REPORT ON EXAMINATION OF

FIRST ACCEPTANCE INSURANCE COMPANY OF TENNESSEE, INC.

NASHVILLE, TENNESSEE

AS OF

DECEMBER 31, 2010

THE DEPARTMENT OF COMMERCE AND INSURANCE

STATE OF TENNESSEE

NASHVILLE, TENNESSEE

<u>TABLE OF CONTENTS</u>

Nashville, Tennessee
June 5, 2012

Honorable Julie Mix McPeak
Commissioner of Commerce and Insurance
State of Tennessee
500 James Robertson Parkway
Nashville, Tennessee 37243

Honorable Sharon P. Clark
Commissioner of Insurance
And Secretary, Southeast Zone
State of Kentucky
PO Box 517
Frankfort, Kentucky 40602-0517

Honorable Ralph T. Hudgens
Office of Insurance and Safety Fire Commissioner
State of Georgia
2 Martin Luther King, Jr. Dr.
West Tower, Suite 704
Atlanta, Georgia 30334

Honorable Eleanor Kitzman
Commissioner of Insurance
and Secretary, Western Zone
State of Texas
PO Box 149104
Austin, Texas 78714-9104

Honorable Joseph Torti III
Deputy Director and Superintendent of Insurance
and Chair of the NAIC Financial Condition (E) Committee
Rhode Island Department of Business Regulation – Division of Insurance
1511 Pontiac Ave Bldg 69-2
Cranston, Rhode Island 02920

Dear Commissioners:

In accordance with the Tennessee Insurance Laws, regulations, and resolutions adopted by the National Association of Insurance Commissioners ("NAIC"), a financial examination has been made of the affairs and condition of

FIRST ACCEPTANCE INSURANCE COMPANY OF TENNESSEE, INC.
3818 GREEN HILLS VILLAGE DRIVE
NASHVILLE, TENNESSEE 37215

hereinafter generally referred to as the Company, and a report thereon is submitted as follows:

SCOPE OF THE EXAMINATION

The Company was last examined as part of its organizational examination as of December 4, 2006, by the State of Tennessee Department of Commerce and Insurance ("TDCI"). The current financial examination covers the intervening period to and including the close of business on December 31, 2010, and incorporated such subsequent events and transactions as were deemed pertinent to this report.

This examination was completed under coordination of the holding company group examination approach. Representatives from the Texas Department of Insurance ("TXDI") and the Georgia Department of Insurance ("GADI") participated in the examination of First Acceptance Corporation ("FAC") and its affiliated insurance companies

The examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook and Tennessee Insurance Statutes. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. The examination also includes assessments of the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions, when applicable to domestic state regulations.

The examination was called as of December 31, 2010 on a coordinated basis involving the TXDI as the coordinating state with participation from GADI and TDCI for their subsidiaries. The insurance subsidiaries benefit to a large degree from common management, systems and processes, internal control and risk management functions that are administered at the consolidated or business unit level. All original books and records are kept at 3818 Green Hills Village Drive, Nashville, Tennessee 37215.

The coordinated examination applied procedures sufficient to comprise a full scope financial examination of each of the companies in accordance with the examination procedures and standards promulgated by the NAIC and by the respective state insurance departments where the companies are domiciled. The objective is to enable each domestic state to report on their respective companies' financial condition and to summarize key results of the examination procedures.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. The examination included the use of the Company's Section 404 of Sarbanes-Oxley documentation in regards to internal controls and a review of workpapers prepared by Ernst & Young, the Company's independent auditors, in their examination of the Company's accounts for the year ended December 31, 2010.

Two recommendations from the organizational examinations were met within the intervening period. The Company amended its custodial agreement to comply with Tenn. Comp. R. and Regs. 0780-1-46. Additionally, the controlling persons have filed a Holding Company Registration each calendar year.

