

UNICO AMERICAN CORP
Form 10-Q
August 13, 2014

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended **June 30, 2014** 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

*(State or Other Jurisdiction of
Incorporation or Organization)*

95-2583928

*(I.R.S. Employee
Identification No.)*

23251 Mulholland Drive, Woodland Hills, California 91364

(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

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

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

(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

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

<u>Class</u>	<u>Outstanding at August 13, 2014</u>
Common Stock, \$0 par value per share	5,341,147

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PART 1 - FINANCIAL INFORMATION**ITEM 1 - FINANCIAL STATEMENTS**

UNICO AMERICAN CORPORATION

AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	June 30 2014 (Unaudited)	December 31 2013
ASSETS		
Investments		
Available-for-sale:		
Fixed maturities, at fair value (amortized cost: June 30, 2014 - \$11,645,759; December 31, 2013 - \$11,944,563)	\$ 11,648,428	\$ 11,935,806
Short-term investments, at fair value	95,519,618	93,807,317
Total Investments	107,168,046	105,743,123
Cash	104,062	376,388
Accrued investment income	6,882	5,249
Receivables, net	5,960,989	5,156,717
Reinsurance recoverable:		
Paid losses and loss adjustment expenses	36,283	183,786
Unpaid losses and loss adjustment expenses	4,700,476	4,428,283
Deferred policy acquisition costs	3,797,727	3,636,003
Property and equipment, net	10,205,811	10,169,940
Deferred income taxes	1,505,842	1,373,160
Other assets	1,430,480	1,780,539
Total Assets	\$ 134,916,598	\$ 132,853,188
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Unpaid losses and loss adjustment expenses	\$ 44,147,280	\$ 43,876,829
Unearned premiums	16,147,483	15,260,782
Advance premium and premium deposits	458,456	464,828
Accrued expenses and other liabilities	2,386,241	2,354,494

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Total Liabilities	\$63,139,460	\$61,956,933
Commitments and contingencies		
STOCKHOLDERS' EQUITY		
Common stock, no par – authorized 10,000,000 shares; issued and outstanding shares 5,341,147 at June 30, 2014, and 5,341,147 at December 31, 2013	\$3,720,276	\$3,708,724
Accumulated other comprehensive income	1,762	(5,780)
Retained earnings	68,055,100	67,193,311
Total Stockholders' Equity	\$71,777,138	\$70,896,255
Total Liabilities and Stockholders' Equity	\$134,916,598	\$132,853,188

See condensed notes to unaudited consolidated financial statements.

UNICO AMERICAN CORPORATION

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2014	2013	2014	2013
REVENUES				
Insurance company revenues				
Net premium earned	\$6,484,354	\$6,757,719	\$12,872,595	\$13,447,236
Investment income	29,891	110,874	61,158	232,163
Other income	340,321	46,460	595,752	280,166
Total Insurance Company Revenues	6,854,566	6,915,053	13,529,505	13,959,565
Other revenues from insurance operations				
Gross commissions and fees	749,045	829,399	1,483,608	1,711,913
Investment income	206	573	283	944
Finance fees earned	15,951	17,707	33,371	37,325
Other income	2,000	502	15,112	3,270
Total Revenues	7,621,768	7,763,234	15,061,879	15,713,017
EXPENSES				
Losses and loss adjustment expenses	3,647,765	3,890,736	6,540,115	8,447,186
Policy acquisition costs	1,471,068	1,543,767	2,947,800	2,977,837
Salaries and employee benefits	1,271,221	1,286,220	2,553,149	2,549,623
Commissions to agents/brokers	54,230	62,220	98,069	122,848
Other operating expenses	775,163	594,220	1,614,088	1,173,274
Total Expenses	7,219,447	7,377,163	13,753,221	15,270,768
Income before taxes	402,321	386,071	1,308,658	442,249
Income tax expense	132,315	135,864	446,869	183,706
Net Income	\$270,006	\$250,207	\$861,789	\$258,543

PER SHARE DATA:

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Basic

Earnings per share	\$0.05	\$0.05	\$0.16	\$0.05
Weighted average shares	5,341,147	5,341,147	5,341,147	5,341,147

Diluted

Earnings per share	\$0.05	\$0.05	\$0.16	\$0.05
Weighted average shares	5,345,082	5,344,479	5,345,280	5,344,471

See condensed notes to unaudited consolidated financial statements.

UNICO AMERICAN CORPORATION
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	Three Months Ended June 30		Six Months Ended June 30	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Net income	\$270,006	\$250,207	\$861,789	\$258,543
Other changes in comprehensive income:				
Changes in unrealized gains (losses) on securities classified as available-for-sale arising during the period	4,810	(73,750)	11,426	(146,177)
Income tax benefit (expense) related to changes in unrealized gains (losses) on securities classified as available-for-sale arising during the period	(1,635)	25,075	(3,885)	49,700
Comprehensive Income	\$273,181	\$201,532	\$869,330	\$162,066

See condensed notes to unaudited consolidated financial statements.

