

UNICO AMERICAN CORP  
Form 10-K  
March 30, 2010

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2009

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  
(IRS Employer Identification No.)

23251 Mulholland Drive, Woodland Hills, California  
(Address of Principal Executive Offices)

91364  
(Zip Code)

Registrant's telephone number, including area code: (818) 591-9800

Securities registered pursuant to Section 12(b) of the Act:	
Common Stock, No Par Value	NASDAQ Stock Market LLC
(Title of each class)	Name Of Each Exchange On Which Registered

Securities registered pursuant to section 12(g) of the Act:  
None  
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy of information statements incorporated by reference as Part III of this Form 10-K or any amendment to this Form 10-K. X

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerator filer and large accelerator 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 ☒

The aggregate market value of registrant’s voting and non-voting common equity held by non-affiliates as of June 30, 2009, the last business day of Registrant’s most recently completed second fiscal quarter was \$20,836,787.

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 March 25, 2010
Common Stock, \$0 Par value per share	5,306,204

Portions of the definitive proxy statement that Registrant intends to file pursuant to Regulation 14(A) by a date no later than 120 days after December 31, 2009, to be used in connection with the annual meeting of shareholders, are incorporated herein by reference into Part III hereof. If such definitive proxy statement is not filed in the 120-day period, the information called for by Part III will be filed as an amendment to this Form 10-K not later than the end of the 120-day period.

## PART I

## Item 1. 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, unless otherwise indicated. Unico was incorporated under the laws of Nevada in 1969.

Descriptions of the Company's operations in the following paragraphs are categorized between the Company's major segment - insurance company operation, and all other revenues from insurance operations. The insurance company operation is conducted through Crusader Insurance Company (Crusader), Unico's property and casualty insurance company. Insurance company revenues and other revenues from insurance operations for the years ended December 31, 2009, December 31, 2008, and December 31, 2007, are as follows:

	Year ended December 31								
	2009			2008			2007		
	Total Revenues	Percent of Total Company Revenues		Total Revenues	Percent of Total Company Revenues		Total Revenues	Percent of Total Company Revenues	
Insurance company revenues	\$35,936,552	86.3	%	\$40,527,988	86.7	%	\$44,137,213	87.6	%
Other revenues from insurance operations									
Gross commissions and fees:									
Health insurance program									
commission income	2,526,772	6.1	%	2,754,293	5.9	%	2,320,161	4.9	%
Policy fee income	2,109,681	5.1	%	2,239,306	4.8	%	2,482,006	4.7	%
Daily automobile rental insurance program:									
Commission	401,829	1.0	%	403,943	0.9	%	390,659	0.8	%
Claim administration fees	-	-		-	-		-	-	
Association operations									
membership and fee income	261,980	0.6	%	300,214	0.6	%	309,712	0.6	%
Other commission and fee income	787	-		8,315	-		13,095	-	
Total gross commission and fee income	5,301,049	12.8	%	5,706,071	12.2	%	5,515,633	11.0	%
Investment income	1,350	0.0	%	61,434	0.1	%	152,002	0.3	%
Finance charges and fees earned	369,285	0.9	%	460,422	1.0	%	553,997	1.1	%
Other income	8,870	-		13,529	-		14,050	-	
Total other revenues from insurance operations	5,680,554	13.7	%	6,241,456	13.3	%	6,235,682	12.4	%

Total revenues	\$41,617,106	100.0	%	\$46,769,444	100.0	%	\$50,372,895	100.0	%
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## INSURANCE COMPANY OPERATION