COMPANY HISTORY

The Company was incorporated on June 30, 2006, under the Tennessee Business Corporation Act as a for-profit corporation authorized to transact business in the State of Tennessee. Formed as a wholly-owned subsidiary of First Acceptance Insurance Company, Inc. ("FAIC"), a Texas-domiciled property and casualty insurance company, the Company was issued a Tennessee Certificate of Authority on December 21, 2006 to engage in property, casualty and surety insurance. FAIC is a wholly-owned indirect subsidiary of FAC, a publicly traded corporation that is considered the ultimate controlling party of the Company.

The Company is licensed to transact business in Tennessee. The Company operates company-owned retail stores in Tennessee. Business is written through the retail stores by employee-agents and three independent agents in the Memphis and Nashville areas of Tennessee. Management, accounting, underwriting and customer service are provided by USAuto Holdings ("USAuto") and FAIC. Allocated costs for these services are covered within an intercompany agreement.

Operating from FAC's main administrative office in Nashville, Tennessee, the Company utilizes FAC's two regional claims offices in Tampa and Chicago, as well as the primary claims office in Nashville.

CHARTER AND BYLAWS

Charter:
The Company's charter was amended and restated as of May 1, 2010. The main provisions of the Charter are as follows:

- The name of the Company is First Acceptance Insurance Company of Tennessee, Inc.
- The street address of the principal office of the Company in the State of Tennessee is 3813 Green Hills Village Drive, Nashville, Tennessee 37215, County of Davidson.
- The Company is for profit.
- The Company is formed for the purpose of engaging in the business of insurance as a principal, including but not limited to property or casualty insurance, and to engage in any other lawful business under the laws of the State of Tennessee.
- A director of the corporation shall not be liable to the corporation or its shareholders for monetary damages for breach of fiduciary duty as a director. If the Tennessee Business Corporation Act or any successor statute is amended after adoption of this provision to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of directors of the Company shall be eliminated or limited to the fullest extent permitted by the Tennessee Business Corporation Act, as so amended from time to time. Nothing in this paragraph shall diminish liability of any director of the corporation under Title 56 of the Tennessee Code Annotated.

All the general provisions and powers enumerated in the Company's charter are usual in nature and consistent with corporations of this type.

Bylaws:
The bylaws of the Company, dated June 30, 2006, are such as are generally found in corporations of this type. They are consistent with the charter and contain no unusual provisions. They provide for the regulation of the business and for the conduct of the affairs of the Company, the directors, committees and the officers. The bylaws may be altered, amended or repealed and new bylaws may be adopted by the board of directors, subject to repeal or change by action of the shareholders.

CORPORATE RECORDS

The minutes of the meetings of the Board of Directors were reviewed for the period under examination. They were found to be complete as to necessary detail and appear to adequately reflect the acts of the Board of Directors.

MANAGEMENT AND CONTROL

Board of Directors:

The business and affairs of the corporation and all corporate powers shall be managed by the Board of Directors, subject to any limitation imposed by state, the Articles of Incorporation or the bylaws as to action which requires authorization or approval by the shareholders.

The Company shall be managed by a Board of Directors composed of not less than 1 but more than 9 members as determined by the shareholders. Directors shall be elected at the annual meeting of the shareholders, and each Director shall serve until his successor shall have been elected and qualified.

Regular or special meetings of the Board of Directors may be held within or without the State of Tennessee. Regular meetings of the Board of Directors may be held upon notice or without notice unless notice is required under the bylaws. Special meetings shall be called by the President. Notice of each special meeting shall be given to each Director at least 10 days before the date of the meeting.

A quorum shall be established with a majority of the Directors to transact any business. The action of the Board held with a majority quorum shall be the actions of the Board of Directors. Actions required or permitted at a Board of Directors or committee meeting may be taken without a meeting if consent in writing is signed by all members of the Board of Directors or committee.

The Board of Directors may designate members to committees. Committees shall consist of not less than 2 members and shall have and exercise power determined by the Board under resolution.

