UNICO AMERICAN CORP
Form 10-Q
May 12, 2016

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

[**X**] Quarterly Report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended **March 31, 2016** or

[ ] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File No. **0-3978**

UNICO AMERICAN CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Nevada	**95-2583928**
(State or Other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employee Identification No.)*

26050 Mureau Road, Calabasas, California 91302

(Address of Principal Executive Offices) (Zip Code)

(818) 591-9800

(Registrant's Telephone Number, Including Area Code)

No Change

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No __

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes X No__

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer __ Accelerated filer __

Non-accelerated filer __ Smaller reporting company X

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No X

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at May 11, 2016
Common Stock, $0 par value per share	5,307,133

PART 1 - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

UNICO AMERICAN CORPORATION

AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	March 31 2016 (Unaudited)	December 31 2015
ASSETS		
Investments		
Available-for-sale:		
Fixed maturities, at fair value (amortized cost: $81,361,011 at March 31, 2016, and $82,202,727 at December 31, 2015)	$81,412,412	$82,161,291
Short-term investments, at fair value	11,289,391	15,640,803
Total Investments	92,701,803	97,802,094
Cash	332,725	334,495
Accrued investment income	104,245	85,915
Receivables, net	5,763,394	5,505,361
Reinsurance recoverable:		
Paid losses and loss adjustment expenses	620,461	751,323
Unpaid losses and loss adjustment expenses	10,639,215	9,636,961
Deferred policy acquisition costs	4,321,340	4,233,396
Property and equipment, net	10,457,214	10,220,720
Deferred income taxes	1,320,788	1,334,087
Other assets	15,236,348	10,266,083
Total Assets	$141,497,533	$140,170,435
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Unpaid losses and loss adjustment expenses	$50,011,284	$49,093,571
Unearned premiums	18,213,742	18,079,253
Advance premium and premium deposits	493,747	212,255
Income taxes payable	8,800	—

Accrued expenses and other liabilities	2,649,408	2,443,284
Total Liabilities	$71,376,981	$69,828,363
Commitments and contingencies		
STOCKHOLDERS' EQUITY		
Common stock, no par – authorized 10,000,000 shares; issued and outstanding shares 5,307,133 at March 31, 2016, and 5,315,945 at December 31, 2015	$3,743,992	$3,742,547
Accumulated other comprehensive income (loss)	33,925	(27,348)
Retained earnings	66,342,635	66,626,873
Total Stockholders' Equity	$70,120,552	$70,342,072
Total Liabilities and Stockholders' Equity	$141,497,533	$140,170,435

See condensed notes to unaudited consolidated financial statements.

UNICO AMERICAN CORPORATION

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	Three Months Ended March 31	
	2016	2015
REVENUES		
Insurance company operation:		
Net earned premium	$7,572,415	$6,965,144
Investment income	212,000	87,323
Net realized investments losses	(1,278)	—
Other income	67,594	72,214
Total Insurance Company Operation	7,850,731	7,124,681
Other insurance operations:		
Gross commissions and fees	657,245	691,219
Investment income	91	85
Finance fees earned	16,609	15,773
Other income	5,002	441
Total Revenues	8,529,678	7,832,199
EXPENSES		
Losses and loss adjustment expenses	5,085,494	4,893,907
Policy acquisition costs	1,699,660	1,492,830
Salaries and employee benefits	1,381,584	1,247,907
Commissions to agents/brokers	40,419	44,588
Other operating expenses	592,547	744,004
Total Expenses	8,799,704	8,423,236
Loss before taxes	(270,026)	(591,037)
Income tax benefit	(71,039)	(194,252)
Net Loss	$(198,987)	$(396,785)

PER SHARE DATA:

Basic		
Loss Per Share	$(0.04)	$(0.07)
Weighted Average Shares	5,309,377	5,341,147
Diluted		
Loss Per Share	$(0.04)	$(0.07)
Weighted Average Shares	5,309,377	5,341,147

See condensed notes to unaudited consolidated financial statements.

