

FIRST ACCEPTANCE CORPORATION



ANNUAL INFORMATION AND DISCLOSURE STATEMENT

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018

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Part A – General Company Information

Item 1. The Exact Name of The Issuer

First Acceptance Corporation

Item 2. The Address of The Issuer’s Principal Executive Offices

Principal Executive Offices: First Acceptance Corporation
3813 Green Hills Village Drive
Nashville, TN 37215
Telephone: 615-844-2800
Web: www.acceptance.com

Investor Relations: Michael J. Bodayle
Vice President, Secretary & Treasurer
First Acceptance Corporation
3813 Green Hills Village Drive
Nashville, TN 37215
Telephone: 615-844-2907
Email: mbodayle@acceptance.com

Item 3. The Jurisdiction and Date of the Issuer’s Incorporation

First Acceptance Corporation was incorporated in the state of Delaware in 1996.

Part B – Share Structure

Item 4. The Exact Title and Class of Securities Outstanding

Class: Common Stock
CUSIP: 318457108
Trading Symbol: FACO

Item 5. Par or Stated Value and Description of the Security

A. Par or Stated Value

The Company’s outstanding securities consists solely of common stock, par value \$0.01 per share.

B. Common Stock or Preferred Stock

Common Stock

Stockholders of the Company are entitled to dividends if declared by the Board of Directors. Each share of our common stock entitles the holder thereof to one vote on all matters submitted to a vote of the stockholders. Our common stock is not subject to redemption or future calls or assessment by First Acceptance Corporation. Holders of common stock do not have preemptive rights, or rights to convert their common stock into other securities. In the event of a liquidation, dissolution or winding up of the affairs of First Acceptance Corporation, holders of our common stock have the right to a ratable portion of the assets remaining after the payment of all liabilities. All outstanding shares of our common stock are fully paid and nonassessable.

The provisions of First Acceptance Corporation’s articles of incorporation and bylaws that are summarized below may have an anti-takeover effect and may delay, defer or prevent a tender offer or takeover attempt that a stockholder might consider to be in such

stockholder's best interests, including those attempts that might result in a premium over the market price for the shares held by stockholders:

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

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

Item 6. The Number of Shares or Total Amount of the Securities Outstanding for Each Class of Securities Authorized

Common Shares	December 31, 2018	December 31, 2017
Number of Shares Authorized	75,000,000	75,000,000
Number of Shares Outstanding	41,372,446	41,234,729
Freely Tradeable Shares (Public Float)	9,117,130	9,255,293
Total Number of Stockholders of Record	261	273

Preferred Shares	December 31, 2018	December 31, 2017
Number of Shares Authorized	10,000,000	10,000,000
Number of Shares Outstanding	—	—
Freely Tradeable Shares (Public Float)	—	—
Total Number of Stockholders of Record	—	—

The Company has more than 50 beneficial stockholders of record owning at least 100 shares.

Item 7. The Name and Address of the Transfer Agent

Computershare is registered as a transfer agent under the Exchange Act.

Micah DeVaney, Assistant Vice President and Relationship Manager
 Computershare
 462 South 4th Street, Suite 1100
 Louisville, KY 40202
 502-301-6091
 Micah.DeVaney@computershare.com

Part C – Business Information

Item 8. The Nature of the Issuer's Business

A. Business Development (During the Last Three Years)

1. The form of organization of the issuer.

We are a Delaware corporation.

2. The year that the issuer (or any predecessor) was organized.

We were organized in 1996.

3. The issuer's fiscal year end date.

Our fiscal year end date is December 31.

4. Whether the issuer (or any predecessor) has been in bankruptcy, receivership or any similar proceeding.

We have not been in any bankruptcy, receivership, or any similar proceeding.

5. Any material reclassification, merger, consolidation, or purchase or sale of a significant amount of assets.

We have not had any reclassification, merger, consolidation, or purchase or sale of a significant amount of assets.

6. Any default of the terms of any note, loan, lease, or other indebtedness or financing arrangement requiring the issuer to make payments.

We have not had any default of the terms of any note, loan, lease, or other indebtedness or financing arrangement.

7. Any change of control.

We have not had a change in control.

8. Any increase of 10% or more of the same class of outstanding equity securities.

There has not been an increase of 10% or more in any class of outstanding equity securities.

9. Any past, pending or anticipated stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization.

We do not have any past, pending or anticipated stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization.

10. Any delisting of the issuer's securities by any securities exchange or deletion from the OTC Bulletin Board.

Effective April 9, 2018, we voluntarily terminated our listing with the New York Stock Exchange and began trading on the OTCQX Marketplace.

11. Any current, past, pending or threatened legal proceedings or administrative actions either by or against the issuer that could have a material effect on the issuer's business, financial condition, or operations and any current, past or pending trading suspensions by a securities regulator. State the names of the principal parties, the nature and current status of the matters, and the amounts involved.

Please see the section entitled "Litigation" in Note 14 of our consolidated financial statements which are attached to this report.

B. Business of Issuer

1. The issuer's primary and secondary SIC codes.

Our primary SIC Code is 6331.

2. If the issuer has never conducted operations, is in the development stage, or is currently conducting operations.

We are currently conducting operations.

3. Whether the issuer has at any time been a "shell company."

We are not, and never have been, a shell company.

4. The names of any parent, subsidiary, or affiliate of the issuer, and its business purpose, its method of operation, its ownership, and whether it is included in the financial statements attached to this disclosure statement.

