

FIRST ACCEPTANCE CORPORATION



3813 Green Hills Village Drive
Nashville, TN 37215

Telephone: (615) 844-2800

QUARTERLY REPORT

FOR THE QUARTER ENDED SEPTEMBER 30, 2024

ISSUER'S EQUITY SECURITIES

Common Stock
Par Value \$.01 per share
75,000,000 Shares Authorized
38,150,906 Shares Outstanding at September 30, 2024

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, 2023 previously filed by the Company with the OTCQX. Accordingly, this report should therefore be reviewed in conjunction with these year-end reports and any other interim reports or updates since provided.

Forward-Looking Statements

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

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

We believe that our expectations are based on reasonable assumptions. However, these forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause our actual results, performance or achievements, or industry results to differ materially from our expectations of future results, performance or achievements expressed or implied by these forward-looking statements. In addition, our past results of operations do not necessarily indicate our future results. We discuss these and other uncertainties in “Risk Factors” of our Annual Report for the year ended December 31, 2023 filed by the Company with the OTCQX.

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

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

Name of the Company or Issuer:
First Acceptance Corporation

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

Item 2. Shares Outstanding

	<u>Common shares</u>	<u>9/30/2024</u>	<u>12/31/2023</u>
Authorized:		75,000,000 shares	75,000,000 shares
Outstanding:		38,150,905 shares	38,264,718 shares
Freely Tradable (public float):		10,452,280 shares	10,711,656 shares
Number of beneficial holders owning at least 100 shares:		approx. 1,100 holders	approx. 1,100 holders
Number of registered holders:		230 holders	237 holders
	<u>Preferred shares</u>		
Authorized:		10,000,000 shares	10,000,000 shares
Outstanding:		0 shares	0 shares
Freely Tradable (public float):		0 shares	0 shares
Number of record holders:		0 holders	0 holders

Item 3. Interim Consolidated Financial Statements

The interim consolidated financial statements of First Acceptance Corporation as of September 30, 2024 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 which 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 year ended December 31, 2023 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, 2023 included in our Annual Report for the year ended December 31, 2023 filed by the Company with the OTCQX.

General

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

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

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

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

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

For the nine months ended September 30, 2024, two single independent agents produced 45% and 35% of premiums earned, respectively, and as of September 30, 2024, comprised 49% and 29% of policies in-force, respectively. At September 30, 2024, we also had approximately 530 other active independent agent locations that represent the balance of the Company’s business.

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, Acceptance Insurance Agency of Tennessee, Inc. (“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 is being released monthly from March 2024 through December 2024. The Company is eligible to receive additional contingent consideration of \$15 million (held in escrow), \$10 million, and \$20 million on December 1, 2024, 2025, and 2026, respectively, based upon achievement of certain annual premium production targets.

On September 30, 2024, future consideration receivable from this sale of \$47.1 million is recorded at fair value, utilizing a discounted cash flow approach.

The purchase agreement provides that the Company would receive its additional contingent consideration in its entirety should the buyer fail to submit applications within the applicable underwriting guidelines of the First Acceptance Insurance Group 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 September 30, 2024 and November 6, 2024, the Company is not in breach of contract.

Reinsurance

The Company has entered into a quota-share reinsurance agreement to reinsure a portion of the business produced by its second largest independent agent which utilizes a technology-driven method of distribution. The reinsurance covers 50% of the business in force as of July 1, 2024 and the new and renewal business after this date through June 30, 2025, produced by this independent agent, up to a combined total of \$137.5 million of ceded premiums written. As of this date, 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.

Recent Hurricanes

Hurricane Helene made landfall on Florida's Gulf Coast on September 26, 2024. The impact on the Company from the hurricane and the resulting losses incurred are estimated to be approximately \$0.8 million. This storm was followed by Hurricane Milton which made landfall on Florida's Gulf Coast on October 9, 2024. The impact on the Company from this storm in the fourth quarter is currently estimated to be approximately \$0.5 million.