At December 31, 2010, the following persons were serving as members of the Board of Directors:

Name	Address	Occupation
Steven J Harrison	Nashville, Tennessee	CEO of FAC
Michael J. Bodayle	Nashville, Tennessee	Secretary and Treasurer of FAC, FAIC, First Acceptance Insurance Company of Georgia ("FAIC-GA") and the Company

Officers:
The officers of the corporation shall be elected by the Board of Directors and shall consist of a President, a Secretary and a Treasurer. The Board of Directors may also elect a Chairman of the Board, one or more Vice-Presidents, one or more Assistant Secretaries and Assistant Treasurers and such other officers and assistant officers and agents as it shall deem necessary. None of the officers need be Directors except the President. Salaries of all officers and agents of the corporation shall be fixed by the Board of Directors.

The officers of the corporation shall hold office until their successors are elected or appointed, or until their death or until their resignation or removal from office. Any officer elected or appointed by the Board of Directors may be removed at any time by the Board, with or without cause, whenever in its judgment the best interest of the corporation will be served. Any vacancy occurring in any office shall be filled by the Board.

If one is elected, the Chairman of the Board shall preside at all meetings of the Board of Directors and shall have such other powers and duties prescribed by written directions pursuant to duly adopted Board resolution.

The President shall be the chief executive officer of the corporation. The President shall have general and active management of the business and affairs of the corporation and shall see that all orders and resolutions of the Board of Directors are carried into effect. Also, the President will preside at all meetings of the shareholder; the president will preside at all Board of Directors meetings, unless a Chairman of the Board has been elected or in the absence or disability of the Chairman of the Board. The following officers were elected on October 22, 2010 at the annual meeting:

Name	Office
Steven J. Harrison	President
Michael J. Bodayle	Secretary and Treasurer

Committees:
The Company's Board of Directors cover necessary business matters. The true governance framework is at the corporate level (FAC), where the board has the following committees:

- Nominating and Corporate Governance Committee–is responsible for identifying individuals qualified to become members of the Board, consistent with the criteria approved by the Committee, considering nominations made by shareholders in accordance with the Company's bylaws, selecting or recommending to the Board, the director nominees for the next shareholders' meetings, developing and recommending to the Board a set of corporate governance principles applicable to the Company and overseeing the Company's compliance with those principles, and overseeing the evaluations of the Board, its committees and management.

- Compensation Committee –is responsible for overseeing the philosophy and strategy of the Company's compensation programs, discharging the Board's responsibilities relating to compensation of the Company's directors and executives, and producing the Committee report on executive compensation included in the annual proxy statement as required by applicable Securities and Exchange commission rules and regulations.

- Investment Committee –assists the Board in fulfilling its responsibility to oversee and monitor the Company's investment policies and objectives and other matters relating to the investment of the funds of the Company and its subsidiaries.

- Audit Committee –is responsible for oversight of the integrity of the Company's financial statements, audit process, system of internal controls, program for compliance with applicable governmental laws and regulations, and the performance of the Company's internal audit function and independent auditor.

Conflict of Interests:
All directors and officers of the Company are required to complete an Annual Conflict of Interest Statement. Statements signed by the Company's directors and officers, for the period under examination, were reviewed without exception.

Pecuniary Interest:
A check for compliance with Tenn. Code Ann. § 56-3-103 found that no director or officer of the Company had pecuniary interest in the investment or disposition of Company funds.

AFFILIATED COMPANIES

The Company is a member of a holding company that established or acquired other subsidiaries as further detailed below:

1. FAC is a publicly-traded Delaware corporation that is considered the ultimate controlling person.
2. USAuto is a wholly-owned subsidiary of the Company and acts as a holding company for FAIC, Transit Automobile Club, Inc. ("Transit") and Acceptance Insurance Agency of Tennessee, Inc. ("AIA")
3. FAIC is a Texas-domiciled property and casualty insurance company and is a wholly-owned subsidiary of FAC. FAIC is the parent of the Company, FAIC-GA, and First Acceptance Services, Inc. ("FAS").
4. FAS is a Delaware corporation.
5. FAIC-GA is a Georgia-domiciled property and casualty insurance company.

