)	-0.1%
Other	7	0.1%	(6)	-0.1%
Impact of change in estimated annual effective rate	58	0.4%	—	0.0%
	$ 2,819	21.9%	$ 2,216	22.0%

	Six Months Ended June 30,			
	2026		2025	
Provision for income taxes at statutory rate	$ 4,845	21.0%	$ 2,912	21.0%
Tax effect of:				
State income taxes, net of Federal income tax benefit and state valuation allowance (a)	143	0.6%	188	1.4%
Change in valuation allowances for deferred tax assets	(352)	-1.5%	—	0.0%
Tax exempt investment income	(26)	-0.1%	(25)	-0.2%
Stock-based compensation benefits realized	(218)	-0.9%	(25)	-0.2%
Other	10	0.0%	40	0.3%
Impact of change in estimated annual effective rate	403	1.7%	—	0.0%
	$ 4,805	20.8%	$ 3,090	22.3%

(a) The primary source of state income tax expense is related to MGA operations in Georgia.

ASC Topic 740, *Income Taxes*, establishes procedures to measure deferred tax assets and liabilities and assess whether a valuation allowance relative to existing deferred tax assets is necessary. Management assesses the likelihood of realization of the Company's deferred tax assets and the need for a valuation allowance concerning those assets based on the weight of available positive and negative evidence. As of June 30, 2026 and December 31, 2025, management determined that valuation allowances of $2.7 million and $3.1 million, respectively, were necessary relative to certain state tax net operating loss carryforwards and OTTI which are not expected to be realized.

Prior to 2026, the Company maintained a full valuation allowance against OTTI due to prior history of insufficient capital gains to offset capital losses. However, as of June 30, 2026, based on the sale of certain OTTI securities and available capital gains going forward, management released a total of $0.4 million of the valuation allowance. This release was recorded as a benefit to the provision for income taxes, primarily impacting the Federal income tax.

Management also determined at June 30, 2026 and December 31, 2025, that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the remaining deferred tax assets not covered by this valuation allowance.

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

For the six months ended June 30, 2026, $5.2 million and $0.1 million of federal and state taxes, respectively, were paid. For the six months ended June 30, 2025, $5.8 million and $0.2 million of federal and state taxes, respectively, were paid.

5. Leases

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

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

The Company has operating leases, which include corporate offices, certain equipment and vehicles. The leases have remaining lease terms of one year to six years. Both operating lease costs and cash flows for the six months ended June 30, 2026 were $0.6 million. Operating lease costs and cash flows for the three months ended June 30, 2025 were $0.4 million and $0.5 million, respectively. Supplemental balance sheet information related to leases was as follows:

	June 30,	
	2026	**2025**
Operating lease right-of-use assets	$ 4,076	$ 4,136
Operating lease liabilities	4,390	4,471
Weighted average remaining lease term	5.15 years	5.95 years
Weighted average discount rate	6.6%	6.5%

Maturities of operating lease liabilities were as follows:

For the Year Ended December 31,	**Amount**
2026 (excluding the six months ended June 30, 2026)	$ 576
2027	1,166
2028	952
2029	789
2030	767
Thereafter	890
Total lease payments	$ 5,140
Less imputed interest	(750)
Total	$ 4,390

6. Premiums and Reinsurance

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

	Three Months Ended June 30, 2026		Six Months Ended June 30, 2026	
	Written	Earned	Written	Earned
Direct	$ 121,646	$ 140,155	$ 288,137	$ 276,560
Assumed	6,271	6,141	14,970	11,445
Ceded	(32,020)	(37,657)	(78,585)	(73,302)
Total	$ 95,897	$ 108,639	$ 224,522	$ 214,703

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

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 largest independent agent, which utilizes a technology-driven method of distribution. For the period from July 1, 2025 through June 30, 2026, the reinsurance was limited to a combined total of $150 million of ceded premiums written. (This has been increased to $187.5 million for the period from July 1, 2026 to June 30, 2027.) Although the reinsurance agreement contractually obligates the reinsurer to reimburse the Company for its 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 its 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 June 30, 2026, the Company had unsecured aggregate reinsurance receivables of $64.5 million. 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:

	Six Months Ended June 30, 2026	Six Months Ended June 30, 2025
Ceding commission receivable	$ 6,381	$ —
Paid loss and loss adjustment expense	4,962	2,813
Ceded loss and loss adjustment expense reserves	53,192	40,483
Total reinsurance recoverable	$ 64,535	$ 43,296

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

	For the three months ended June 30,		For the six months ended June 30,	
	2026	2025	2026	2025
Ceded premiums earned	$ 37,657	$ 24,896	$ 73,302	$ 48,192
Reinsurance recovered on losses and LAE	$ 18,424	$ 7,135	$ 37,105	$ 16,178

7. 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.