First Acceptance Corporation owns and operates three insurance company subsidiaries: First Acceptance Insurance Company, Inc. ("FAIC"), First Acceptance Insurance Company of Georgia, Inc. ("FAIC-GA) and First Acceptance Insurance Company of Tennessee, Inc. ("FAIC-TN") and one wholly-owned insurance agency subsidiary: Acceptance Insurance Agency of Tennessee, Inc. ("AITN"). We also have other subsidiaries that individually and collectively are not material. These entities are included in the consolidated financial statements attached to this disclosure statement.

We also own an unconsolidated subsidiary trust, First Acceptance Statutory Trust I ("FAST I") that in June 2007 issued debentures to outside investors on behalf of First Acceptance Corporation.

5. The effect of existing or probable governmental regulations on the business.

Insurance Company Regulation. Our insurance company subsidiaries are regulated by governmental agencies in the states in which we conduct business and by various federal statutes and regulations. These state regulations vary by jurisdiction but, among other matters, usually involve:

- regulating premium rates and forms;
- setting minimum solvency standards;
- setting capital and surplus requirements;
- licensing companies, agents and, in some states, adjusters;
- setting requirements for and limiting the types and amounts of investments;
- establishing requirements for the filing of annual statements and other financial reports;
- conducting periodic statutory examinations of the affairs of insurance companies;
- requiring prior approval of changes in control and of certain transactions with affiliates;
- limiting the amount of dividends that may be paid without prior regulatory approval; and
- setting standards for advertising and other market conduct activities.

Required Licensing. We 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 licenses govern, among other things, the types of insurance coverages and products that may be offered in the licensing state. Such licenses are typically issued only after an appropriate application is filed and prescribed criteria are met. All our licenses are in good standing.

As required by our current operations, we hold managing general agency licenses in Texas and Florida. In addition, business written through other third-party insurance carriers requires our agency operations to hold agency or broker licenses in those states. To expand into a new state or offer a new line of insurance or other new product, we must apply for and obtain the appropriate licenses.

Insurance Holding Company Regulation. We operate as an insurance holding company system and are subject to regulation in the jurisdictions in which our insurance company subsidiaries conduct business. These regulations require that each insurance company in the holding company system register with the insurance department of its state of domicile and furnish information concerning the operations of companies in the holding company system which may materially affect the operations, management or financial condition of the insurers in the holding company domiciled in that state. We have three insurance company subsidiaries that are organized and domiciled under the insurance statutes of Texas, Georgia and Tennessee. The insurance laws in each of these states similarly provide that all transactions among members of a holding company system be done at arm's length and shown to be fair and reasonable to the regulated insurer. Transactions between insurance company subsidiaries and their parents and affiliates typically must be disclosed to the state regulators, and any material or extraordinary transaction requires prior approval of the applicable state insurance regulator. A change of control of a domestic insurer or of any controlling person requires the prior approval of the state insurance regulator. In general, any person who acquires 10% or more of the outstanding voting securities of the insurer or its parent company is deemed by statute to have acquired control of the domestic insurer.

Restrictions on Paying Dividends. We may in the future rely on dividends from our insurance company subsidiaries to meet corporate cash requirements. State insurance regulatory authorities require insurance companies to maintain specified levels of statutory capital and surplus. The amount of an insurer's capital and surplus following payment of any dividends must be reasonable in relation to the insurer's outstanding liabilities and adequate to meet its financial needs. Prior approval from state insurance regulatory authorities is generally required in order for an insurance company to declare and pay extraordinary dividends. The payment of ordinary dividends is limited by the amount of capital and surplus available to the insurer, as determined in accordance with state statutory accounting practices and other applicable limitations. State insurance regulatory authorities that have jurisdiction over the payment of dividends by our insurance company subsidiaries may in the future adopt statutory provisions more restrictive than those currently in effect. See Note 15 to our consolidated financial statements for a discussion of the current ability of our insurance company subsidiaries to pay dividends.

Regulation of Rates and Policy Forms. Most states in which our insurance company subsidiaries operate have insurance laws that require insurance companies to file premium rate schedules and policy or coverage forms for review and approval. In many cases, such rates and policy forms must be approved prior to use. State insurance regulators have broad discretion in judging whether an insurer's rates are adequate, not excessive and not unfairly discriminatory. Generally, property and casualty insurers are unable to implement rate increases until they show that the costs associated with providing such coverage have increased. The speed at which an insurer can change rates in response to competition or increasing costs depends, in part, on the method by which the applicable state's rating laws are administered. There are three basic rate administration systems: (i) the insurer must file and obtain regulatory approval of the new rate before using it; (ii) the insurer may file the new rate and begin using the new rate during regulatory review; or (iii) the insurer may begin using the new rate and file it in a specified period of time for regulatory review. Under all three rating systems, the state insurance regulators have the authority to disapprove the rate subsequent to its filing. Thus, insurers who begin using new rates before the rates are approved may be required to issue premium refunds or credits to policyholders if the new rates are ultimately deemed excessive and disapproved by the applicable state insurance authorities.

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

Restrictions on Cancellation, Non-Renewal or Withdrawal. Many states have laws and regulations that limit an insurer's ability to exit a market. For example, certain states limit an automobile insurer's ability to cancel or not renew policies. Some states prohibit an insurer from withdrawing one or more lines of business from the state, except pursuant to a plan approved by the state insurance department. The state insurance department may disapprove a plan that may lead to market disruption. Laws and regulations that limit cancellations and non-renewals and that subject business withdrawals to prior approval requirements may restrict an insurer's ability to exit unprofitable markets.