An intercompany agreement details cost allocations between the members of the holding company. In summary, each entity will be responsible for specific costs incurred in the normal course of its business. Certain costs, which include underwriting, customer service, management and accounting payrolls are allocated among the entities. Claims servicing allocations are based upon each entity's calendar year losses incurred. TDCI approved this agreement on December 21, 2006. A tax allocation agreement was submitted by the Company and approved by TDCI on June 4, 2010.

The Company has complied with the requirements of Tenn. Code Ann. § 56-11-206. No dividend or distribution has taken place since the organization examination which would require TDCI approval.

An organizational chart is attached to this report.

FIDELTIY BOND AND OTHER INSURANCE

FAC has the following fidelity bond and insurance coverages:

Type or Class of Coverage	Limits
Financial Institution Bond	$3,000,000 Single loss $50,000 Deductible $6,000,000 Aggregate
D&O primary	$10,000,000 / $250,000 Retention
Side A	$5,000,000
E&O Primary	$5,000,000 $500,000 / $1,000,000
E&O Excess	$5,000,000 / $10,000,000
EPL	$5,000,000/ $100,000 retention
Fiduciary	$5,000,000 / $10,000 retention
Extortion	$1,000,000
Technology & Info E&O	$5,000,000 / $50,000 retention
Automobile Liability	$1,000,000
Umbrella Excess	$20,000,000
Aircraft Hull & Liability	$2,000,000 / $1,000 retention
Aviation Excess	$5,000,000

Single Policies cover all entities in the FAC group.

The fidelity coverage is in excess of the suggested minimum amount per the NAIC Financial Condition Examiners Handbook. The above insurance policy is written by a company licensed to write in Tennessee.

RETIREMENT PLAN AND OTHER EMPLOYEE BENEFITS

The Company has no employees and does not participate in any pension plans.

TERRITORY

The Company is licensed in the State of Tennessee only.

PLAN OF OPERATION

The Company's plan of operation is to offer Non-Standard Automobile Insurance in the State of Tennessee. Prior to incorporation, the Company's parent, FAIC was licensed and writing in the State of Tennessee.

MARKET CONDUCT ACTIVITIES

Policy Forms and Rates:
Policy forms were properly filed and approved by TDCI. The Personal Auto policy was approved January 10, 2007 and Tennessee Security Plus was approved November 15, 2009.

Advertising:
The Company's advertising materials include television, newspaper and telephone advertisements. They were reviewed and appear to be in compliance with applicable statutes and regulations.

Claims Review
Examiners from the TXDI completed the claims review for all of the subsidiaries. Claims from the Company were in the Texas samples. Claims were paid in accordance with policy provisions and settlements were made upon receipt of proper evidence of the liability.

Policyholder Complaints:
Inquiries were made to the various sections within TDCI indicated no specific regulatory concerns with the Company during the period under examination. The Company's complaint register was reviewed. No unusual practices were noted.

Privacy of Non-Public Personal Information
The Company provides a privacy statement to all customers. A copy of this policy is on the Company's website. It appears the Company has complied with Tenn. Comp. R. & Reg., ch. 0780-1-72 with respect to the privacy of non-public personal information.

