

UNICO AMERICAN CORP
Form 10-Q
November 12, 2013

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 **September 30, 2013** 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

(I.R.S. Employee

Incorporation or Organization)

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 November 11, 2013</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

	September 30 2013 <u>(Unaudited)</u>	December 31 2012
ASSETS		
Investments		
Available-for-sale:		
Fixed maturities, at fair value (amortized cost: September 30, 2013 \$13,798,353; December 31, 2012 \$33,444,211)	\$ 13,798,054	\$33,628,002
Short-term investments, at fair value	93,321,820	86,256,249
Total Investments	107,119,874	119,884,251
Cash	164,262	160,506
Accrued investment income	10,272	155,678
Receivables, net	5,827,612	5,744,592
Reinsurance recoverable:		
Paid losses and loss adjustment expenses	92,737	305,201
Unpaid losses and loss adjustment expenses	5,037,248	6,584,143
Deferred policy acquisition costs	3,797,830	3,785,594
Property and equipment, net	10,282,910	856,850
Deferred income taxes	1,687,782	1,893,929
Other assets	2,089,389	637,282
Total Assets	\$ 136,109,916	\$ 140,008,026
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Unpaid losses and loss adjustment expenses	\$46,876,460	\$49,784,725
Unearned premiums	16,014,156	16,030,234
Advance premium and premium deposits	524,450	756,190
Accrued expenses and other liabilities	2,512,278	3,040,312
Total Liabilities	\$65,927,344	\$69,611,461

Commitments and contingencies

STOCKHOLDERS' EQUITY

Common stock, no par – authorized 10,000,000 shares; issued and outstanding shares 5,341,147 at September 30, 2013, and 5,341,147 at December 31, 2012	\$3,702,948	\$3,685,620
Accumulated other comprehensive income (loss)	(197) 121,302
Retained earnings	66,479,821	66,589,643
Total Stockholders' Equity	\$70,182,572	\$70,396,565
Total Liabilities and Stockholders' Equity	\$136,109,916	\$140,008,026

See condensed notes to unaudited consolidated financial statements.

UNICO AMERICAN CORPORATION

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
REVENUES				
Insurance company revenues				
Net premium earned	\$6,758,626	\$6,941,010	\$20,205,862	\$20,436,671
Investment income	68,450	303,234	300,613	1,359,260
Other income	40,955	141,146	321,121	437,888
Total Insurance Company Revenues	6,868,031	7,385,390	20,827,596	22,233,819
Other revenues from insurance operations				
Gross commissions and fees	778,314	820,729	2,490,227	2,535,962
Investment income	172	307	1,116	750
Finance charges and fees earned	19,206	18,503	56,531	50,868
Other income	17,004	3,535	20,274	9,086
Total Revenues	7,682,727	8,228,464	23,395,744	24,830,485
EXPENSES				
Losses and loss adjustment expenses	4,765,616	3,571,972	13,212,802	11,620,183
Policy acquisition costs	1,538,087	1,659,945	4,515,924	5,128,473
Salaries and employee benefits	1,227,619	1,252,567	3,777,242	3,917,274
Commissions to agents/brokers	55,481	59,226	178,329	175,791
Other operating expenses	639,786	550,325	1,813,060	1,882,485
Total Expenses	8,226,589	7,094,035	23,497,357	22,724,206
Income (loss) before taxes	(543,862)	1,134,429	101,613	2,106,279
Income tax expense (benefit)	(175,496)	388,834	8,210	703,539
Net Income (Loss)	\$(368,366)	\$745,595	\$(109,823)	\$1,402,740

PER SHARE DATA:

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Basic

Earnings (loss) per share	\$ (0.07)	\$ 0.14	\$ (0.02)	\$ 0.26
Weighted average shares	5,341,147		5,337,913	5,341,147		5,341,296

Diluted

Earnings (loss) per share	\$ (0.07)	\$ 0.14	\$ (0.02)	\$ 0.26
Weighted average shares	5,341,147		5,349,921	5,341,147		5,356,751

See condensed notes to unaudited consolidated financial statements.