### General

The insurance company operation is conducted through Crusader. Crusader is a multiple line property and casualty insurance company that began transacting business on January 1, 1985. Since 2004, all Crusader business has been written in the state of California. During the year ended December 31, 2009, approximately 98% of Crusader's business was commercial multiple peril policies. Commercial multiple peril policies provide a combination of property and liability coverage for businesses. Commercial property coverage insures against loss or damage to buildings, inventory and equipment from natural disasters, including hurricanes, windstorms, hail, water, explosions, severe winter weather, and other events such as theft and vandalism, fires, storms, and financial loss due to business interruption resulting from covered property damage. However, Crusader does not write earthquake coverage. Commercial liability coverages insure against third party liability from accidents occurring on the insured's premises or arising out of its operation. In addition to commercial multiple peril policies, Crusader also writes separate policies to insure commercial property and commercial liability risks on a mono-line basis. As of December 31, 2009, Crusader was licensed as an admitted insurance carrier in the states of Arizona, California, Nevada, Oregon, and Washington.

The insurance marketplace continues to be intensely competitive as more insurers are competing for the same customers. Many of Crusader's competitors price their insurance at rates that the Company believes are inadequate to support an underwriting profit. While Crusader attempts to meet such competition with competitive prices, its emphasis is on service, promotion, and distribution. Crusader believes that rate adequacy is more important than premium growth and that underwriting profit (net earned premium less losses and loss adjustment expenses and policy acquisition costs) is its primary goal. Nonetheless, Crusader believes that it can grow its sales and profitability by continuing to focus upon three key areas of its operations: (1) product development, (2) improved service to retail brokers, and (3) appointment of captive and independent retail agents. During 2009, Crusader continued to introduce product changes such as rates, eligibility guidelines, rules and coverage forms. Improved service is primarily focused upon transacting business through the internet, as well as providing more options to make the agents' and brokers' time more efficiently spent with Crusader (i.e., as opposed to spending time with Crusader's competitors). As of December 31, 2009, Crusader had appointed sixteen retail agents. Presently, it is expected that each such retail agent should be able to reach an annual sales volume of approximately one to two million dollars of Crusader's products within three to five years of their appointment by Crusader. However, Crusader does not intend to substantially increase its number of retail agents appointed until such time as the Company implements a new policy administration system. The Company is in the final stages of selecting an outside vendor to provide it with a state of the art policy administration software system. The Company estimates implementation of the new software system to take approximately one to one and one-half years from the date the vendor is selected.

All of Crusader's business is produced by Unifax Insurance Systems, Inc. (Unifax), its sister corporation. Unifax has substantial experience with these classes of business. The commissions paid by Crusader to Unifax are eliminated as intercompany transactions and are not reflected in the previous table. Crusader is licensed in property and casualty and disability lines of insurance by the California Department of Insurance.

#### Reinsurance

A reinsurance transaction occurs when an insurance company transfers (cedes) a portion of its exposure on policies written by it to a reinsurer that assumes that risk for a premium (ceded premium). Reinsurance does not legally discharge the Company from primary liability under its policies. If the reinsurer fails to meet its obligations, the Company must nonetheless pay its policy obligations.

Crusader's primary excess of loss reinsurance agreements since January 1, 1998, are as follows:

Loss Year(s)	Reinsurer(s)	A.M. Best Rating	Retention	Annual Aggregate Deductible
2005 – 2009	Platinum Underwriters Reinsurance, Inc. & Hannover Ruckversicherungs AG	A A	\$300,000	\$500,000
2004	Platinum Underwriters Reinsurance, Inc. & Hannover Ruckversicherungs AG	A A	\$250,000	\$500,000
2003	Platinum Underwriters Reinsurance, Inc. & Hannover Ruckversicherungs AG & QBE Reinsurance Corporation	A A A	\$250,000	\$500,000
2002	Partner Reinsurance Company of the U.S.	A+	\$250,000	\$675,000

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2000 - 2001	Partner Reinsurance Company of the U.S.	A+	\$250,000	\$500,000
1998 - 1999	General Reinsurance Corporation	A++	\$250,000	\$750,000

Prior to January 1, 1998, National Reinsurance Corporation (acquired by General Reinsurance Corporation in 1996) charged a provisional rate on exposures up to \$500,000 that was subject to adjustment and was based on the amount of losses ceded, limited by a maximum percentage that could be charged. That provisionally rated treaty was cancelled on a runoff basis and replaced by a flat rated treaty on January 1, 1998.