GROWTH OF THE COMPANY

The following comparative data reflects the growth of the Company for the period under review ($000's omitted)

	2006	2007	2008	2009	2010
Admitted assets	7,512	20,671	21,434	19,816	19,369
Total liabilities	7	11,464	13,215	10,880	10,539
Surplus	7,505	9,207	8,219	8,936	8,830
Net underwriting gain (loss)	(4)	(140)	(1,917)	(991)	(2,095)
Net investment gain (loss)	12	612	615	510	580
Net income	5	1,387	396	755	(70)

LOSS EXPERIENCE

The following comparative data reflects the loss experience of the Company for the period under review ($000's omitted)

	2006	2007	2008	2009	2010
Earned Premiums	0	22,705	23,525	16,089	14,386
Losses and LAE Incurred	0	15,332	18,079	10,481	10,349
Net Loss Ratio	N/A	67.5%	76.9%	65.1%	71.9%
Other Underwriting Expenses	3,779	7,512	7,363	6,598	6,131
Combined Ratio	N/A	94.3%	109.1%	108.4%	114.6%

REINSURANCE

Effective January 1, 2008, the Company along with FAIC and FAIC-GA entered into a Reinsurance and Pooling agreement. FAIC-GA and the Company cede gross policy liabilities and premiums to FAIC. FAIC will retrocede and transfer each company's percentage share back to the individual subsidiaries. This agreement was approved by TDCI on July 1, 2008.

The Company and its insurance subsidiaries entered into an excess of loss agreement with General Re effective August 2, 2010. The following table describes the policy limits reinsured in which the Company's retention is limited to $25,000 each person and $50,000 each accident for liability and uninsured/underinsured motorist and $25,000 each accident for property damage:

Automobile Bodily Injury Liability	$100,000 $300,000	each person each accident
Automobile Property Damage Liability	$100,000	each accident
Uninsured and Underinsured Motorist	$100,000 $300,000	each person each accident
Uninsured Property Damage Liability	$100,000	each accident

STATUTORY DEPOSITS

The Company maintains the following deposit for the benefit of all policyholders at December 31, 2010:

Where Deposited and Description	Par Value	Statement Value	Market Value
Tennessee			
USTN, 4.625%, Due 10/31/2011	$425,000	$425,146	$440,091

The above deposit was verified by direct correspondence with the regulating jurisdiction.

COMMITMENTS AND CONTINGENCIES

From the examination data made available, it appears that the only matters of law in which the Company was involved, during the period under review, were those arising out of the normal course of business and the outcome of such actions should not have a material effect on the financial position of the Company.

ACCOUNTS AND RECORDS

During the course of examination, such tests and audit procedures were made as were considered necessary, including verification of postings, extensions and footings. Accounting records conform to generally accepted insurance accounting practices and appear to properly reflect the operations during the period under examination and the status of the Company at the date of examination.

The Company is audited annually by Ernst & Young LLP, Nashville, Tennessee. There is no violation as respects Tenn. Comp. R. & Reg., ch. 0780-1-65.07(3).

The Company's Risk-Based Capital Report was reviewed and found to be in compliance with Tenn. Code Ann. § 56-46-101, et seq.

ACTUARIAL REVIEW

Jennifer Wu of the Texas Department of Insurance reviewed the group's unpaid losses and loss expense reserves. The liabilities established were found to be reasonable.

SUBSEQUENT EVENTS

On October 6, 2011, Mr. Gerald J. Ford notified the Board of Directors of FAC that he would not stand for re-election as Chairman of the Board of Directors and as a director. Following the 2011 Annual Meeting of Stockholders on November 15, 2011, the Board of Directors of FAC appointed Jeremy B. Ford as Chairman of the Board of FAC. In addition, in connection with the resignations of Mr. Thomas M. Harrison, Jr. on December 21, 2011 and Mr. Stephen J. Harrison on December 23, 2011 as directors of FAC, the Board of Directors of FAC approved on December 23, 2011, a reduction in the number of directors from nine to seven in accordance with Second Amended and Restated Bylaws of the Company. Stephen J Harrison also resigned as an officer of the Company and from the Board of Directors of the Company.