UNICO AMERICAN CORPORATION
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(UNAUDITED)

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Net income (loss)	\$(368,366)	\$745,595	(\$109,823)	\$1,402,740
Other changes in comprehensive income (loss):				
Changes in unrealized gains (losses) on securities classified as available-for-sale arising during the period	(37,912)	(221,119)	(184,089)	(1,156,494)
Income tax benefit related to changes in unrealized gains (losses) on securities classified as available-for-sale arising during the period	12,890	75,180	62,590	393,208
Comprehensive Income (Loss)	\$(393,388)	\$599,656	\$ (231,322)	\$639,454

See condensed notes to unaudited consolidated financial statements.

UNICO AMERICAN CORPORATION

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	For the Nine Months Ended September 30	
	2013	2012
Cash flows from operating activities:		
Net income (loss)	\$(109,823)	\$1,402,740
Adjustments to reconcile net income (loss) to net cash from operations		
Depreciation and amortization	161,427	91,129
Bond amortization, net	4,245	68,645
Non-cash stock based compensation	17,328	17,328
Changes in assets and liabilities		
Net receivables and accrued investment income	62,386	(305,813)
Reinsurance recoverable	1,759,359	208,855
Deferred policy acquisition costs	(12,236)	230,288
Other assets	(1,028,841)	(778,822)
Unpaid losses and loss adjustment expenses	(2,908,265)	(3,457,765)
Unearned premium	(16,078)	678,163
Advance premium and premium deposits	(231,740)	112,054
Accrued expenses and other liabilities	(528,034)	(206,246)
Income taxes current/deferred	(154,528)	(56,944)
Net Cash Used by Operating Activities	(2,984,800)	(1,996,388)
Cash flows from investing activities:		
Purchase of fixed maturity investments	(3,149,387)	(1,300,000)
Proceeds from maturity of fixed maturity investments	22,791,000	44,635,000
Net increase in short-term investments	(7,065,570)	(39,906,943)
Acquisition of land and building	(9,000,000)	—
Additions to property and equipment	(587,487)	(525,012)
Net Cash Provided by Investing Activities	2,988,556	2,903,045
Cash flows from financing activities:		
Proceeds from exercise of stock options	—	15,245
Repurchase and adjustment of common stock	—	(226,172)
Dividends paid to stockholders	—	(1,068,298)
Net Cash Used by Financing Activities	—	(1,279,225)

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Net increase (decrease) in cash	3,756	(372,568)
Cash at beginning of period	160,506	467,087
Cash at End of Period	\$164,262	\$94,519
Supplemental cash flow information		
Cash paid during the period for:		
Interest	—	—
Income taxes	\$158,953	\$758,949

See condensed notes to unaudited consolidated financial statements.

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UNICO AMERICAN CORPORATION

AND SUBSIDIARIES

CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

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 nine months ended September 30, 2013, are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. Quarterly financial statements should be read in conjunction with the consolidated financial statements and related notes in the Company's 2012 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 at cost in the balance sheet for these instruments approximate their fair values.

- Cash and short-term investments – The carrying amounts reported at cost in the balance sheet approximate their fair values given the short term nature of these instruments.
- Receivables, net – The carrying amounts reported at cost 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 at cost 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 September 30, 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 nine months ended September 30, 2013. The Company has or will retire all stock repurchased.

NOTE 3 – EARNINGS (LOSS) PER SHARE

The following table represents the reconciliation of the Company's basic earnings (loss) per share and diluted earnings (loss) per share computations reported on the Consolidated Statements of Operations for the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
<u>Basic earnings (loss) per share</u>				
Net income (loss)	\$(368,366)	\$745,595	\$(109,823)	\$1,402,740
Weighted average shares outstanding	5,341,147	5,337,913	5,341,147	5,341,296
Basic earnings (loss) per share	\$(0.07)	\$0.14	\$(0.02)	\$0.26
<u>Diluted earnings (loss) per share</u>				
Net income (loss)	\$(368,366)	\$745,595	\$(109,823)	\$1,402,740
Weighted average shares outstanding	5,341,147	5,337,913	5,341,147	5,341,296
Effect of dilutive securities	—	12,008	—	15,455
Diluted shares outstanding	5,341,147	5,349,921	5,341,147	5,356,751
Diluted earnings (loss) per share	\$(0.07)	\$0.14	\$(0.02)	\$0.26

Basic earnings (loss) 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