In 2009 and 2008 Crusader retained a participation in its excess of loss reinsurance treaties of 20% in its 1st layer (\$700,000 in excess of \$300,000), 15% in its 2nd layer (\$1,000,000 in excess of \$1,000,000), and 0% in its property and casualty clash treaty. In 2007 Crusader retained a participation in its excess of loss reinsurance treaties of 15% in its 1st layer (\$700,000 in excess of \$300,000), 15% in its 2nd layer (\$1,000,000 in excess of \$1,000,000), and 15% in its property clash treaty. In 2006 and 2005 Crusader retained a participation in its excess of loss reinsurance treaties of 10% in its 1st layer (\$700,000 in excess of \$300,000), 10% in its 2nd layer (\$1,000,000 in excess of \$1,000,000), and 30% in its property and casualty clash treaties. In 2004 Crusader retained a participation in its excess of loss reinsurance treaties of 10% in its 1st layer (\$750,000 in excess of \$250,000), 10% in its 2nd layer (\$1,000,000 in excess of \$1,000,000), and 30% in its property and casualty clash treaties. In 2003 Crusader retained a participation in its excess of loss reinsurance treaties of 5% in its 1st layer (\$750,000 in excess of \$250,000), 10% in its 2nd layer (\$1,000,000 in excess of \$1,000,000), and 30% in its property and casualty clash treaties.

The 2007 through 2009 excess of loss treaties do not provide for a contingent commission. Crusader's 2006 1st layer primary excess of loss treaty provides for a contingent commission equal to 20% of the net profit, if any, accruing to the reinsurer. The first accounting period for the contingent commission covers the period from January 1, 2006, through December 31, 2006. The 2005 excess of loss treaties do not provide for a contingent commission. Crusader's 2004 and 2003 1st layer primary excess of loss treaties provide for a contingent commission to the Company equal to 45% of the net profit, if any, accruing to the reinsurer. The first accounting period for the contingent commission covers the period from January 1, 2003, through December 31, 2004. For each accounting period as described above, the Company will calculate and report to the reinsurers its net profit (excluding incurred but not reported losses), if any, within 90 days after 36 months following the end of the first accounting period, and within 90 days after the end of each 12-month period thereafter until all losses subject to the agreement have been finally settled. Any contingent commission received is subject to return based on future development of ceded losses and loss adjustment expenses. As of December 31, 2009, the Company has received a total net contingent commission of \$3,108,324 for the years subject to contingent commission. Of this amount, the Company has recognized \$1,686,380 of contingent commission income, of which \$766,651 was recognized in the year ended December 31, 2009. The remaining balance of the net payments received of \$1,421,944 is currently unearned and included in "Accrued Expenses and Other Liabilities" in the consolidated balance sheets. The unearned contingent commission may be subsequently earned or returned to the reinsurer depending on the future development of the ceded IBNR for the years subject to contingent commission.

Crusader also has catastrophe reinsurance from various highly rated California authorized and unauthorized reinsurance companies. These reinsurance agreements help protect Crusader against liabilities in excess of certain retentions, including major or catastrophic losses that may occur from any one or more of the property and/or casualty risks which Crusader insures. The Company has no reinsurance recoverable balances in dispute.

The Company evaluates each of its ceded reinsurance contracts at their inception to determine if there is sufficient risk transfer to allow the contract to be accounted for as reinsurance under current accounting literature. As of December 31, 2009, all such ceded contracts are accounted for as risk transfer reinsurance.

The aggregate amount of earned premium ceded to the reinsurers was \$9,276,407 for the year ended December 31, 2009, \$8,771,069 for the year ended December 31, 2008, and \$11,532,308 for the year ended December 31, 2007.