Privacy Regulations. In 1999, the United States Congress enacted the Gramm-Leach-Bliley Act, which protects consumers from the unauthorized dissemination of certain nonpublic personal information. Subsequently, the majority of states have implemented additional regulations to address privacy issues. These laws and regulations apply to all financial institutions, including insurance companies, and require us to maintain appropriate procedures for managing and protecting certain nonpublic personal information of our customers and to fully disclose our privacy practices to our customers. We may also be exposed to future privacy laws and regulations, which could impose additional costs and impact our results of operations or financial condition.

Licensing of Our Employee-Agents and Adjusters. All our employees who sell, solicit or negotiate insurance are licensed, as required, by the state in which they work, for the applicable line or lines of insurance they offer. Our employee-agents generally must renew their licenses annually and adhere to minimum annual continuing education requirements. In certain states in which we operate, our insurance claims adjusters are also required to be licensed and are subject to annual continuing education requirements.

Unfair Claims Practices. Generally, insurance companies, adjusting companies and individual claims adjusters are prohibited by state statutes from engaging in unfair claims practices which could indicate a general business practice. We set business

conduct policies and conduct regular training to ensure that our employee-adjusters and other claims personnel are aware of these prohibitions, and we require them to conduct their activities in compliance with these statutes.

Financial Reporting. We are required to file quarterly and annual financial reports with states utilizing statutory accounting practices that are different from U.S. generally accepted accounting principles, which generally reflect our insurance company subsidiaries on a going concern basis. The statutory accounting practices used by state regulators, in keeping with the intent to assure policyholder protection, are generally based on a liquidation concept. For statutory financial information on our insurance company subsidiaries, see Note 15 to our consolidated financial statements which are attached to this report.

Periodic Financial and Market Conduct Examinations. The state insurance departments that have jurisdiction over our insurance company subsidiaries conduct on-site visits and examinations of the insurers' affairs, especially as to their financial condition, ability to fulfill their obligations to policyholders, market conduct, claims practices and compliance with other laws and applicable regulations. Generally, these examinations are conducted every five years. If circumstances dictate, regulators are authorized to conduct special or target examinations of insurers, insurance agencies and insurance adjusting companies to address particular concerns or issues. The results of these examinations can give rise to regulatory orders requiring remedial, injunctive or other corrective action on the part of the company that is the subject of the examination. Our three insurance companies have been examined for financial condition through December 31, 2015 by their respective states of domicile. FAIC has been the subject of limited scope market conduct examinations by the states of Illinois, Missouri, Tennessee, and Texas.

Risk-Based Capital. In order to enhance the regulation of insurer solvency, the National Association of Insurance Commissioners, or "NAIC," has adopted a formula and model law to implement risk-based capital, or "RBC," requirements designed to assess the minimum amount of statutory capital that an insurance company needs to support its overall business operations and to ensure that it has an acceptably low expectation of becoming financially impaired. RBC is used to set capital requirements based on the size and degree of risk taken by the insurer and considering various risk factors such as asset risk, credit risk, underwriting risk, interest rate risk and other relevant business risks. The NAIC model law provides for increasing levels of regulatory intervention as the ratio of an insurer's total adjusted capital decreases relative to its RBC, culminating with mandatory control of the operations of the insurer by the domiciliary insurance department at the so-called mandatory control level. This calculation is performed on a calendar year basis, and at December 31, 2018, each of our insurance companies maintained an RBC level that was in excess of an amount that would require any corrective actions on their part.

6. An estimate of the amount spent during each of the last two fiscal years on research and development activities, and, if applicable, the extent to which the cost of such activities is borne directly by customers.

We have not spent any material amounts during the last two fiscal years on research and development activities.

7. Costs and effects of compliance with environmental laws (federal, state and local).

Based on our environmental assessments, we believe that any compliance costs associated with environmental laws and regulations or any remediation of affected properties are not material, and that any future compliance costs would not have a material adverse effect on our business, financial position, results of operations, or cash flows.

8. The number of total employees and number of full time employees.

At December 31, 2018, the Company had 1,331 employees, 1,318 of which were full time.

Item 9. The Nature of Products or Services Offered

A. Principal products or services, and their markets.

Our core business involves offering automobile insurance policies categorized as "non-standard" to individuals based primarily on their inability or unwillingness to obtain insurance coverage from standard carriers due to various factors, including their payment history or need for monthly payment plans, failure to maintain continuous insurance coverage or driving record. We believe that a majority of our customers seek non-standard insurance due to flexible payment terms and positive customer service experience, including dependable and direct interaction through our retail locations. These policies are written both through our insurance companies and third-party carriers.

We currently maintain retail locations in 15 states, and our operations currently generate revenue from selling non-standard personal automobile insurance products and related products in 16 states. (Virginia is Internet and Call Center only.) In 2018, we conducted our insurance servicing and underwriting operations in 15 states and operated only as an insurance agency in two

states. In December 2016, we ceased writing new business in the state of Missouri and currently offer only renewals. We are also licensed as an insurance company in 12 states where we do not conduct any underwriting operations.

Our employee-agents primarily sell non-standard personal automobile insurance products underwritten by us and through third-party carriers for which we receive a commission. We also offer a variety of additional commissionable products, and, in most states, our employee-agents also sell an insurance product providing personal property and liability coverage for renters that is underwritten by us. In addition to our 350 retail locations, we are also able to complete the entire sales process over the phone via our call center or through the internet via our consumer-based website or mobile platform. On a limited basis, we also sell our products through selected retail locations owned and operated by independent agents.