Consolidated Results of Operations

Overview

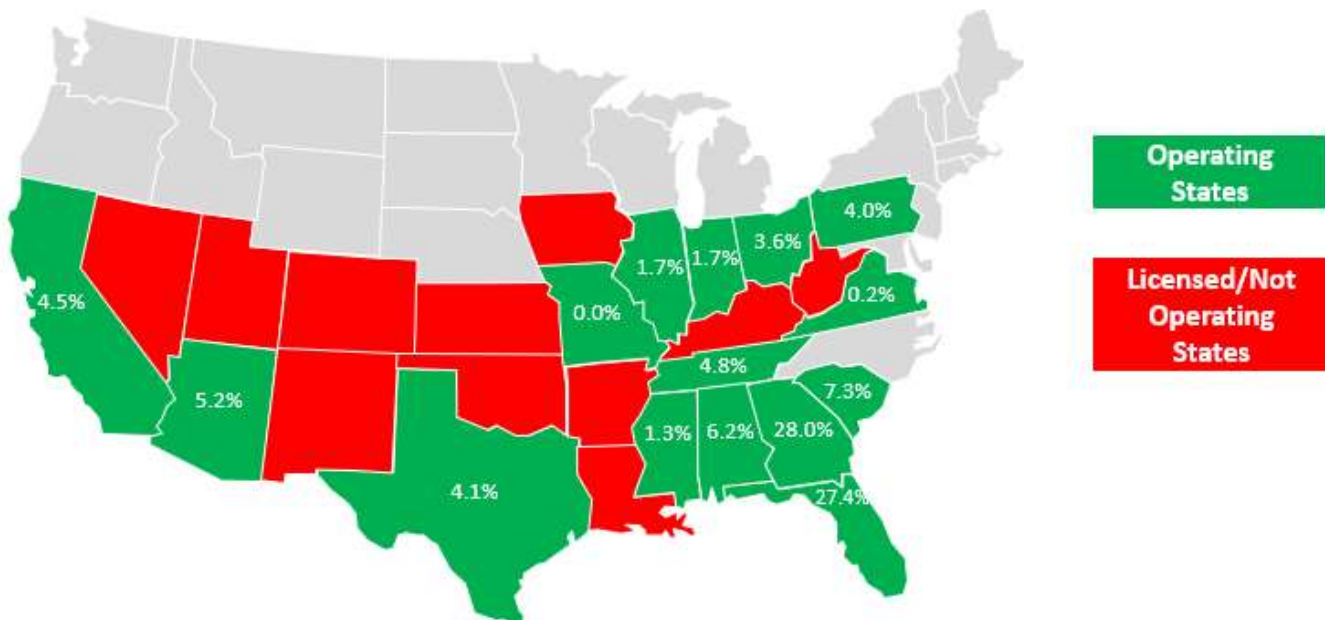
Our insurance operations generated revenues from selling non-standard personal automobile insurance products and related products. We currently conduct our servicing and underwriting operations in 15 states through three insurance company subsidiaries: First Acceptance Insurance Company, Inc., First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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Florida	\$ 32,382	\$ 27,703	\$ 104,189	\$ 65,170
Georgia	26,836	31,199	106,553	76,817
South Carolina	7,787	6,394	27,824	14,591
Arizona	7,086	5,030	19,691	12,294
Alabama	6,700	8,547	23,548	25,991
California	5,752	6,798	17,060	18,494
Texas	5,586	4,151	15,734	9,183
Tennessee	5,490	6,139	18,404	17,605
Pennsylvania	4,613	4,536	15,322	10,668
Ohio	3,906	3,811	13,665	10,206
Illinois	1,852	1,161	6,535	3,995
Indiana	1,796	2,247	6,555	5,925
Mississippi	1,447	1,638	4,845	4,427
Virginia	368	72	782	231
Missouri	21	28	74	78
	<u>\$ 111,622</u>	<u>\$ 109,454</u>	<u>\$ 380,781</u>	<u>\$ 275,675</u>

The following map presents the percentage of premiums earned by state for the nine months ended September 30, 2024:



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

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

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Loss	76.0%	69.1%	72.7%	70.6%
Expense	19.2%	23.8%	24.6%	26.8%
Combined	95.2%	92.9%	97.3%	97.4%

Three and Nine Months Ended September 30, 2024 Compared with the Three and Nine Months Ended September 30, 2023

Consolidated Results

Revenues for the three months ended September 30, 2024 decreased 3% to \$129.3 million from \$133.6 million in the same period in the prior year. Income before income taxes, for the three months ended September 30, 2024 was \$6.9 million, compared with \$9.4 million for the three months ended September 30, 2023. Net income for the three months ended September 30, 2024 was \$5.4 million, compared with \$7.2 million for the three months ended September 30, 2023. Diluted net income per share was \$0.14 for the three months ended September 30, 2024, compared with \$0.19 for the same period in the prior year.

For the three months ended September 30, 2024, we recognized unfavorable prior period loss and LAE development of \$3.3 million compared with \$1.6 million, for the same period in the prior year. However, as a result of this development, we recognized a reduction in commission expense of \$1.0 million from a contingent commission adjustment to an independent agent.