On most of the premium that Crusader cedes to the reinsurer, the reinsurer pays a commission to Crusader that includes a reimbursement of the cost of acquiring the portion of the premium that is ceded. Crusader does not currently assume any reinsurance. The Company intends to continue obtaining reinsurance although the availability and cost may vary from time to time. The unpaid losses ceded to the reinsurer are recorded as an asset on the balance sheet.

#### Unpaid Losses and Loss Adjustment Expenses

Crusader maintains reserves for losses and loss adjustment expenses with respect to both reported and unreported losses. When a claim for loss is reported to the Company, a reserve is established for the expected cost to settle the claim, including estimates of any related legal expense and other costs associated with resolving the claim. These reserves are called “case based” reserves. In addition, the Company also sets up reserves at the end of each reporting period for losses that have occurred but have not yet been reported to the Company. These incurred but not reported losses are referred to as “IBNR” reserves.



Crusader establishes reserves for reported losses based on historical experience, upon case-by-case evaluation of facts surrounding each known loss, and the related policy provisions. The amount of reserves for unreported losses is estimated by analysis of historical and statistical information. The ultimate liability of Crusader may be greater or less than estimated reserves. Reserves are monitored and adjusted when appropriate and are reflected in the statement of operations in the period of adjustment. Reserves for losses and loss adjustment expenses are estimated to cover the future amounts needed to pay claims and related expenses with respect to insured events that have occurred.

The process of establishing loss and loss adjustment expense reserves involves significant judgment. The following table shows the development of the unpaid losses and loss adjustment expenses for fiscal years 1999 through 2009. The top line of the table shows the estimated liability for unpaid losses and loss adjustment expenses, net of reinsurance, recorded at the balance sheet date for each of the indicated years. This liability represents the estimated amount of losses and loss adjustment expenses for losses arising in the current and prior years that are unpaid at the balance sheet date. The table shows the reestimated amount of the previously recorded liability based on experience as of the end of each succeeding year. The estimate may change as more information becomes known. The Company believes that its loss and loss adjustment expense reserves are properly stated. When subsequent loss and loss adjustment expense development justifies changes in reserving practices, the Company responds accordingly.

The following table reflects redundancies and deficiencies in Crusader's net loss and loss adjustment expense reserves. The net reserves for the 2002 through 2008 periods reflect a cumulative redundancy. The gross reserves also reflect a cumulative redundancy deficiency for the 2002 through 2008 periods. See discussion of losses and loss adjustment expenses in Item 7 - "Management's Discussion and Analysis - Results of Operations - Insurance Company Operation."

When evaluating the information in the following table, it should be noted that each amount includes the effects of all changes in amounts of prior periods; therefore, the cumulative redundancy or deficiency represents the aggregate change in the estimates over all prior years. Conditions and trends that have affected development of liability in the past may not necessarily occur in the future. Accordingly, it may not be appropriate to extrapolate future deficiencies or redundancies based on this table.

CRUSADER INSURANCE COMPANY ANALYSIS OF LOSS AND LOSS ADJUSTMENT RESERVES Year Ended December 31					
	1999	2000	2001	2002	2003
Reserve for Unpaid Losses and Loss Adjustment Expenses, Net	\$ 37,628,165	\$ 34,546,026	\$ 49,786,215	\$ 53,596,945	\$ 58,883,861
Paid Cumulative as of					
1 Year Later	18,745,224	20,841,417	23,010,615	21,326,688	18,546,279
2 Years Later	34,905,359	37,976,277	39,463,106	35,883,729	28,289,327
3 Years Later	46,072,688	49,053,708	46,256,431	40,808,763	35,508,898
4 Years Later	53,153,491	52,821,183	49,157,040	44,116,477	39,577,949
5 Years Later	56,021,297	54,919,573	51,678,787	46,382,760	41,417,614
6 Years Later	57,247,843	56,715,300	53,604,855	47,272,911	42,384,891
7 Years Later	58,801,974	58,428,481	53,834,453	47,994,346	
8 Years Later	60,000,165	58,528,260	53,826,582		
9 Years Later	60,075,050	58,496,996			
10 Years Later	60,146,769				
Reserves Reestimated as of					
1 Year Later	41,898,796	53,872,376	57,577,066	56,348,531	58,048,427
2 Years Later	56,423,375	59,746,880	60,629,814	57,237,770	54,623,000
3 Years Later	59,486,543	62,172,320	60,974,567	55,430,550	50,602,947
4 Years Later	61,791,428	62,369,460	59,745,610	53,154,847	49,959,618
5 Years Later	62,174,813	61,894,587	58,289,479	53,047,154	47,848,145
6 Years Later	61,983,908	61,192,597	58,677,307	51,628,155	47,335,768
7 Years Later	61,875,465	61,975,092	57,039,089	51,380,177	
8 Years Later	62,659,129	60,565,031	56,156,091		
9 Years Later	61,392,495	59,879,760			
10 Years Later	60,956,423				
Cumulative Redundancy (Deficiency)	\$ (23,328,258 )	\$ (25,333,734 )	\$ (6,369,876 )	\$ 2,216,768	\$ 11,548,093