UNICO AMERICAN CORPORATION

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	For the Six Months Ended June 30	
	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Net income	\$861,789	\$258,543
Adjustments to reconcile net income to net cash from operations		
Depreciation and amortization	277,935	106,651
Bond amortization, net	(1,195)	4,459
Non-cash stock based compensation	11,552	11,552
Changes in assets and liabilities		
Net receivables and accrued investment income	(805,905)	(185,172)
Reinsurance recoverable	(124,690)	1,800,138
Deferred policy acquisition costs	(161,724)	(32,223)
Other assets	295,879	(85,675)
Unpaid losses and loss adjustment expenses	270,451	(2,106,813)
Unearned premium	886,701	177,010
Advance premium and premium deposits	(6,372)	(179,326)
Accrued expenses and other liabilities	31,748	(626,354)
Income taxes current/deferred	(82,388)	27,935
Net Cash Provided (Used) by Operating Activities	1,453,781	(829,275)
Cash flows from investing activities:		
Purchase of fixed maturity investments	(100,000)	(2,049,387)
Proceeds from maturity of fixed maturity investments	400,000	11,595,000
Net increase in short-term investments	(1,712,301)	(8,364,238)
Additions to property and equipment	(313,806)	(424,882)
Net Cash Provided (Used) by Investing Activities	(1,726,107)	756,493
Cash flows from financing activities:		
Proceeds from exercise of stock options	—	—
Repurchase and adjustment of common stock	—	—
Dividends paid to stockholders	—	—
Net Cash Used by Financing Activities	—	—

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Net decrease in cash	(272,326)	(72,782)
Cash at beginning of period	376,388	160,506
Cash at End of Period	\$104,062	\$87,724
Supplemental cash flow information		
Cash paid during the period for:		
Interest	—	—
Income taxes	\$533,800	\$158,800

See condensed notes to unaudited consolidated financial statements.

UNICO AMERICAN CORPORATION

AND SUBSIDIARIES

CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

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 Article 10 of Regulation S-X. Accordingly, they 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 and six months ended June 30, 2014, are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. Quarterly financial statements should be read in conjunction with the consolidated financial statements and related notes in the Company's 2013 Annual Report on Form 10-K as filed with the Securities and Exchange Commission.

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 to 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 to the valuation techniques. (See Note 8.)

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

- Fixed maturities:

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

- Long-term certificates of deposit – The carrying amounts reported in the balance sheet for these instruments approximate their fair values.

- Cash and short-term investments – The carrying amounts reported in the balance sheet approximate their fair values given the short-term nature of these instruments.
- Receivables, net – The carrying amounts reported in the balance sheet approximate their fair values given the short-term nature of these instruments.
- Accrued expenses and other liabilities – The carrying amounts reported in the balance sheet approximate the fair values given the short-term nature of these instruments.

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 June 30, 2014, and December 31, 2013, the Company had remaining authority under the 2008 program to repurchase up to an aggregate of 222,669 shares of its common stock. The 2008 program is the only program under which there is authority to repurchase shares of the Company’s common stock. The Company did not repurchase any stock during the three and six months ended June 30, 2014 and 2013. The Company has or expects to retire all stock repurchased.

NOTE 3 – EARNINGS PER SHARE

The following table represents the reconciliation of the Company's basic earnings per share and diluted earnings per share computations reported on the Consolidated Statements of Operations for the three and six months ended June 30, 2014 and 2013:

	Three Months Ended		Six Months Ended	
	<u>June 30</u>		<u>June 30</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
<u>Basic earnings per share</u>				
Net income	\$270,006	\$250,207	\$861,789	\$258,543
Weighted average shares outstanding	5,341,147	5,341,147	5,341,147	5,341,147
Basic earnings per share	\$0.05	\$0.05	\$0.16	\$0.05
<u>Diluted earnings per share</u>				
Net income	\$270,006	\$250,207	\$861,789	\$258,543
Weighted average shares outstanding	5,341,147	5,341,147	5,341,147	5,341,147
Effect of dilutive securities	3,935	3,332	4,133	3,324
Diluted shares outstanding	5,345,082	5,344,479	5,345,280	5,344,471
Diluted earnings per share	\$0.05	\$0.05	\$0.16	\$0.05

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, options are excluded from the calculation of diluted earnings per share, as the inclusion of such options would have an anti-dilutive effect.

NOTE 4 – RECENTLY ISSUED ACCOUNTING STANDARDS

Accounting Guidance Adopted

In July 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-11 “Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists” (Accounting Standards Codification (ASC) 740). The objective of the ASU is to improve the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The ASU seeks to reduce diversity in practice by providing guidance on the presentation of unrecognized tax benefits to better reflect the manner in which an entity would settle at the reporting date any additional income