FINANCIAL STATEMENT

There follows a statement of assets, liabilities and statement of revenue and expenses at December 31, 2010, together with a reconciliation of reserves and unassigned funds for the period under review, as established by this examination:

ASSETS

Assets		Nonadmitted Assets	Net Admitted Assets
Bonds	$ 12,525,601	$ 0	$ 12,525,601
Cash, cash equivalents and short term investments	2,828,236	0	2,828,236
Subtotals, cash and invested assets	15,353,837	0	15,353,837
Investment income due and accrued	147,829	0	147,829
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	12,124	0	12,124
Deferred premiums, agents' balances and installments booked but deferred	3,132,830	0	3,132,830
Amounts recoverable from reinsurers	1,447,865		1,447,865
Current federal and foreign income tax recoverable and interest thereon	123,956	0	123,956
Net deferred tax asset	457,065	1,796	455,269
Furniture and equipment	4,758	4,758	0
Receivables from parent, subsidiaries and affiliates	274,098	0	274,098
Aggregate write-ins for other than invested assets:			
Prepaid expenses	176,376	176,376	0
Miscellaneous Receivables	30,401	30,401	0
Difference between assumed reinsurance Receivable and ceded reinsurance payable	581,454		581,454
Total assets	$21,742,593	$213,331	$21,529,262

LIABILITIES, CAPITAL AND SURPLUS

Losses	$ 4,706,619
Reinsurance payable on paid losses and LAE	2,628,060
Loss adjustment expenses	911,322
Commissions payable, contingent commissions and other similar charges	451,514
Other expenses	137,046
Taxes, licenses and fees	17,594
Unearned Premiums	3,822,119
Advance Premium	18,216
Ceded reinsurance payable	3,334
Payable to parent, subsidiaries and affiliates	3,523
Aggregate write-ins for liabilities:	
Rounding	(1)
Total liabilities	12,699,346
Common capital stock	1,000,000
Gross paid in and contributed surplus	6,500,000
Unassigned funds	1,329,916
Total capital and surplus	8,829,916
Total liabilities, capital and surplus	$21,529,262

STATEMENT OF INCOME

Underwriting Income		
Premium earned		$ 14,386,727
Deduction:		
Losses incurred	$8,511,885	
Loss adjustment expenses incurred	1,837,405	
Other underwriting expenses incurred	6,131,975	
Total underwriting deductions		16,481,265
Net underwriting gain (loss)		(2,094,538)
Investment Income		
Net investment income earned	575,130	
Net realized capital gains (loss)	5,340	
Net investment gain (loss)		580,470
Other Income		
Finance and service changes not include in premiums	1,380,603	
Total other income		1,380.603
Net income before federal income taxes		(133,485)
Federal income taxes incurred		(63,477)
Net income (loss)		$ (69,988)

RECONCILIATION OF CAPITAL AND SURPLUSFOR THE PERIOD UNDER EXAMINATION

	2006	2007	2008	2009	2010
Capital and surplus December 31 previous year	$0	$7,505,143	$9,206,734	$8,218,672	$8,936,146
Net income (loss)	5,143	1,387,109	395,571	755,347	(69,988)
Change in net deferred income tax		539,697	34,176	(94,504)	(22,294)
Changed in nonadmitted assets		(225,205)	(30,808)	56,631	(13,949)
Paid in capital	1,000,000				
Paid in surplus	6,500,000				
Aggregate write ins					1
Capital and surplus December 31 current year	**$7,505,143**	**$9,206,734**	**$8,218,672**	**$8,936,146**	**$8,829,916**

ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTSRESULTING FROM EXAMINATION

During the period covered by this examination, FAIC reported reinsurance pooling transactions and balances as one net balance in "Other amounts receivable under reinsurance contracts" and the expenses for commissions, other expenses and taxes licenses and fees were reported as an offset to its subsidiaries' direct expenses instead of as ceding commissions. For the purposes of the examination report the following balances as of the examination date were adjusted to report the balances in accordance with SSAP 62 and SSAP 63.

ASSETS

Deferred premiums, agents' balances and installments booked but deferred and not yet due	$3,132,830

The amount of this item is $130,548 greater than the amount reflected in the Company's annual statement.