Gross Liability for Unpaid

Losses and Loss

Adjustment Expenses	\$41,592,489	\$45,217,369	\$60,534,295	\$74,905,284	\$78,139,090
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Ceded Liability for Unpaid

Losses and Loss

Adjustment Expenses	(3,964,324 )	(10,671,343 )	(10,748,080 )	(21,308,339 )	(19,255,229 )
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Net Liability for Unpaid

Losses and

Net Liability for Unpaid

Losses and Loss

Adjustment Expenses	\$37,628,165	\$34,546,026	\$49,786,215	\$53,596,945	\$58,883,861
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Review  
market  
information  
and/or survey  
data to  
understand  
how our  
aggregate  
executive  
compensation  
compares to  
competitive  
norms for  
attracting and  
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## COMPONENTS OF EXECUTIVE COMPENSATION

The Compensation Committee determined that each element of our compensation formula contributes to our overall compensation objectives and in the aggregate provides a reasonable and competitive compensation opportunity for each executive officer.

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**Key Elements of Executive Compensation Structure**

Our executive compensation program consists of three main components: annual base salary, a cash award under our Incentive Plan (as defined below) ("annual performance bonus") and long-term equity incentives.

An appropriate mix of these key components, which are discussed in more detail below, enables us to remain competitive within our industry while ensuring that our executive officers are appropriately incentivized to deliver shareholder value.

**Other Compensation**

The remainder of our executive compensation program includes other forms of compensation, which aim to encourage retention and provide a market-competitive suite of benefits:

**Retirement Benefits** encourages retention and provides market-competitive accruals; and

**Other Benefits & Perquisites** includes standard health and welfare benefit plans, capped severance protection, life insurance and other limited perquisites to address executive-level expectations and challenges.

**Executive Compensation Mix**

Our goal is to increase shareholder value by providing executives with appropriate incentives to achieve our long-term business objectives. We achieve this by providing a mix of performance-based cash and equity awards designed to reward superior performance and achieve specific short- and long-term business objectives.

In 2015, over 80% of our CEO's target compensation, 75% of our CFO's target compensation, and over 41% of our other executive officers' target compensation was performance-based. The target allocation of 2015 compensation for our CEO and other executive officers is shown in the charts below.

**CEO Target Pay Mix**

**CFO Target Pay Mix**

**Other Executive Officer  
Target Pay Mix**



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**HOW WE DETERMINE ANNUAL BASE SALARY**

The Compensation Committee determines an appropriate level of base salary for our executive officers by taking into account a series of competitive and other factors and conducting a compensation comparison against a pre-selected compensation peer group (the "Compensation Peer Group"). The Compensation Committee makes this initial determination of base salary for each executive officer upon his or her hiring by the Company and periodically reviews its determination, as it deems appropriate, taking into account various factors, including the Company's performance, market data, industry conditions and shareholder feedback.