As an insurance company, we are a vertically-integrated business that acts as the agency, servicer and underwriter of non-standard personal automobile insurance and other ancillary products. We believe this business model allows us to identify and satisfy the needs of our target customers and eliminates many of the inefficiencies associated with a non-integrated automobile insurance model. Our retail locations and call center are staffed with employee-agents. This vertical integration, combined with our convenient sales channels, enables us to control the point of sale and to retain significant revenue that would otherwise be lost in a non-integrated insurance business model.

We offer customers automobile insurance with low down payments, competitive monthly payments, convenient sales channels and a high level of personal service. This strategy makes it easier for our customers to obtain automobile insurance, which is legally mandated in the states in which we currently operate. Currently, our policy life expectancy is lower than that of standard personal automobile insurance providers due to the payment patterns of our customers. However, we accept customers seeking insurance who have previously terminated coverage provided by us without imposing any additional requirements on such customers. Our business model and systems allow us to issue policies efficiently and, when necessary, cancel them to minimize the potential for credit loss while adhering to regulatory cancellation notice requirements.

In addition to a low down payment and competitive monthly rates, we offer customers valuable face-to-face contact and speed of service as many of our customers prefer not to purchase a new automobile insurance policy over the phone or through the internet. The majority of our customers make their payments through our retail locations. For many of our customers, our employee-agents are not only the face of the Company, but also the preferred interface for buying insurance.

In all but two states, we utilize an agency model in which our stores write both our insurance policies and third-party policies. This strategy allows us to capitalize on the strengths of our captive model (i.e. physical retail locations, employee-agents, carrier relationships, technology and support staff) so that we can allocate our insurance company capital and surplus to the markets where it will generate the highest return. This practice also enables us to earn commission income from non-standard automobile insurance customers whose underwriting profile finds them better suited for an insurer carrier other than one of our own. In doing so, we also sell through our retail location and call center, additional commissionable products written through third-party carriers for non-personal automobile coverages such as homeowners, renters, motorcycle, life and commercial automobile, as well as supplementary products such as roadside assistance.

B. Distribution methods of the products or services.

Our marketing strategy is based on creating top-of-mind brand recognition of our full suite of product offerings and encouraging prospective customers to purchase insurance by either visiting one of our retail locations or utilizing our phone or internet channels to bind a policy. Our current advertising strategy is focused on digital and social media channels, community events, direct mail, outdoor and radio.

We primarily distribute our products through our 350 retail locations. We believe the local office concept remains attractive to many of our customers, as they desire the face-to-face assistance they cannot receive over the telephone or through the internet. However, in response to the increasing consumer demand to purchase personal automobile insurance over the phone and through the internet, we offer customers the ability to purchase a policy through an employee-agent in our call center or via our www.acceptance.com website and mobile platform. As of December 31, 2018, approximately 11% and 7% of our policies-in-force were sold through our website and call center, respectively. On a limited basis, we also sell our products through selected retail locations owned and operated by independent agents.

C. Status of any publicly announced new product or service.

We have not publicly announced any new product or service.

D. Competitive business conditions, the issuer's competitive position in the industry, and methods of competition.

The non-standard personal automobile insurance business is highly competitive. Our primary competition comes not only from national companies or their subsidiaries, but also from non-standard insurers and independent agents that operate only in specific regions or states. We compete against other vertically integrated insurance companies and independent agents that market insurance on behalf of a number of insurers. We compete with these other insurers on factors such as initial down payment, availability of monthly payment plans, price, customer service and claims service.

E. Sources and availability of raw materials and the names of principal suppliers.

We do not use raw materials.

F. Dependence on one or a few major customers.

We do not have dependence on one or a few major customers.

G. Patents, trademarks, licenses, franchises, concessions, royalty agreements or labor contracts, including their duration.

The Company maintains trademarks related to our trade names and logos. We do not have any patents, franchises, concessions, royalty agreements, or labor contracts. See Item 8 B.5. for information regarding our required licenses.

H. The need for any government approval of principal products or services and the status of any requested government approvals.

Insurance products are required to be reviewed and approved by insurance regulators in the various states in which we conduct business. Variations on certain products may occur on a state-by-state basis based on the laws or regulations of a given state. From time-to-time, we do seek to add new products and modify existing products, but the Company is not currently awaiting any approval that materially impacts our ability to conduct business.

Item 10. The Nature and Extent of the Issuer's Facilities

We lease office space in three separate facilities (a total of approximately 80,000 square feet) in Nashville, Tennessee for our corporate office and customer service, claims, and data center. We also lease office space for a regional claims office in Tampa, Florida. Our 350 retail locations are all leased and typically are located in storefronts in retail shopping centers.