UNICO AMERICAN CORPORATION

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(UNAUDITED)

	Three Months Ended March 31	
	2016	2015
Net loss	$(198,987)	$(396,785)
Other changes in comprehensive loss:		
Changes in unrealized gains on securities classified as available-for-sale arising during the period	92,837	84,033
Income tax expense related to changes in unrealized gains on securities classified as available-for-sale arising during the period	(31,564)	(28,571)
Comprehensive Loss	$(137,714)	$(341,323)

See condensed notes to unaudited consolidated financial statements.

UNICO AMERICAN CORPORATION

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Three Months Ended March 31	
	2016	2015
Cash flows from operating activities:		
Net loss	$(198,987)	$(396,785)
Adjustments to reconcile net loss to net cash from operations:		
Depreciation and amortization	115,283	117,451
Bond amortization, net	(4,284)	(4,279)
Non-cash stock based compensation	5,776	5,776
Changes in assets and liabilities:		
Net receivables and accrued investment income	(276,363)	(335,417)
Reinsurance recoverable	(871,392)	184,015
Deferred policy acquisition costs	(87,944)	(175,651)
Other assets	(4,910,890)	203,669
Unpaid losses and loss adjustment expenses	917,713	(911,475)
Unearned premiums	134,489	658,711
Advance premium and premium deposits	281,492	139,674
Accrued expenses and other liabilities	206,124	(20,024)
Income taxes current/deferred	(68,840)	(192,011)
Net Cash Used by Operating Activities	(4,757,823)	(726,346)
Cash flows from investing activities:		
Purchase of fixed maturity investments	(200,000)	(10,145,037)
Proceeds from maturity of fixed maturity investments	1,046,000	749,000
Net decrease in short-term investments	4,351,412	10,147,992
Additions to property and equipment	(351,777)	(185,287)
Net Cash Provided by Investing Activities	4,845,635	566,668
Cash flows from financing activities:		
Repurchase of common stock	(89,582)	—
Net Cash Used by Financing Activities	(89,582)	—
Net decrease in cash	(1,770)	(159,678)

Cash at beginning of period	334,495	309,162
Cash at End of Period	$332,725	$149,484
Supplemental cash flow information		
Cash paid during the period for:		
Interest	—	—
Income taxes	—	—

See condensed notes to unaudited consolidated financial statements.

UNICO AMERICAN CORPORATION

AND SUBSIDIARIES

CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Unico American Corporation is an insurance holding company that underwrites property and casualty insurance through its insurance company subsidiary; provides property, casualty, and health insurance through its agency subsidiaries; and provides insurance premium financing and membership association services through its other subsidiaries. Unico American Corporation is referred to herein as the "Company" or "Unico" and such references include both the corporation and its subsidiaries, all of which are wholly owned. Unico was incorporated under the laws of Nevada in 1969.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Unico American Corporation and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and the instructions to Form 10-Q and Rule 8-03 of Regulation S-X for smaller reporting companies. Accordingly, the financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2016, are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. Quarterly financial statements should be read in conjunction with the consolidated financial statements and related notes in the Company’s 2015 Annual Report on Form 10-K as filed with the Securities and Exchange Commission. Certain reclassifications have been made to prior period amounts to conform to current quarter presentation.

Use of Estimates in the Preparation of the Financial Statements

The preparation of financial statements in conformity with GAAP requires the Company to make estimates and assumptions that affect its reported amounts of assets and liabilities and its disclosure of any contingent assets and liabilities at the date of its financial statements, as well as its reported amounts of revenues and expenses during the reporting period. The most significant assumptions in the preparation of these consolidated financial statements relate to losses and loss adjustment expenses. While every effort is made to ensure the integrity of such estimates, actual results may differ.

Fair Value of Financial Instruments

The Company employs a fair value hierarchy that prioritizes the inputs for valuation techniques used to measure fair value. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). Financial assets and financial liabilities recorded on the Consolidated Balance Sheets at fair value are categorized based on the reliability of inputs for the valuation techniques. (See Note 8.)