**Competitive Factors**

To determine an appropriate level of base salary, the Compensation Committee takes into account certain competitive factors, which sometimes include:

Compensation levels of similarly-situated executives of other drilling contractors and in the oilfield services sector;

Necessary levels of compensation to attract and retain highly talented executives from outside the industry; and

A newly hired executive's salary at his or her most recent place of employment.

**Compensation Peer Group**

For purposes of the compensation comparison for 2013-2015, the Compensation Peer Group was determined by the Compensation Committee, in consultation with BDO Seidman ("BDO"), its former independent compensation consultant, based upon the following criteria:

Significant competitor in the Company's lines of business;

Comparable size or complexity;

Competition for executive talent; and/or

Similar operations in the industry and market.

In determining the Compensation Peer Group, the Compensation Committee considered the complexities of running a company of our size and scope. Specifically, the committee recognized that no other company combined all of the Company's business lines at the time - drilling, completion services, production services, directional services and equipment manufacturing - with the diverse geographic and multi-faceted corporate structure that make the Company uniquely successful. As a result, the Compensation Committee looked to a number of sectors in our industry to identify companies that provide comparable management challenges, and with whom we compete for executive talent, for purposes of determining an appropriate peer group for executive compensation. The result was a selection of peers that, as a whole, appropriately represented the various aspects of our business and the level of significant skills and expertise required of executive management, both of which are relevant to the compensation comparison.

For 2015, the Compensation Committee determined that an appropriate peer group for purposes of compensation comparison should remain the same as for 2014:

Baker Hughes Incorporated  
Ensco plc  
Helmerich & Payne, Inc.  
Rowan Companies plc  
Transocean Ltd.  
ConocoPhillips  
Freeport-McMoran Inc.

Diamond Offshore Drilling, Inc.  
Halliburton Company  
Noble Corporation plc  
Schlumberger Limited  
Weatherford International plc  
National Oilwell Varco, Inc.



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In light of the Company's transaction with C&J Energy and in response both to changes in our industry and shareholder concerns, the Compensation Committee in 2015 reevaluated the composition of our Compensation Peer Group and updated the peer group for purposes of compensation comparison in consultation with Pearl Meyer. The following changes, effective January 1, 2016, were made:

The Compensation Committee determined that, because the majority of their revenue is derived from outside the Company's core businesses and their revenues are significantly larger than the Company's, these companies no longer serve as appropriate comparators for compensation or performance purposes.

The Compensation Committee determined that both the core businesses and the revenues of these companies are in line with those of the Company.

Although these companies are considerably larger than the Company, the Compensation Committee determined, in consultation with Pearl Meyer, that they share a strong business correlation with the Company, are considered direct competitors in one or more markets, and are among the Company's key competitors for executive talent. In particular, Schlumberger Limited has continued positioning itself as a direct competitor in the international rig market. Accordingly, the Compensation Committee determined that it was appropriate to retain them for purposes of both compensation and performance comparison purposes. In making this determination, the Compensation Committee considered the concern that the companies are outsized compared to the Company. The committee also considered several mitigating factors, including that these companies comprise a relatively small portion (19%) of the peer group; that even with their inclusion, the median enterprise value for the new peer group as of December 31, 2015 was \$7.9 billion, which was 45% less than the existing peer group enterprise value of \$14.4 billion as of the same date; and that even with their inclusion, the median CEO compensation for the new peer group for 2014 (the most recent available information) was \$9.9 million, which was 9% less than the existing peer group median CEO pay of \$10.9 million for 2014. The Compensation Committee concluded that the balancing of factors warranted their inclusion.

The Compensation Committee determined that these companies all share one or more business focuses with the Company, are considered direct competitors in one or more markets, and are within a comparable size range. The Compensation Committee also considered as confirmatory the significant peer group overlap between Nabors and most of these companies.