Revenues for the nine months ended September 30, 2024 increased 26% to \$432.2 million from \$344.2 million in the same period in the prior year. Income before income taxes, for the nine months ended September 30, 2024 was \$23.9 million, compared with \$15.0 million for the nine months ended September 30, 2023. Net income for the nine months ended September 30, 2024 was \$18.1 million, compared with \$11.5 million for the nine months ended September 30, 2023. Diluted net income per share was \$0.46 for the nine months ended September 30, 2024, compared with \$0.30 for the same period in the prior year.

For the nine months ended September 30, 2024, we recognized \$13.5 million of unfavorable prior period loss and LAE development compared with \$1.3 million, for the same period in the prior year. However, as a result of this development, we recognized a reduction in commission expense of \$11.0 million from a contingent commission adjustment to an independent agent.

Revenues for both the three and nine months ended September 30, 2024 were reduced by ceded premiums earned of \$24.4 million from the new reinsurance contact that was effective July 1, 2024.

Premiums Earned

After reinsurance, net premiums earned increased by \$2.1 million to \$111.6 million for the three months ended September 30, 2024, from \$109.5 million for the three months ended September 30, 2023. For the nine months ended September 30, 2024, net premiums earned increased by \$105.1 million, or 38%, to \$380.8 million from \$275.7 million for the nine months ended September 30, 2023.

Before reinsurance, direct and assumed premiums earned increased by \$26.6 million to \$136.0 million for the three months ended September 30, 2024, from \$109.5 million for the three months ended September 30, 2023. For the nine months ended September 30, 2024, direct and assumed premiums earned increased by \$129.5 million, or 47.0%, to \$405.2 million from \$275.7 million for the nine months ended September 30, 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 growth 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 \$11.0 million, to \$3.8 million for the three months ended September 30, 2024, from \$14.8 million for the three months ended September 30, 2023. For the nine months ended September 30, 2024, commission and fee income decreased by \$33.6 million to \$10.7 million from \$44.3 million for the nine months ended September 30, 2023. As a result of the December 1, 2023 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.

Billing Fees and Service Charges

Billing fees and service charges increased by \$1.0 million to \$8.4 million for the three months ended September 30, 2024, from \$7.4 million for the three months ended September 30, 2023. For the nine months ended September 30, 2024, billing fees and service charges increased by \$7.7 million, or 43%, to \$25.6 million from \$17.9 million for the nine months ended September 30, 2023. This increase is primarily the result of the increase in policies in-force compared to the prior year.

Investment Income

Investment income increased by \$2.5 million, or 119%, to \$4.6 million for the three months ended September 30, 2024, from \$2.1 million for the three months ended September 30, 2023. For the nine months ended September 30, 2024, investment income increased \$8.2 million, or 146%, to \$13.8 million, from \$5.6 million for the same period in the prior year. 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 three and nine months ended September 30, 2024 included \$0.8 million and \$2.5 million, respectively, in accretion of the discounted present value of the consideration receivable from the sale of the Insurance Agency.

At September 30, 2024 and 2023, the tax-equivalent book yields for our managed fixed maturities and cash equivalents portfolio were 4.1% and 3.5%, respectively, with effective durations of 2.91 and 2.55 years, respectively. Duration and yield have increased as the Company has taken advantage of the increase in interest rates by investing previously uninvested cash and reinvesting portfolio maturities at higher interest rates.

During the quarter, the benchmark rate of three-year United States Treasury securities decreased significantly from 4.55% at June 30, 2024 to 3.55% at September 30, 2024. As a result, our fixed maturities portfolio responded with a net unrealized gain of \$8.3 million in market value during the quarter for which an unrealized gain (net of tax) of \$6.7 million was recognized in accumulated other comprehensive income.

Loss and Loss Adjustment Expenses

The loss ratio was 76.0% for the three months ended September 30, 2024, compared with 69.1% for the three months ended September 30, 2023. For the nine months ended September 30, 2024, the loss ratio was 72.7% compared with 70.6% for the nine months ended September 30, 2023.

For the three months ended September 30, 2024, we recognized unfavorable development related to prior period loss and LAE development of \$3.3 million compared with \$1.6 million, for the same period in the prior year. These amounts represent 1.6% and 1.3%, respectively, of the total loss and loss adjustment expense reserves as of the beginning of each of these respective periods. As a result of this development, however, we recognized a reduction in commission expense of \$1.0 million from a contingent commission adjustment to an independent agent

For the nine months ended September 30, 2024, we recognized unfavorable development related to prior period loss and LAE development of \$13.5 million compared with \$1.3 million, for the same period in the prior year. These amounts represent 8.2% and 1.2%, respectively, of the total loss and loss adjustment expense reserves as of the beginning of each of these respective periods. As a result of this development, however, we recognized a reduction in commission expense of \$11.0 million from a contingent commission adjustment to an independent agent.

