

UNICO AMERICAN CORP  
Form 10-Q  
August 10, 2012

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, 2012** 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.

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Class	Outstanding at August 10, 2012
Common Stock, \$0 par value per share	5,341,823

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

## UNICO AMERICAN CORPORATION

## AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

	June 30 2012 (Unaudited)	December 31 2011
<b>ASSETS</b>		
Investments		
Available-for-sale:		
Fixed maturities, at fair value (amortized cost: June 30, 2012 \$67,858,509; December 31, 2011 \$89,902,677)	\$68,377,080	\$91,356,624
Short-term investments, at fair value	56,243,937	38,139,469
Total Investments	124,621,017	129,496,093
Cash	296,873	467,087
Accrued investment income	563,230	680,626
Premiums and notes receivable, net	6,072,132	5,303,714
Reinsurance recoverable:		
Paid losses and loss adjustment expenses	316,633	60,300
Unpaid losses and loss adjustment expenses	8,370,476	7,974,664
Deferred policy acquisition costs	4,025,978	4,158,522
Property and equipment (net of accumulated depreciation)	561,138	230,781
Deferred income taxes	1,814,658	1,394,500
Other assets	1,476,844	608,758
Total Assets	\$148,118,979	\$150,375,045
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Unpaid losses and loss adjustment expenses	\$52,590,570	\$54,486,843
Unearned premiums	16,646,957	15,912,276
Advance premium and premium deposits	1,025,270	818,006
Accrued expenses and other liabilities	3,077,924	3,309,605
Total Liabilities	\$73,340,721	\$74,526,730

Commitments and contingencies

STOCKHOLDERS' EQUITY

Common stock, no par – authorized 10,000,000 shares; issued and outstanding shares 5,340,784 at June 30, 2012, and 5,341,992 at December 31, 2011	\$3,621,664	\$3,611,461
Accumulated other comprehensive income	342,257	959,604
Retained earnings	70,814,337	71,277,250
Total Stockholders' Equity	\$74,778,258	\$75,848,315
Total Liabilities and Stockholders' Equity	\$148,118,979	\$150,375,045

See notes to unaudited consolidated financial statements.

## UNICO AMERICAN CORPORATION

## AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
<b>REVENUES</b>				
<u>Insurance Company Revenues</u>				
Premium earned	\$8,040,673	\$8,040,029	\$16,002,845	\$15,999,568
Premium ceded	1,260,178	1,329,545	2,507,184	2,652,946
Net premium earned	6,780,495	6,710,484	13,495,661	13,346,622
Investment income	474,205	766,501	1,056,026	1,538,863
Other income	184,532	168,742	296,742	339,088
Total Insurance Company Revenues	7,439,232	7,645,727	14,848,429	15,224,573
Other Revenues from Insurance Operations				
Gross commissions and fees	809,328	911,396	1,715,233	1,915,285
Investment income	191	400	443	1,435
Finance charges and fees earned	16,035	18,273	32,365	38,781
Other income	2,049	3,203	5,551	6,770
Total Revenues	8,266,835	8,578,999	16,602,021	17,186,844
<b>EXPENSES</b>				
Losses and loss adjustment expenses	4,326,428	3,871,531	8,048,211	7,258,598
Policy acquisition costs	1,706,793	1,771,705	3,468,528	3,544,865
Salaries and employee benefits	1,305,170	1,110,075	2,664,707	2,122,520
Commissions to agents/brokers	56,565	57,101	116,565	111,268
Other operating expenses	673,007	680,901	1,332,160	1,335,733
Total Expenses	8,067,963	7,491,313	15,630,171	14,372,984
Income before taxes	198,872	1,087,686	971,850	2,813,860
Income tax expense	42,097	380,999	314,705	992,826
Net Income	\$156,775	\$706,687	\$657,145	\$1,821,034

## PER SHARE DATA:

Basic

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Earnings per share	\$0.03	\$0.13	\$0.12	\$0.34
Weighted average shares	5,344,234	5,334,119	5,342,988	5,334,166
Diluted				
Earnings per share	\$0.03	\$0.13	\$0.12	\$0.34
Weighted average shares	5,359,878	5,357,960	5,361,056	5,358,014

See notes to unaudited consolidated financial statements.

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UNICO AMERICAN CORPORATION  
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME  
(UNAUDITED)

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011 (Restated)	2012	2011 (Restated)
Net Income	\$156,775	\$706,687	\$657,145	\$1,821,034
Other changes in comprehensive income:				
Unrealized losses on securities classified as available-for-sale arising during the period	(400,077)	(312,900 )	(935,375)	(906,744 )
Income tax benefit related to unrealized losses on securities classified as available-for-sale arising during the period	136,026	106,386	318,028	308,293
Comprehensive (Loss) Income	\$(107,276)	\$500,173	\$39,798	\$1,222,583

See notes to unaudited consolidated financial statements.