Part D – Management Structure and Financial Information

Item 11. The Name of the Chief Executive Officer, Members of the Board of Directors, as well as Control Persons

A. Officers and Directors

John R. Barnett	<u>Executive Vice President and Chief Financial Officer</u>
(Age 52)	<p><u>Business Experience:</u> Mr. Barnett has been the Company’s Executive Vice President and Chief Financial Officer since November 2018. Mr. Barnett was previously with the Company serving as Vice President of Planning and Analysis from 2009 to 2011 and Senior Vice President of Finance and Chief Financial Officer from 2011 to 2013. From 2013 to 2018, Mr. Barnett was Vice President, Finance for Broadcast Music, Inc. (“BMI”). Mr. Barnett is a certified public accountant.</p> <p><u>Other Current Board Positions:</u> None</p> <p><u>Relationship to Company:</u> Mr. Barnett is the Executive Vice President and Chief Financial Officer of the Company.</p>
Rhodes R. Bobbitt	<u>Director Since: 2004</u>
(Age 73)	<p><u>Business Experience:</u> From February 1987 until his retirement in June 2004, Mr. Bobbitt served as Managing Director and Dallas Regional Office Manager of the Private Client Service Group – Credit Suisse First Boston and its predecessor, Donaldson, Lufkin & Jenrette. Prior to joining Donaldson, Lufkin & Jenrette, Mr. Bobbitt was Vice President of Security Sales in the Dallas office of Goldman Sachs & Co. Mr. Bobbitt has executive experience in finance and investments.</p> <p><u>Other Current Board Positions:</u> Hilltop Holdings Inc.</p> <p><u>Relationship to Company:</u> Mr. Bobbitt is an Independent Director.</p>
Donald J. Edwards	<u>Director Since: 2002</u>
(Age 53)	<p><u>Business Experience:</u> Mr. Edwards is the Chief Executive Officer of Flexpoint Ford, LLC, a Chicago-based private equity firm focused on healthcare and financial services. He served as our President and Chief Executive Officer from July 2002 through April 2004. Prior to July 2002, Mr. Edwards served as a principal in GTCR Golder Rauner, a Chicago-based private equity firm, for over eight years where he was the head of the firm’s healthcare investment effort. Mr. Edwards has experience in strategic planning, management, finance and investments.</p> <p><u>Other Current Board Positions:</u> GeoVera Holdings.</p> <p><u>Relationship to Company:</u> Mr. Edwards is an Independent Director.</p>

Gerald J. Ford	<u>Principal Shareholder</u>
(Age 74)	<p><u>Business Experience:</u> Gerald J. Ford is the Chairman of the Board of Hilltop Holdings, Inc. and the Co-Managing Partner of Ford Financial Fund II, L.P., a private equity fund. He was Chairman of the Board of Directors and a director of the Company from its inception in 1996 through 2011. Mr. Ford served as our Chief Executive Officer from our inception until July 2002</p> <p><u>Other Current Board Positions:</u> Hilltop Holdings, Inc., Freeport-McMoRan Copper & Gold Inc., Scientific Games Corporation and SWS Group, Inc.</p> <p><u>Relationship to Company:</u> Gerald J. Ford controls approximately 53% of our outstanding common stock and is the father of Jeremy B. Ford, the Chairman of our Board of Directors.</p>

Jeremy B. Ford	<u>Director Since: 2011</u>
(Age 44) <i>Chairman of the Board of Directors</i>	<p><u>Business Experience:</u> Mr. Ford is the Chairman of the Board of Directors. He previously served as a director of the Company from September 2000 through April 2004 and as an employee from July 2002 through April 2004. He currently serves as a director, President and Co-Chief Executive Officer of Hilltop Holdings Inc. (“Hilltop”), a financial holding company that owns PlainsCapital Bank, PrimeLending (mortgage lender), Hilltop Securities, Inc. (public and corporate finance, clearing and asset management), and National Lloyds Insurance Company (property and casualty insurance company). Prior to joining Hilltop, he worked for Ford Financial Fund, L.P., a private equity fund, and for Diamond A-Ford Corporation, a family limited partnership. Mr. Ford has extensive experience in operating a public company, as well as mergers and acquisitions.</p> <p><u>Other Current Board Positions:</u> Hilltop Holdings Inc.</p> <p><u>Relationship to Company:</u> Jeremy B. Ford is the son of Gerald J. Ford, the Company’s former Chairman of the Board of Directors who controls approximately 53% of our outstanding common stock.</p>

Mark A. Kelly	<u>Director Since: 2014</u>
(Age 50)	<p><u>Business Experience:</u> Mr. Kelly is currently a principal with Flexpoint Ford, LLC. He previously served as our Chief Executive Officer from July 2012 to September 2014, our Interim President from March 2011 to July 2012 and our Interim Chief Executive Officer from December 2011 to July 2012 and has 20 years of banking and lending experience. Prior to being named interim President of the Company, Mr. Kelly was a Vice President of Ford Financial Fund II, L.P., a private equity fund controlled by Gerald J. Ford. Prior to that, Mr. Kelly held the position of Senior Vice President – Credit and Risk Management with Triad Financial SM, LLC (“Triad”). From 2002 to 2007, Mr. Kelly worked with Hunter’s Glen/Ford, Ltd., our principal stockholder. From 1994 to 2002, he served as Executive Vice President and Chief Financial Officer of Auto One Acceptance Corporation (a subsidiary of California Federal Bank, FSB). Mr. Kelly has experience in strategic planning, management, finance and investments.</p> <p><u>Other Current Board Positions:</u> American Bank, N.A., ABNA Holdings, Inc. and Continuity Health Solutions.</p> <p><u>Relationship to Company:</u> Mr. Kelly is an Independent Director.</p>