The unfavorable development for the three and nine months ended September 30, 2024 was primarily attributable to higher-than-expected loss severity on bodily injury and property damage losses in the 2023 accident year. The unfavorable development for the three and nine months ended September 30, 2023 was primarily attributable to higher-than-expected loss severity on third-party physical damage losses for the 2022 accident year.

Excluding the development related to prior periods, the loss ratio for the three months ended September 30, 2024 was 73.0% as compared with 67.7% for the three months ended September 30, 2023. Excluding the development related to prior periods, the loss ratio for the nine months ended September 30, 2024 was 69.1% as compared with 70.2% for the nine months ended September 30, 2023. The higher loss ratio for the current quarter was primarily attributable to increased severity on bodily injury losses.

Insurance Operating Expenses

Insurance operating expenses decreased 23% to \$35.8 million for the three months ended September 30, 2024, from \$46.6 for the three months ended September 30, 2023. For the nine months ended September 30, 2024, insurance operating expenses decreased to \$126.3 million from \$128.8 million for the nine months ended September 30, 2023. Insurance operating expenses for both the three and nine months ended September 30, 2024 are both net of ceding commission income of \$7.7 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 \$26.5 million and \$81.6 million, respectively, for the three and nine months ended September 30, 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 19.2% for the three months ended September 30, 2024, compared with 23.8% for the three months ended September 30, 2023. The insurance companies' expense ratio was 24.6% for the nine months ended September 30, 2024, compared with 26.8% for the nine months ended September 30, 2023.

Provision for Income Taxes

The income tax expense was \$1.5 million for the three months ended September 30, 2024, compared with \$2.2 million for the three months ended September 30, 2023. For the nine months ended September 30, 2024, the income tax expense was \$5.8 million compared with \$3.5 million for the nine months ended September 30, 2023. The effective tax rate increased from 23.3% for the nine months ended September 30, 2023 to 24.1% for the nine months ended September 30, 2024 primarily as a result of the impact of 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

For the three months ended September 30, 2024 interest expense remained consistent at \$1.0 million for three months ended September 30, 2024 and 2023. For the nine months ended September 30, 2024, interest expense increased to \$3.0 million from \$2.8 million for the nine months ended September 30, 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, and investment income from our insurance company subsidiaries. Through December 1, 2023, we also received commissions and fee income from our non-insurance company subsidiaries. Our primary uses of funds are the payment of claims and operating expenses. Net cash provided by operating activities for the nine months ended September 30, 2024 was \$45.6 million, compared with \$49.5 million for the same period in the prior year.

Net cash used in investing activities for the nine months ended September 30, 2024 was \$85.6 million, compared to \$41.9 million for the same period in the prior year. This change was primarily the result of an increase in the purchase of securities in the current year as the Company has taken advantage of the increase in interest rates by investing previously uninvested cash and recently generated cash.

Our holding company requires cash for general corporate overhead expenses and debt service related to our debentures payable. Following the sale of the Insurance Agency, the holding company's primary source of unrestricted cash to meet its obligations are managing general agency fees, dividends from the insurance companies, and the remaining proceeds to be received through 2026 from the sale of the Insurance Agency as noted in the following paragraph. As of September 30, 2024, our holding company had adequate unrestricted cash to meet current obligations. We also believe that these funds and the additional anticipated unrestricted cash from the sources noted above will be sufficient to pay our future cash requirements outside of the insurance company subsidiaries.

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

The holding company has debt service requirements related to the debentures payable. The debentures are interest-only and mature in full in July 2037. Effective July 1, 2023, with the sunset of LIBOR, the debentures now accrue interest at a variable rate equal to an adjusted Three-Month CME term SOFR rate plus 375 basis points, which resets quarterly. The interest rate related to the debentures for the nine months ended September 30, 2024, ranged from 9.267% to 9.402%. In October 2024, the interest rate reset to 8.601% through January 2025.

State insurance laws limit the amount of distributions that may be paid from our insurance company subsidiaries. As of September 30, 2024, the ordinary dividend limitation was \$12.1 million.

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

The National Association of Insurance Commissioners (“NAIC”) Model Act for risk-based capital provides formulas to determine each December 31 on an annual basis the amount of statutory capital and surplus that an insurance company needs to ensure that it has an acceptable expectation of not becoming financially impaired. Failure to meet applicable risk-based capital requirements could subject our insurance company subsidiaries to further examination or corrective action imposed by state regulators, including limitations on their writing of additional business, state supervision or even liquidation. As of September 30, 2024, 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 nine months ended September 30, 2024, 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.

November 6, 2024

/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.