Amounts recoverable from reinsurers	$1,447,865

The amount of this item is $1,447,865 greater than the amount reflected in the Company's annual statement.

LIABILITIES, CAPITAL AND SURPLUS

Reinsurance payable on paid losses and LAE	$2,628,060

The amount of this item is $2,628,060 greater than the amount reflected in the Company's annual statement.

~~Commissions payable~~	~~$451,514~~

The amount of this item is $393,380 greater than the amount reflected in the Company's annual statement.

Other expenses	$137,046

The amount of this item is $146,486less than the amount reflected in the Company's annual statement.

Taxes, license and fees	$17,594

The amount of this item is $116,346less than the amount reflected in the Company's annual statement.

Ceded reinsurance premiums payable (net of ceding commissions)	$3,334

The amount of this item is $598,741less than the amount reflected in the Company's annual statement.

Aggregate write-ins for other than invested assets - Difference between the Assumed Reinsurance Receivable and the Ceded Reinsurance Payable	$581,454

The amount of this item is $581,484greater than the amount reflected in the Company's annual statement.

SUMMARY SCHEDULE FOR 'ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM EXAMINATION' AS THEY AFFECT SURPLUS

The following depicts the change in surplus as outlined in the previous section of the report:

	Surplus Increase	Surplus Decrease
Asset		
Deferred premiums, agents' balances and installments booked but deferred and not yet due	$130,548	
Amounts recoverable from reinsurers	$1,447,865	
Liabilities, Capital and Surplus		
Reinsurance payable on paid losses and LAE		$2,628,060
Commissions payable		$393,380
Other expenses	$146,486	
Taxes, license and fees	$116,346	
Ceded reinsurance premiums payable (net of ceding commissions)	$598,741	
Aggregate write-ins for other than invested assets - Difference between the Assumed Reinsurance Receivable and the Ceded Reinsurance Payable	$581,454	
	$3,021,440	$3,021,440
Net change in Surplus		$0

COMMENTS AND RECOMMENDATIONS

Comments:

The Company's bylaws states the shareholders' annual meeting will be between January 1 and May 30th of each year. In 2010, the shareholders' meeting was held October 21. Based on a review of the minutes, a trend was not present.

Recommendations:

None.

CONCLUSION

The customary insurance examination practices and procedures, as established by the NAIC, have been utilized in connection with the verification and valuation of assets and the determination of liabilities in the financial statement of this report.

In such manner, it was determined that, as of December 31, 2010, the Company had net admitted assets of $21,529,262 and liabilities, exclusive of capital and surplus, of $12,699,346. Thus, there existed for the additional protection of the policyholders, the amount of $8,829,916 in the form of statutory reserves and unassigned funds.

In addition to the undersigned, Leslee Morton, CFE, Sylvia Thompson, CFE, and Jennifer Wu, FCAS, MAAA, from the Texas Department of Insurance; Chris Davis, CPA, Thomas Mayberry, CPA, CFE, Paul Sliwinski, CPA and Patricia Rowlet, CICA representing the Georgia Department of Insurance, participated in the work of this examination.

Respectfully submitted,

Brian H Sewell

Brian H Sewell, CFE
Examiner-in-Charge
State of Tennessee
Southeastern Zone, NAIC

<u>AFFIDAVIT</u>

The undersigned deposes and says that he has duly executed the attached examination report of First Acceptance Insurance Company of Tennessee, Inc. dated December 31, 2010, and made as of June 5, 2012, on behalf of the TDCI. Deponent further says he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.