Tom C. Nichols	<u>Director Since:</u> 2005
(Age 71)	<p><u>Business Experience:</u> Mr. Nichols is currently the owner and Chief Executive Officer of Carlile Holdings, Inc., a family investment office. He served as Chairman and Chief Executive Officer of Carlile Bancshares, Inc. from March 2008 through its April 2017 acquisition by Independent Bancshares, Inc. for which he currently serves as a director. He served as President and a director of First United Bancorp and Chairman, President and Chief Executive Officer of State National Bancshares, Fort Worth from October 1996 to March 2008. Mr. Nichols previously served as President of Ford Bank Group and as a director of United New Mexico Financial Corporation. Mr. Nichols has executive experience in strategic planning, management and finance.</p> <p><u>Other Current Board Positions:</u> Independent Bank Group, Inc.</p> <p><u>Relationship to Company:</u> Mr. Nichols is an Independent Director.</p>

Lyndon L. Olson	<u>Director Since:</u> 2004
(Age 72)	<p><u>Business Experience:</u> From 2011 until 2015, Mr. Olson served as Chairman of Hill+Knowlton Strategies, Europe and USA, a global public relations company. Mr. Olson served as a Senior Advisor to the Chairman of Citigroup, Inc. from 2001 until 2008. Mr. Olson served as United States Ambassador to Sweden from 1998 until 2001. From 1990 to 1998, Mr. Olson served as Chairman and Chief Executive Officer of Travelers Insurance Group Holdings, Inc. and Associated Madison Companies, Inc. Prior to joining Travelers, Mr. Olson served as President of the National Group Corporation and Chief Executive Officer of its National Group Insurance Company. Mr. Olson has executive experience in strategic planning, management, insurance regulatory compliance and finance, with particular emphasis on the insurance industry.</p> <p><u>Other Current Board Positions:</u> Scott & White Health Plan.</p> <p><u>Relationship to Company:</u> Mr. Olson is an Independent Director.</p>

Kenneth D. Russell	<u>Director Since:</u> 2014
(Age 70) <i>Interim President and Chief Executive Officer</i>	<p><u>Business Experience:</u> Mr. Russell has served as the Company's Interim President and Chief Executive Officer since October 2016. From June 2015 to October 2016, Mr. Russell served as President, Chief Executive Officer and a director of Mechanics Bank, an affiliate of Gerald J. Ford. Mr. Russell is a former member of the managing board of directors for KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft (KPMG DTG). Prior to joining KPMG DTG, Mr. Russell was the lead financial services partner in the US KPMG LLP's Department of Professional Practice in New York. Prior to joining the Department of Professional Practice at KPMG in 1993, Mr. Russell spent 20 years in KPMG's Dallas office and had engagement responsibilities for several significant regional banking, thrift and other financial services clients.</p> <p><u>Other Current Board Positions:</u> Hilltop Holdings Inc. and Mechanics Bank</p> <p><u>Relationship to Company:</u> Mr. Russell is the Interim President and Chief Executive Officer of the Company.</p>

William A. Shipp (Age 66)	<p><u>Director Since:</u> 2004</p> <p><u>Business Experience:</u> Mr. Shipp has been a principal of W.A. Shipp, Jr. & Co., a business and financial advisory firm, since July 1995 and has served as Treasurer/Secretary of the Jack C. Massey Foundation since July 1999, as a Director of the Foundation since April 2015, and as President since November 2016. From December 1983 to June 1995, Mr. Shipp served as Vice President of Massey Investment Company. Prior to joining Massey Investment Company, Mr. Shipp worked for more than eight years in various audit and tax capacities for Ernst & Young LLP. Mr. Shipp is a certified public accountant with the CGMA designation and has experience in accounting, finance and investments.</p> <p><u>Other Current Board Positions:</u> Jack C. Massey Foundation.</p> <p><u>Relationship to Company:</u> Mr. Shipp is an Independent Director.</p>
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The business address of our directors and executive officers is 3813 Green Hills Village Drive, Nashville, TN 37215. The address of Gerald J. Ford is 200 Crescent Court, Suite 1350, Dallas, TX 75201.

2018 Compensation of Executive Officers

The following table summarizes information with respect to the compensation paid to our executive officers in 2018.

Name and Principal Position	Salary (\$)	Bonus (\$)	Stock Awards	
			(\$)(1)	Total (\$)
Kenneth D. Russell Interim President and Chief Executive Officer	(2) 400,000	358,157	60,000	818,157
John R. Barnett Executive Vice President and Chief Financial Officer	(3) 40,384	50,000	80,000	170,384
Brent J. Gay Former Senior Vice President and Chief Financial Officer	(4) 138,037	193,238	30,000	361,275

- (1) Represents the aggregate grant date fair value of restricted stock units granted computed in accordance with FASB ASC 718. Aggregate compensation expense is equal to the grant date fair value based on the closing stock price on the date of grant.
- (2) Mr. Russell also serves in various capacities for affiliates of Gerald J. Ford, our principal shareholder. The salary amounts represent reimbursements by the Company to Mr. Russell's current employer, Diamond-A Administration Company, at an annual rate of \$400,000.
- (3) Mr. Barnett's salary from November 5, 2018 through December 31, 2018 represents an annual salary of \$300,000.
- (4) Mr. Gay's salary from January 1, 2018 through June 15, 2018 represented an annual salary of \$300,000.

2018 Director Compensation

Each director receives an annual retainer of \$20,000, payable in equal, quarterly installments. The Chairman of the Audit Committee of the Board of Directors receives an additional annual retainer of \$5,000, payable in equal, quarterly installments. Directors also receive a fee of \$2,000 for each Board of Directors meeting attended and \$1,000 for each Board committee meeting attended. In addition, directors other than Messrs. Edwards and Ford receive an award pursuant to the Amended and Restated First Acceptance Corporation 2002 Long Term Incentive Plan of 1,000 shares of common stock on the date of each annual meeting of our stockholders.