The Compensation Committee does not target base salaries at a certain percentile within a peer group. Instead, it reviews market data from our Compensation Peer Group in order to understand how our executive officers' aggregate compensation compares to competitive norms.

### **2015 Annual Base Salary**

Our CEO and CFO's annual base salary is determined by the Compensation Committee and reflected in each of their respective employment agreements. For 2015, Messrs. Petrello's and Restrepo's contractual salaries remained the same as for 2014: \$1.75 million and \$650,000, respectively.

In light of the decline in industry conditions commencing during the latter part of 2014, however, the Company reduced salaries for its executives by 10%, effective January 1, 2015. In conjunction with that initiative, our CEO and CFO, together with the Compensation Committee, agreed to reduce their salaries



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by 10% for an interim period ending on June 30, 2015, and subsequently continued that reduction through June 30, 2016.

This reduction is subject to renewal and does not affect the calculation or payment of any other components of executive compensation or ancillary benefits. Corresponding reductions were also made to the base salaries of our other executive officer (Mr. Andrews) and senior management.

## HOW WE DETERMINE THE ANNUAL PERFORMANCE BONUS

Our annual performance-based cash bonus opportunity is directly tied to objective performance goals for the Company. Our Annual Incentive Bonus Plan (the "Incentive Plan"), approved by shareholders at the 2013 annual general meeting, governs this component of executive compensation and is designed to focus our executive officers on achieving specific performance measures and reward successful outcomes.

### Annual Incentive Bonus Plan

The Incentive Plan advances our pay-for-performance philosophy by providing participants under the Incentive Plan with annual bonus incentive opportunities linked to the achievement of specific performance measures. The Incentive Plan is designed to:

Reinforce the Company's goal-setting and strategic planning process;

Recognize the efforts of its management in achievement objectives; and

Aid in attracting and retaining competent management, thus ensuring the long-range success of the Company.

At the beginning of each year, the Compensation Committee sets objective performance measures for the Company as a whole and establishes corresponding performance goals for each participant under the Incentive Plan, including our CFO and CEO. These performance goals may include one or more of the following for a given fiscal year:

Income before federal taxes and net interest expense;

Achievement of specific and measurable operational objectives in the areas of rig operating costs, accident records, downtime and employee turnover;

Completion of one or more specifically designated tasks identified as being important to the strategy or success of the Company;

Working capital, generally defined to include receivables; inventories and controllable current liabilities, measured either in absolute dollars or relative to sales;

Sales or market share, total shareholder return, economic value added, or the growth in the value of an investment in the common shares assuming the reinvestment of dividends;

Earnings growth, revenues, expenses, share price, net operating profit after taxes, market share, days sales outstanding, return on assets, equity, capital employed or investment, regulatory compliance, satisfactory internal or external audits, improvement of financial ratings, or achievement of balance sheet, income statement or cash flow objectives; and

Earnings per share, operating income, gross income, cash flow, gross profit, gross profit return on investment, gross margin return on investment, gross margin, operating margin, earnings before interest and taxes, earnings before interest, tax, depreciation and amortization, return on equity, return on assets, return on capital, return on invested capital, net revenues, gross revenues, revenue growth, annual recurring revenues, recurring revenues, license revenues, or reduction in operating expenses.

In structuring the performance measures and goals, the Compensation Committee sets targets for achieving those goals:

**Minimum threshold** before any annual performance bonus can be earned;

**Target award** dollar amount to incentivize a specific desired performance level; and

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**Maximum goal** which sets an appropriate limit on the potential annual performance bonus that can be earned.

After the end of the fiscal year, the Compensation Committee determines whether the performance goals have been attained and approves any cash payment amount based upon the level of achievement of the set annual performance goals.

Pursuant to their respective employment agreements, each of our CFO and CEO are assigned one or more financial or nonfinancial metrics by which their performance is measured for purposes of calculating their annual performance bonus for a given year. At the end of that year, the Compensation Committee evaluates each executive's performance against the applicable metric or metrics and determines their cash performance bonus based on the assigned threshold, target and maximum benchmark for that year. Any results between benchmarks are prorated in calculating the performance bonus.