November 6, 2024

/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)

	September 30, 2024 (Unaudited)	December 31, 2023
ASSETS		
Investments in fixed maturities, available-for-sale at fair value (amortized cost of \$294,196 and \$200,544, respectively)	\$ 293,028	\$ 192,885
Investments in equity securities at fair value (cost of \$14,113 and \$9,125, respectively)	16,452	10,660
Cash, cash equivalents, and restricted cash	69,262	109,780
Premiums, fees, and commissions receivable, net of allowance of \$357 and \$491, respectively	165,067	149,764
Consideration from the sale of insurance agency receivable, at fair value	47,050	59,825
Other investments	7,220	5,639
Other assets	12,436	9,977
Operating lease right-of-use assets	4,538	5,020
Reinsurance recoverables	18,111	—
Prepaid reinsurance premiums	31,625	—
Property and equipment, net	2,204	2,892
Deferred acquisition costs	—	9,452
Identifiable intangible assets, net	1,500	1,530
TOTAL ASSETS	\$ 668,493	\$ 557,424
LIABILITIES AND STOCKHOLDERS' EQUITY		
Loss and loss adjustment expense reserves	\$ 222,781	\$ 165,346
Unearned premiums and fees	175,201	164,479
Debentures payable	40,655	40,621
Operating lease liabilities	4,898	5,401
Deferred tax liability, net	1,033	4,558
Payable for securities	—	1,510
Accrued expenses	10,846	10,023
Income taxes payable	96	5,733
Other liabilities	15,689	17,905
Deferred ceding commissions, net	5,006	—
Amounts due to reinsurers	27,052	—
Total liabilities	503,257	415,576
Stockholders' equity:		
Preferred stock, \$.01 par value, 10,000 shares authorized	—	—
Common stock, \$.01 par value, 75,000 shares authorized; 38,151 and 38,265 issued and outstanding, respectively	381	382
Additional paid-in capital	456,452	456,309
Accumulated other comprehensive income (loss), net of tax of \$(1,427) and \$(2,790), respectively	259	(4,869)
Accumulated deficit	(291,856)	(309,974)
Total stockholders' equity	165,236	141,848
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 668,493	\$ 557,424

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 September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Revenues:				
Premiums earned	\$ 111,622	\$ 109,454	\$ 380,781	\$ 275,675
Commission and fee income	3,791	14,750	10,677	44,324
Billing fees and service charges	8,417	7,443	25,575	17,935
Investment income	4,607	2,125	13,776	5,573
Net gains (losses) on investments	820	(146)	1,386	674
	<u>129,257</u>	<u>133,626</u>	<u>432,195</u>	<u>344,181</u>
Costs and expenses:				
Losses and loss adjustment expenses	84,863	75,695	276,604	194,734
Insurance operating expenses	35,794	46,649	126,338	128,790
Other operating expenses	203	189	733	580
Stock-based compensation	232	75	709	232
Depreciation	320	519	949	1,705
Amortization of identifiable intangibles assets	-	114	30	311
Interest expense	991	989	2,962	2,817
	<u>122,403</u>	<u>124,230</u>	<u>408,325</u>	<u>329,169</u>
Income before income taxes	6,854	9,396	23,870	15,012
Provision for income taxes	1,452	2,192	5,752	3,495
Net income	<u>\$ 5,402</u>	<u>\$ 7,204</u>	<u>\$ 18,118</u>	<u>\$ 11,517</u>
Net income per share:				
Basic	<u>\$ 0.14</u>	<u>\$ 0.19</u>	<u>\$ 0.48</u>	<u>\$ 0.30</u>
Diluted	<u>\$ 0.14</u>	<u>\$ 0.19</u>	<u>\$ 0.46</u>	<u>\$ 0.30</u>
Number of shares used to calculate net income per share:				
Basic	<u>38,151</u>	<u>38,161</u>	<u>38,120</u>	<u>38,058</u>
Diluted	<u>39,120</u>	<u>38,379</u>	<u>39,021</u>	<u>38,233</u>
Reconciliation of net income to other comprehensive income:				
Net income	\$ 5,402	\$ 7,204	\$ 18,118	\$ 11,517
Net unrealized change in investments, net of tax of \$1,607, \$(355), \$2,348 and \$(850), respectively	6,730	(1,333)	5,128	(1,710)
Comprehensive income	<u>\$ 12,132</u>	<u>\$ 5,871</u>	<u>\$ 23,246</u>	<u>\$ 9,807</u>
Detail of net gains on investments:				
Net realized gains (losses) on sales and redemptions	\$ 562	\$ 93	\$ 582	\$ 326
Net unrealized gains (losses) on equity securities (includes reclassification for realized (gains) losses of \$(588), \$(94), \$(345) and \$(337), respectively)	258	(239)	804	348
Net gains (losses) on investments	<u>\$ 820</u>	<u>\$ (146)</u>	<u>\$ 1,386</u>	<u>\$ 674</u>

See notes to consolidated financial statements.

FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited)

	<u>Common Stock</u>		<u>Additional paid-in capital</u>	<u>Accumulated other comprehensive loss</u>	<u>Accumulated deficit</u>	<u>Total stockholders' equity</u>
	<u>Shares</u>	<u>Amount</u>				
Balances at December 31, 2022	37,868	\$ 379	\$ 455,891	\$ (6,862)	\$ (383,886)	\$ 65,522
Net income	—	—	—	—	11,517	11,517
Net unrealized change on investments (net of tax benefit of \$455)	—	—	—	(1,710)	—	(1,710)
Stock-based compensation	7	—	232	—	—	232
Issuance of shares under Employee Stock Purchase Plan	83	1	52	—	—	53
Vested restricted stock units, net of repurchases	203	1	(34)	—	—	(33)
Balances at September 30, 2023	<u>38,161</u>	<u>\$ 381</u>	<u>\$ 456,141</u>	<u>\$ (8,572)</u>	<u>\$ (372,369)</u>	<u>\$ 75,581</u>

	<u>Common Stock</u>		<u>Additional paid-in capital</u>	<u>Accumulated other comprehensive (loss) income</u>	<u>Accumulated deficit</u>	<u>Total stockholders' equity</u>
	<u>Shares</u>	<u>Amount</u>				
Balances at December 31, 2023	38,265	\$ 382	\$ 456,309	(4,869)	\$ (309,974)	\$ 141,848
Net income	—	—	—	—	18,118	18,118
Net unrealized change on investments (net of tax provision of \$1,363)	—	—	—	5,128	—	5,128
Stock-based compensation	31	—	709	—	—	709
Issuance of shares under Employee Stock Purchase Plan	34	1	68	—	—	69
Vested restricted stock units, net of repurchases	106	1	—	—	—	1
Retirement of treasury stock	(285)	(3)	(634)	—	—	(637)
Balances at September 30, 2024	<u>38,151</u>	<u>\$ 381</u>	<u>\$ 456,452</u>	<u>\$ 259</u>	<u>\$ (291,856)</u>	<u>\$ 165,236</u>

See notes to consolidated financial statements.

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

(in thousands)

	Nine Months Ended	
	September 30,	
	2024	2023
Cash flows from operating activities:		
Net income	\$ 18,118	\$ 11,517
Adjustments to reconcile net income to cash provided by operating activities:		
Unrealized gains on equity securities	(804)	(348)
Depreciation	949	1,705
Amortization of identifiable intangibles assets	30	311
Accretion of present value discount of sales consideration receivable	(2,475)	—
Stock-based compensation	709	232
Deferred income taxes	(4,912)	3,275
Investment income from other investments	(600)	(549)
Realized gains on sales and redemptions of investments	(582)	(326)
Other	(98)	(264)
Change in:		
Premiums, fees, and commission receivable	(15,169)	(85,370)
Loss and loss adjustment expense reserves	57,435	36,850
Unearned premiums and fees	10,722	82,184
Reinsurance recoverables	(18,111)	—
Prepaid insurance premiums	(31,625)	—
Other assets	(2,459)	(419)
Accrued expenses	823	1,630
Income taxes payable	(5,637)	—
Deferred ceding commissions, net of deferred acquisition costs	14,458	(3,303)
Amounts due to reinsurers	27,052	—
Other liabilities	(2,216)	2,358
Other	38	58
Net cash provided by operating activities	<u>45,646</u>	<u>49,541</u>
Cash flows from investing activities:		
Purchases of investments	(123,485)	(52,797)
Maturities and redemptions of investments	23,523	10,263
Sale of investments	1,868	1,763
Purchases of other investments	(1,552)	(587)
Distributions from other investments	571	671
Capital expenditures	(261)	(1,114)
Acquisitions of identifiable intangible asset	—	(60)
Receivable/payable for securities	(1,510)	—
Collections on consideration receivable from sale of insurance agency	15,250	—
Net cash used in investing activities	<u>(85,596)</u>	<u>(41,861)</u>
Cash flows from financing activities:		
Purchase of treasury stock at cost	(637)	—
Net proceeds from issuance of common stock	69	53
Taxes remitted in relation to employee restricted stock units exercised	—	(33)
Net cash (used in) provided by financing activities	<u>(568)</u>	<u>20</u>
Net change in cash, cash equivalents, and restricted cash	(40,518)	7,700
Cash, cash equivalents, and restricted cash, beginning of period	109,780	49,072
Cash, cash equivalents, and restricted cash, end of period	<u>\$ 69,262</u>	<u>\$ 56,772</u>

See notes to consolidated financial statements.

FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. General

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

The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full year. These consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements included in its Annual Report for the year ended December 31, 2023 filed by the Company with OTCQX.

For the nine months ended September 30, 2024, two single independent agents produced 46% and 34% of premiums earned, respectively.

2. Investments

Investments, Available-for-Sale

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

<u>September 30, 2024</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Fixed maturities, available-for-sale:				
U.S. government and agencies	\$ 34,045	\$ 506	\$ (8)	\$ 34,543
Political subdivisions	3,026	20	(56)	2,990
Revenue and assessment	19,297	140	(71)	19,366
Corporate bonds	115,397	2,303	(572)	117,128
Asset-backed securities	52,805	791	(51)	53,545
Collateralized mortgage obligations:				
Agency backed	67,845	832	(5,438)	63,239
Non-agency backed – residential	795	518	(74)	1,239
Non-agency backed – commercial	986	—	(8)	978
Total fixed maturities, available-for-sale	\$ 294,196	\$ 5,110	\$ (6,278)	\$ 293,028

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).

<u>Length of Gross Unrealized Losses at September 30, 2024:</u>	<u>Fair Value of Securities with</u>				
	<u>Gross Unrealized Losses</u>	<u>Gross Unrealized Losses</u>	<u>Severity of Gross Unrealized Losses</u>		
			<u>Less than 5%</u>	<u>5% to 10%</u>	<u>Greater than 10%</u>
Less than or equal to:					
Three months	\$ 2,658	\$ (24)	\$ (24)	\$ —	\$ —
Six months	—	—	—	—	—
Nine months	59	(4)	—	(4)	—
Twelve months	529	(15)	(5)	—	(10)
Greater than twelve months	78,831	(6,235)	(1,054)	(79)	(5,095)
Total	\$ 82,077	\$ (6,278)	\$ (1,083)	\$ (83)	\$ (5,105)

FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The fair value and gross unrealized losses of investments in fixed maturities for the nine months ended September 30, 2024 by length of time that individual securities have been in a continuous unrealized loss position follows (in thousands).

September 30, 2024	Less than 12 months		12 months or longer		Total Gross Losses
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	
Fixed maturities, available-for-sale:					
U.S. government and agencies	\$ —	\$ —	\$ 2,007	\$ (8)	\$ (8)
Political subdivisions	—	—	2,019	(56)	(56)
Revenue and assessment	1,064	(4)	8,276	(67)	(71)
Corporate bonds	250	—	28,073	(572)	(572)
Asset-backed securities	—	—	3,712	(51)	(51)
Collateralized mortgage obligations:					
Agency backed	1,808	(24)	34,042	(5,414)	(5,438)
Non-agency backed – residential	124	(15)	233	(59)	(74)
Non-agency backed – commercial	—	—	978	(8)	(8)
Total fixed maturities, available-for-sale	\$ 3,246	\$ (43)	\$ 79,340	\$ (6,235)	\$ (6,278)

For the nine months ended September 30, 2024 the Company had 8 fixed maturities with gross unrealized losses that have been in a gross unrealized loss position for less than or equal to 12 months and 69 fixed maturities with gross unrealized losses that have been in a gross unrealized loss position for greater than 12 months.

For the nine months ended September 30, 2024 and 2023, 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 September 30, 2024 were not other-than-temporarily impaired and are attributable to the increase in interest rates since the time when they were originally purchased. The Company also does not intend to sell any of these securities, and it is more likely than not that the Company will not be required to sell any of these securities before the recovery of their amortized cost basis.

FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

3. Losses and Loss Adjustment Expenses Incurred and Paid

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Liability for unpaid losses and LAE at beginning of period, gross	\$ 210,297	\$ 123,866	\$ 165,346	\$ 107,100
Reinsurance balances recoverable	(1)	(7)	(2)	(97)
Liability for unpaid losses and LAE at beginning of period, net	210,296	123,859	165,344	107,003
Add: Provision for losses and LAE:				
Current period	81,521	74,109	263,095	193,462
Prior periods	3,342	1,586	13,509	1,272
Net losses and LAE incurred	84,863	75,695	276,604	194,734
Less: Losses and LAE paid:				
Current period	62,030	15,786	103,707	78,694
Prior periods	23,012	39,823	128,124	79,098
Net losses and LAE paid	85,042	55,609	231,831	157,792
Liability for unpaid losses and LAE at end of period, net	210,117	143,945	210,117	143,945
Reinsurance balances recoverable	12,664	5	12,664	5
Liability for unpaid losses and LAE at end of period, gross	<u>\$ 222,781</u>	<u>\$ 143,950</u>	<u>\$ 222,781</u>	<u>\$ 143,950</u>

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

The unfavorable development for the three and nine months ended September 30, 2023 was primarily attributable to higher-than-expected loss severity on third-party physical damage losses for the 2022 accident year.

FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

4. Income Taxes

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Federal:				
Current	\$ 2,239	\$ —	\$ 8,889	\$ —
Deferred	(839)	2,008	(3,962)	3,104
	1,400	2,008	4,927	3,104
State:				
Current	350	127	1,775	220
Deferred	(298)	57	(950)	171
	52	184	825	391
	<u>\$ 1,452</u>	<u>\$ 2,192</u>	<u>\$ 5,752</u>	<u>\$ 3,495</u>

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 September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Provision (benefit) for income taxes at statutory rate	\$ 1,438	\$ 1,973	\$ 5,012	\$ 3,152
Tax effect of:				
Tax-exempt investment income	(10)	(5)	(31)	(14)
Stock-based compensation benefits not realized	—	—	(1)	(9)
State income taxes, net of federal income tax benefit and state valuation allowance	(21)	169	460	334
Other	45	55	312	32
	<u>\$ 1,452</u>	<u>\$ 2,192</u>	<u>\$ 5,752</u>	<u>\$ 3,495</u>

ASC Topic 740, *Income Taxes*, establishes procedures to measure deferred tax assets and liabilities and assess whether a valuation allowance relative to existing deferred tax assets is necessary. Management assesses the likelihood of realization of the Company's deferred tax assets and the need for a valuation allowance concerning those assets based on the weight of available positive and negative evidence. As of September 30, 2024, and December 31, 2023, management determined that a valuation allowance of \$2.5 million and \$2.1 million, respectively, was necessary relative to certain state tax net operating loss carryforwards and OTTI which are not expected to be realized. Management also determined at September 30, 2024, and December 31, 2023, 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.

FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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 in 2023 included retail stores (sold effective December 1, 2023), corporate offices, and certain equipment. The leases have remaining lease terms of four years to eight years. Both operating lease costs and cash flows for the nine months September 30, 2024, were \$0.9 million. Operating lease cost and cash flows for the nine months ended September 30, 2023, were \$6.5 million and \$6.7 million, respectively.

Supplemental balance sheet information related to leases was as follows:

	September 30,	
	2024	2023
Operating lease right-of-use assets	\$ 4,538	\$ 13,660
Operating lease liabilities	4,898	13,891
Weighted average remaining lease term	6.67 years	4.09 years
Weighted average discount rate	6.5%	6.6%

Maturities of operating lease liabilities were as follows:

For the Year Ended December 31,	Amount
2024 (excluding the nine months ended September 30, 2024)	\$ 242
2025	975
2026	985
2027	996
2028	780
Thereafter	2,025
Total lease payments	\$ 6,244
Less imputed interest	(1,105)
Total	\$ 4,898

FIRST ACCEPTANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

6. Premiums and Reinsurance

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

	For the Nine Months Ended September 30,	
	2024	
	Written	Earned
Direct	\$ 403,696	\$ 394,514
Assumed	12,173	10,685
Ceded	(56,042)	(24,418)
Net	\$ 359,827	\$ 380,781

Effective 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. The reinsurance covers 50% of both the business in force as of July 1, 2024 and new and renewal business after this date through June 30, 2025, up 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.

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 September 30, 2024, the Company had unsecured aggregate reinsurance receivables of \$18.1 million.

During the three and nine months ended September 30, 2024, ceded premiums earned was \$24.4 million and reinsurance recovered on losses and loss adjustment expenses (“LAE”) was \$15.8 million.

7. 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 is being released monthly from March 2024 through December 2024. The Company is eligible to receive additional contingent consideration of \$15 million (held in escrow), \$10 million, and \$20 million on December 1, 2024, 2025, and 2026, respectively, based upon achievement of certain annual premium production targets.

At September 30, 2024, future consideration receivable from this sale of \$47.1 million is recorded at fair value, utilizing a discounted cash flow approach.

The purchase agreement provides that the Company would receive its additional contingent consideration in its entirety should the buyer fail to submit applications within the applicable underwriting guidelines of the Insurance Companies, provided that the Company has not breached any of its agreements with the buyer. The agreement also provides that the Company maintain \$100 million of capital and surplus in the Insurance Companies through December 31, 2026. As of September 30, 2024, and November 6, 2024, 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 operates 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.