The following table summarizes information with respect to the compensation paid to the members of our Board in 2018.

Name	Fees Earned		Total
	or Paid in Cash (\$)	Stock Awards (\$)(1)	
Rhodes R. Bobbitt	38,000	1,120	39,120
Harvey B. Cash (2)	10,000	—	10,000
Donald J. Edwards	31,000	—	31,000
Jeremy B. Ford	30,000	—	30,000
Mark A. Kelly	32,000	1,120	33,120
Tom C. Nichols	37,000	1,120	38,120
Lyndon L. Olson, Jr.	30,000	1,120	31,120
Kenneth D. Russell	30,000	1,120	31,120
William A. Shipp, Jr.	43,000	1,120	44,120

(1) Represents the proportionate amount of the total value of stock awards to directors recognized as an expense during 2018 for financial accounting purposes under Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 718-20, Compensation – Stock Compensation, disregarding for this purpose estimated forfeitures relating to service-based vesting conditions. Compensation expense is equal to the grant date fair value of the stock awards using the closing price for the Company’s common stock on the New York Stock Exchange on the date of grant (\$1.12).

(2) Mr. Cash died on April 10, 2018.

Beneficial Ownership of Directors and Officers

The following table shows the amount of our common stock beneficially owned as of December 31, 2018 by our current directors and our named executive officers.

Name	Outstanding Shares (1)	Percent of Class
Jeremy B. Ford	2,333,551 (2)	5.6%
Rhodes R. Bobbitt	871,240	2.1%
Donald J. Edwards	536,666	1.3%
Kenneth D. Russell	246,430	*
Mark A. Kelly	119,000	*
Tom C. Nichols	63,500	*
Lyndon L. Olson, Jr.	63,000	*
William A. Shipp, Jr.	24,501	*
John R. Barnett	—	*

* Represents less than 1% of our outstanding common stock.

- (1) The number of shares shown includes shares that are individually or jointly owned, as well as shares over which the individual has either sole or shared investment or voting authority.
- (2) Excludes shares beneficially owned by Hunter’s Glen (See Beneficial Ownership of Control Persons table.). Mr. Jeremy B. Ford is the beneficiary of a trust that owns approximately 46% of Hunter’s Glen. Mr. Jeremy B. Ford disclaims beneficial ownership of the shares owned by Hunter’s Glen, except to the extent of his pecuniary interest therein.

B. Legal/Disciplinary History

In the last five years, none of our officers, directors or control persons have been the subject of any of the following:

1. A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses);
2. The entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person’s involvement in any type of business, securities, commodities, or banking activities;

3. A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated; or
4. The entry of an order by a self-regulatory organization that permanently or temporarily barred, suspended or otherwise limited such person's involvement in any type of business or security activities.

C. Disclosure of Family Relationships

Jeremy B. Ford, Chairman of the Board, is the son of Gerald J. Ford, the Company's former Chairman of the Board of Directors who controls approximately 53% of our outstanding common stock.

D. Disclosure of Related Party Transactions

On June 29, 2015, to finance an acquisition, the Company borrowed the full amount under a \$30 million Loan Agreement (the "Loan Agreement") with Diamond Family Investments, LP, an affiliate of Gerald J. Ford, the Company's former Chairman of the Board of Directors who controls approximately 53% of our outstanding common stock. The Loan Agreement provided a \$30 million interest-only senior term loan facility, maturing in full on June 29, 2025. Commencing June 29, 2016, the Company has the right to prepay the loan in whole or in part, in cash, without premium or penalty, upon written notice to the lender. Amounts prepaid under the Loan Agreement may not be reborrowed. The term loan outstanding under the Loan Agreement bears interest at a rate of 8% per annum. The terms and conditions of the Loan Agreement were approved by a special committee of the Board of Directors consisting of directors who are considered to be independent of Gerald J. Ford.

The Company also operates under standard agreements for Treasury and Custodial Services with a bank indirectly owned 17% by Gerald J. Ford. The fees under these agreements for the years ended December 31, 2018 and 2017 were \$115 thousand and \$167 thousand, respectively.

E. Disclosure of Conflicts of Interest

There are no conflicts of interest with regards to our executive officers and directors.

Item 12. Financial Information for the Issuer's Most Recent Fiscal Period

Our audited consolidated financial statements for the year ended December 31, 2018, were filed separately through the OTC Disclosure and News Service, are available at www.otcm Markets.com and incorporated herein by reference.

Item 13. Similar Financial Information for Such Part of the Two Preceding Fiscal Years as the Issuer or its Predecessor Has Been in Existence

Our audited consolidated financial statements for the year ended December 31, 2018, are incorporated herein by reference and available through the OTC Disclosure and News Service, or at www.otcm Markets.com. Prior to April 9, 2018, the Company traded on the New York Stock Exchange. The Annual Report on Form 10-K for the year ended December 31, 2017 was previously filed by the Company with the Securities and Exchange Commission and is incorporated herein by reference.

Item 14. Beneficial Owners**Beneficial Ownership of Control Persons**

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class (1)
Gerald J. Ford (2) 200 Crescent Court, Suite 1350 Dallas, Texas 75201	21,851,599	52.8%
Second Curve Capital, LLC (3) 350 5th Avenue, Suite 4730 New York, New York 10018	4,100,754	9.9%
Jeremy B. Ford 3813 Green Hills Village Drive Nashville, Tennessee 37215	2,333,551	5.6%

(1) Based on 41,372,446 shares of common stock outstanding on December 31, 2018.