## UNICO AMERICAN CORPORATION

## AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	For the Six Months Ended	
	June 30	
	2012	2011
Cash flows from operating activities:		
Net Income	\$657,145	\$1,821,034
Adjustments to reconcile net income to net cash from operations		
Depreciation	40,230	28,569
Bond amortization, net	54,170	80,445
Non cash stock based compensation	11,552	—
Changes in assets and liabilities		
Premium, notes and investment income receivable	(651,022 )	(1,264,423 )
Reinsurance recoverable	(652,145 )	2,159,443
Deferred policy acquisition costs	132,544	(76,798 )
Other assets	(778,983 )	17,022
Unpaid losses and loss adjustment expenses	(1,896,273 )	(4,493,920 )
Unearned premium	734,681	454,030
Advance premium and premium deposits	207,264	264,783
Accrued expenses and other liabilities	(231,681 )	(492,069 )
Income taxes current/deferred	(191,234 )	237,208
Net Cash Used by Operating Activities	(2,563,752 )	(1,264,676 )
Cash flows from investing activities:		
Purchase of fixed maturity investments	(350,000 )	(3,849,000 )
Proceeds from maturity of fixed maturity investments	22,340,000	10,809,998
Net increase in short-term investments	(18,104,468 )	(5,561,432 )
Additions to property and equipment	(370,587 )	(99,089 )
Net Cash Provided by Investing Activities	3,514,945	1,300,477
Cash flows from financing activities:		
Proceeds from exercise of stock options	1,248	3
Repurchase of common stock	(54,357 )	(10,959 )
Dividends paid to stockholders	(1,068,298 )	—
Net Cash Used by Financing Activities	(1,121,407 )	(10,956 )

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Net (decrease) increase in cash	(170,214 )	24,845
Cash at beginning of period	467,087	45,210
Cash at End of Period	\$296,873	\$70,055
Supplemental cash flow information		
Cash paid during the period for:		
Interest	—	—
Income taxes	\$508,948	\$758,800

See notes to unaudited consolidated financial statements.

UNICO AMERICAN CORPORATION  
AND SUBSIDIARIES

CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2012

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 subsidiary Crusader Insurance Company (Crusader); 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, unless otherwise indicated. 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, 2012, are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. Quarterly financial statements should be read in conjunction with the consolidated financial statements and related notes in the Company's 2011 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.
- Notes receivable – The carrying amounts reported at cost in the balance sheet approximate their fair values given the short-term nature of these instruments. These valuations have been classified as Level 3 of the fair value hierarchy as defined in Note 8.

**NOTE 2 - IMMATERIAL CORRECTION TO PREVIOUSLY REPORTED AMOUNTS**

As disclosed in the Company's December 31, 2011 Form 10-K, the Company had identified an error related to valuation of investments as previously reported for interim periods ended September 30, 2011 and June 30, 2011. The error resulted in an overstatement of accumulated other comprehensive income and stockholders' equity as of June 30, 2011 of \$659,980 and an overstatement of comprehensive income for the three and six months ended June 30, 2011, of \$659,980. Management concluded the error was immaterial to all periods presented and has revised the June 30, 2011 Consolidated Statements of Comprehensive Income to reflect correction of the error. The September 30, 2011 previously reported amounts in the Consolidated Statements of Comprehensive Income will be revised in the Company's September 30, 2012 Form 10-Q to reflect correction of the error.

**NOTE 3 – 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. During the three and six months ended June 30, 2012, the Company repurchased 4,786 shares and 5,286 shares of the Company's common stock, in unsolicited transactions at a cost of \$48,582 and \$54,357, respectively, of which \$2,352 and \$2,598 were allocated to capital and \$46,230 and \$51,759 were allocated to retained earnings, respectively. As of June 30, 2012, the Company had remaining authority under the 2008 program to repurchase up to an aggregate of 240,946 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 has or will retire all stock repurchased.

**NOTE 4 – 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, 2012 and 2011:

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
<b><u>Basic Earnings Per Share</u></b>				
Net income	\$156,775	\$706,687	\$657,145	\$1,821,034
Weighted average shares outstanding	5,344,234	5,334,119	5,342,988	5,334,166
Basic Earnings Per Share	\$0.03	\$0.13	\$0.12	\$0.34
<b><u>Diluted Earnings Per Share</u></b>				
Net income	\$156,775	\$706,687	\$657,145	\$1,821,034
Weighted average shares outstanding	5,344,234	5,334,119	5,342,988	5,334,166
Effect of dilutive securities	15,644	23,841	18,068	23,848

Diluted shares outstanding	5,359,878	5,357,960	5,361,056
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