The Company has used the following methods and assumptions in estimating its fair value disclosures:

- Fixed maturities:

1. Investment securities, excluding long-term certificates of deposit – Fair values are obtained from a national quotation service.

2. Long-term certificates of deposit – The carrying amounts reported in the Consolidated Balance Sheets for these instruments approximate their fair values.

- Cash and short-term investments – The carrying amounts reported in the Consolidated Balance Sheets approximate their fair values given the short- term nature of these instruments.

- Receivables, net – The carrying amounts reported in the Consolidated Balance Sheets approximate their fair values given the short-term nature of these instruments.

- Accrued expenses and other liabilities – The carrying amounts reported in the Consolidated Balance Sheets approximate the fair values given the short-term nature of these instruments.

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NOTE 2 – REPURCHASE OF COMMON STOCK – EFFECTS ON STOCKHOLDERS' EQUITY

On December 19, 2008, the Board of Directors authorized a stock repurchase program to acquire from time to time up to an aggregate of 500,000 shares of the Company's common stock. This program has no expiration date and may be terminated by the Board of Directors at any time. As of March 31, 2016, and December 31, 2015, the Company had remaining authority under the 2008 program to repurchase up to an aggregate of 188,655 and 197,467 shares of its common stock, respectively. The 2008 program is the only program under which there is authority to repurchase shares of the Company's common stock. The Company repurchased 8,812 shares of stock during the three months ended March 31, 2016, in unsolicited transactions at a cost of $89,582 of which $4,331 was allocated to capital and $85,251 was allocated to retained earnings. The Company did not repurchase any stock during the three months ended March 31, 2015. The Company has or will retire all stock repurchased.

NOTE 3 – LOSS PER SHARE

The following table represents the reconciliation of the Company's basic loss per share and diluted loss per share computations reported on the Consolidated Statements of Operations for the three months ended March 31, 2016 and 2015:

	Three Months Ended March 31	
	2016	2015
Basic Loss Per Share		
Net loss	$(198,987)	$(396,785)
Weighted average shares outstanding	5,309,377	5,341,147
Basic loss per share	$(0.04)	$(0.07)
Diluted Loss per Share		
Net loss	$(198,987)	$(396,785)
Weighted average shares outstanding	5,309,377	5,341,147
Effect of common share equivalents	—	—
Diluted shares outstanding	5,309,377	5,341,147
Diluted loss per share	$(0.04)	$(0.07)

Basic earnings per share exclude the impact of common share equivalents and are based upon the weighted average common shares outstanding. Diluted earnings per share utilize the average market price per share when applying the treasury stock method in determining common share dilution. When outstanding stock options are dilutive, they are treated as common share equivalents for purposes of computing diluted earnings per share and represent the difference between basic and diluted weighted average shares outstanding. In loss periods, stock options are excluded from the calculation of diluted loss per share, as the inclusion of stock options would have an anti-dilutive effect. As of March 31, 2016 and 2015, the Company had 0 and 7,493 common share equivalents which were excluded in the diluted loss per share calculation, respectively.

NOTE 4 – RECENTLY ISSUED ACCOUNTING STANDARDS

During the three months ended March 31, 2016, the Financial Accounting Standards Board ("FASB") has not issued any accounting standards that are expected to have a material impact on the Company's consolidated financial statements.

In May 2015, FASB issued Accounting Standards Update ("ASU") 2015-09 "Disclosures About Short-Duration Contracts." The objective of this ASU is to increase transparency about significant estimates in unpaid losses and loss adjustment expenses and provide additional information about amount, timing and uncertainty of cash flows related to unpaid losses and loss adjustment expenses. ASU 2015-09 is not expected to have any impact on the Company's consolidated financial statements. The disclosure mandated by ASU 2015-09 will become effective for annual and quarterly reporting periods ended on and after December 31, 2016.