(2) Includes 19,019,653 shares owned through Hunter's Glen/Ford Ltd. ("Hunter's Glen") and 2,268,218 shares owned through Turtle Creek Revocable Trust ("Turtle Creek Trust"). Because Mr. Ford is one of two general partners of Hunter's Glen and the sole stockholder of Ford Diamond Corporation, a Texas corporation and the other general partner of Hunter's Glen, Mr. Ford is considered the beneficial owner of the shares that Hunter's Glen owns. Since Mr. Ford is trustee of Turtle Creek Trust, Mr. Ford is considered the beneficial owner of the shares that Turtle Creek Trust owns.

(3) Based upon Schedule 13G filed on January 19, 2017.

We are not aware of any additional beneficial shareholders owning 5% or more of our Common Stock. It is possible that there are one or more additional beneficial holders of a significant percentage of our Common Stock, however the federal securities laws do not require a beneficial shareholder of 5% or more of our Common Stock to disclose that information publicly or to the Company. The table above is based on the best information available to the Company.

Item 15. The Name, Address, Telephone Number, and Email Address of Each of the Following Outside Providers that Advise the Issuer on Matters Relating to Operations, Business Development and Disclosure

Our securities counsel is:

Corey G. Prestidge
Hilltop Holdings, Inc.
2323 Victory Avenue, Suite 1400
Dallas, TX 75219
cprestidge@hilltop-holdings.com
(214) 855-2177

Our auditor is:

Crowe LLP
720 Cool Springs Boulevard
Suite 600
Franklin, TN 37067

Preparation of our consolidated financial statements is the responsibility of the Company. Crowe LLP is responsible for conducting an audit of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America, with the objective of expressing an opinion as to whether the presentation of the consolidated financial statements conforms with accounting principles generally accepted in the United States of America (GAAP). Crowe LLP has confirmed to us that the firm is licensed to practice public accounting in the states in which we conduct our business. Crowe LLP is registered with the PCAOB.

Item 16. Management’s Discussion and Analysis or Plan of Operation

A. Plan of Operation

This item is not applicable as we have had revenue in each of the last two fiscal years.

B. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Our Management’s Discussion and Analysis of Financial Condition and Results of Operation for each of the last two fiscal years are incorporated by reference to our Annual Report filed separately through the OTC Disclosure and News Service, available at www.otcmarkets.com.

C. Off-Balance Sheet Arrangements

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

Part E – Issuance History

Item 17. List of Securities Offerings and Shares Issued for Services in the Past Two Years

We have had no securities offerings or shares issued for services during the past two fiscal years, or since December 31, 2018.

Part F – Exhibits

Item 18. Material Contracts

1. Amended and Restated First Acceptance Corporation 2002 Long Term Incentive Plan, was filed as Exhibit 10.1 of the Company’s Current Report on Form 8-K dated November 23, 2009 and is incorporated herein by reference.
2. Second Amended and Restated First Acceptance Corporation Employee Stock Purchase Plan, was filed in the Company’s Report on Form 10-K dated December 31, 2017 as Exhibit 10.4 and is incorporated herein by reference.
3. Form of Indemnification Agreement between the Company and each of the Company’s directors and executive officers, was filed in the Company’s Report on Form 10-K dated December 31, 2012 as Exhibit 10.6 and is incorporated herein by reference.
4. Junior Subordinated Indenture, dated June 15, 2007, between First Acceptance Corporation and Wilmington Trust Company, was filed as Exhibit 99.2 in the Company’s June 18, 2007 Report on Form 8-K and is incorporated herein by reference.
5. Guarantee Agreement, dated June 15, 2007, between First Acceptance Corporation and Wilmington Trust Company, was filed as Exhibit 99.3 in the Company’s June 18, 2007 Report on Form 8-K and is incorporated herein by reference.
6. Amended and Restated Trust Agreement, dated June 15, 2007, among First Acceptance Corporation, Wilmington Trust Company and the Administrative Trustees Named Therein, was filed as Exhibit 99.4 in the Company’s June 18, 2007 Report on Form 8-K and is incorporated herein by reference.
7. Loan Agreement, dated June 29, 2015, among First Acceptance Corporation and the Lenders party hereto, was filed in the Company’s Report on Form 8-K dated June 29, 2015 as Exhibit 10.10 and is incorporated herein by reference.

Item 19. Articles of Incorporation and Bylaws

The Articles of Incorporation, as Restated in 2004, were filed as Exhibit 3.1 to the Company’s Report on Form 8-K dated May 3, 2004 and incorporated herein by reference. The Bylaws as Amended and Restated November 7, 2007, were filed as Exhibit 3.2 to the Company’s Report on Form 8-K dated November 7, 2007 and are incorporated herein by reference.

Item 20. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

In 2018, the Company repurchased 26,650 shares from employees to cover payroll withholding taxes in connection with the vesting of restricted stock units.

During 2018, there were no purchases of equity securities by any Affiliated Purchasers.

Item 21. Issuer's Certifications

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

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

Date: March 6, 2019

/s/ Kenneth D. Russell

Kenneth D. Russell

President and Chief Executive Officer

I, John R. Barnett, Executive Vice President and Chief Financial Officer, certify that:

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

Date: March 6, 2019

/s/ John R. Barnett

John R. Barnett

Executive Vice President and Chief Financial Officer