Brian H Sewell

Brian H. Sewell, CFE
Examiner-in Charge
State of Tennessee
Southeastern Zone, NAIC

Subscribed and sworn to before me this

5 day of June, 2012

Notary Tina Geisler

County Hamilton

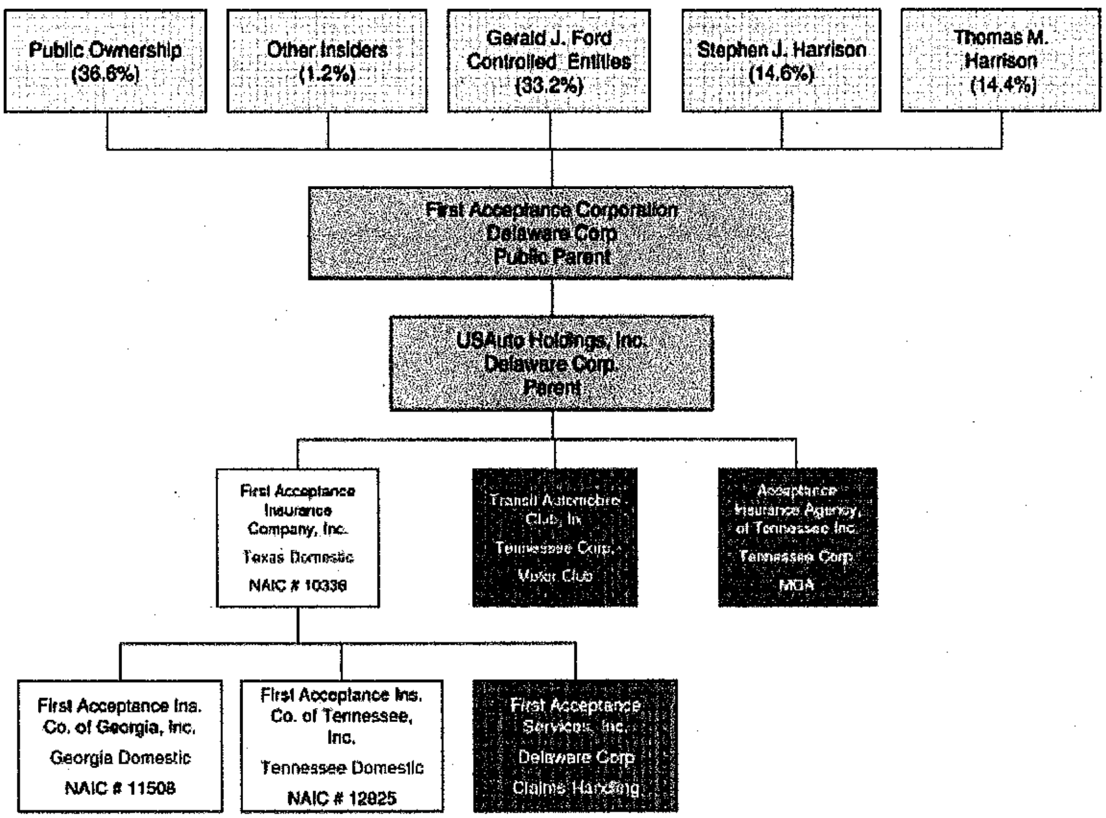
State Tennessee

Commission Expires 2/3/2015

TINA GEISLER STATE OF TENNESSEE NOTARY PUBLIC HAMILTON COUNTY

ORGANIZATIONAL CHART

as of December 31, 2010



6

acceptance

June 19, 2012

Brian H. Sewell, CFE
State of Tennessee
Department of Commerce & Insurance
500 James Robertson Parkway
Nashville, TN 37243

RE: First Acceptance Insurance Company of Tennessee, Inc. (NAIC #12825)
Response to December 31, 2010 Report on Examination

The Company acknowledges receipt of the above-mentioned report on examination and takes no exception to the matter noted in this letter. It is the intention of the Company to comply with this matter in its next regularly scheduled statutory filing.

Yours truly,
FIRST ACCEPTANCE INSURANCE COMPANY OF TENNESSEE, INC.

M. Bodayle

Michael John Bodayle
Vice-President, Secretary and Treasurer

EXHIBIT
B