NOTE 5 – ACCOUNTING FOR INCOME TAXES

The Company and its wholly owned subsidiaries file consolidated federal and state income tax returns. Pursuant to the tax allocation agreement, Crusader Insurance Company ("Crusader") and American Acceptance Corporation ("AAC") are allocated taxes or tax credits in the case of losses, at current corporate rates based on their own taxable income or loss. The Company files income tax returns under U.S. federal and various state jurisdictions. The Company is subject to examination by U.S. federal income tax authorities for tax returns filed starting at taxable year 2012 and California state income tax authorities for tax returns filed starting at taxable year 2011. There are no ongoing examinations of income tax returns by federal or state tax authorities.

As of March 31, 2016, and December 31, 2015, the Company had no unrecognized tax benefits or liabilities and, therefore, had not accrued interest and penalties related to unrecognized tax benefits or liabilities. However, if interest and penalties would need to be accrued related to unrecognized tax benefits or liabilities, such amounts would be recognized as a component of federal income tax expense.

As a California insurance company, Crusader is obligated to pay a premium tax on gross premiums written in all states that Crusader is admitted. Premium taxes are deferred and amortized as the related premiums are earned. The premium tax is in lieu of state franchise taxes and is not included in the provision for state taxes.

NOTE 6 – PROPERTY AND EQUIPMENT, NET

Property and equipment consist of the following:

	March 31 2016	December 31 2015
Building and leasehold improvements located in Calabasas, California	$8,275,806	$8,217,477
Furniture, fixtures and equipment	2,541,033	2,251,623
Accumulated depreciation and amortization	(2,319,310)	(2,204,027)
Land located in Calabasas, California	1,787,485	1,787,485
Computer software under development	172,200	168,162
Property and equipment, net	$10,457,214	$10,220,720

Depreciation on the Calabasas building, owned by Crusader, is computed using the straight line method over 39 years. Depreciation on furniture, fixtures and equipment in the Calabasas building is computed using the straight line method over 3 to 15 years. Amortization of leasehold improvements in the Calabasas building is being computed using the shorter of the useful life of the leasehold improvements or the remaining years of the lease. Depreciation and amortization expense on all property and equipment for the three months ended March 31, 2016 and 2015, was $115,283 and $117,451, respectively.

For the three months ended March 31, 2016 and 2015, the Calabasas building has generated rental revenue from non-affiliated tenants in the amount of $59,406 and $49,857 which is included in “Other income” from insurance company operation in the Company’s Consolidated Statements of Operations.

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For the three months ended March 31, 2016 and 2015, the Calabasas building has incurred operating expenses (including depreciation) in the amount of $171,877 and $178,079 which are included in “Other operating expenses” in the Company’s Consolidated Statements of Operations.

The total square footage of the Calabasas building is 46,884, including common areas. As of March 31, 2016, 10,292 square feet of the Calabasas building was leased to non-affiliated entities and 4,189 square feet was vacant and available to be leased to non-affiliated entities.

The Company capitalizes certain computer software costs purchased from outside vendors for internal use. These costs also include configuration and customization activities, coding, testing and installation. Training costs and maintenance are expensed as incurred, while upgrade and enhancements are capitalized if it is probable that such expenditure will result in additional functionality. The capitalized costs are not depreciated until the software is placed into production.

NOTE 7 – SEGMENT REPORTING

ASC Topic 280, “Segment Reporting,” establishes standards for the way information about operating segments is reported in financial statements. The Company has identified its insurance company operation as its primary reporting segment. Revenues from this segment comprised 92% and 91% of consolidated revenues for the three months ended March 31, 2016 and 2015, respectively. The Company’s remaining operations constitute a variety of specialty insurance services, each with unique characteristics and individually insignificant to consolidated revenues.

Revenues, income (loss) before income taxes, and assets by segment are as follows:

	Three Months Ended March 31	
	2016	2015
Revenues		
Insurance company operation	$7,850,731	$7,124,681

Other insurance op