**2015 Annual Performance Bonus**

**CEO**

Pursuant to his employment agreement, Mr. Petrello's annual performance bonus is targeted at base salary prior to the 10% reduction (\$1.75 million for 2015) and capped at twice base salary (\$3.5 million for 2015), subject to the achievement of one or more financial or nonfinancial performance goals, as determined by the Compensation Committee.

For 2015, Mr. Petrello's annual performance bonus targets were based on the Company's target for adjusted EBITDA, or operating cash flow, exclusive of the Completion & Production Services business<sup>(2)</sup>, of \$1.237 billion ("target adjusted EBITDA"). This metric was selected by the Compensation Committee to encourage generation of cash flow and to further strengthen the Company's ability to grow, improve our competitive position and encourage long-term shareholder return. In particular, adjusted EBITDA is a significant consideration used by analysts in evaluating the Company and is therefore a key driver of the Company's share price.

The Compensation Committee established the following targets for Mr. Petrello's annual performance bonus for 2015:

A minimum threshold of 70% of target adjusted EBITDA, or \$866 million, with a payout of 70% of base salary at that level;

A target award of 100% of target adjusted EBITDA, or \$1.237 billion, with a payout of 100% of base salary at that level;  
and

A maximum goal of 120% of target adjusted EBITDA, or \$1.484 billion, with a payout of 200% of base salary at that level.

In the event actual performance falls between target levels, the annual performance bonus is prorated. In addition, adjustments to targets are permitted as deemed appropriate by the Board to account for significant events that warrant an adjustment. No adjustments to the CEO's targets were made for 2015.

In 2015, the Company's adjusted EBITDA was \$1.132 billion, or 91.5% of target adjusted EBITDA. Because the Company's actual performance was between 70% and 100% of target adjusted EBITDA, the amount awarded was prorated, and the annual performance bonus awarded to Mr. Petrello was equal to 91.5% of his pre-reduction annual base salary for 2015. Accordingly, Mr. Petrello earned an annual

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(2)

Throughout this Proxy Statement, the term "adjusted EBITDA" excludes EBITDA generated by the Completion & Production Services business. Adjusted EBITDA is computed by subtracting the sum of direct costs and SG&A from operating revenues. Adjusted EBITDA is a non-GAAP measure and should not be used in isolation or as a substitute for the amounts reported in accordance with GAAP. However, management evaluates the performance of our operating segments and the consolidated company based on several criteria, including adjusted EBITDA and adjusted operating income (loss), because we believe that these financial measures accurately reflect our ongoing profitability and performance. Please refer to our 2015 Annual Report for reconciliation of this non-GAAP measure to income (loss) from continuing operations before income taxes, which is a GAAP measure.



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performance bonus of \$1.602 million, a 4% reduction from his corresponding bonus in 2014 based on the same performance metric. For 2016, the Compensation Committee chose the Company's 2016 adjusted EBITDA objective and SG&A goal to determine 70% and 30% respectively, of the amount of Mr. Petrello's annual cash bonus, if any.

### **CFO**

Pursuant to his employment agreement, Mr. Restrepo's annual performance bonus is targeted at base salary prior to the 10% reduction (\$650,000 for 2015) and capped at twice base salary (\$1.3 million for 2015), payable in cash and based upon the achievement of one or more financial or nonfinancial performance goals as determined by the Compensation Committee.

For 2015, Mr. Restrepo's annual performance bonus was based on the Company's targets for (1) adjusted EBITDA (weighted at 70%, such that the target bonus for the adjusted EBITDA portion was \$455,000) and (2) SG&A (weighted at 30%, such that the target bonus for the SG&A portion was \$195,000). These performance measures were selected by the Compensation Committee to mirror the CEO's target adjusted EBITDA goal, and to place additional emphasis on SG&A, the component of adjusted EBITDA most closely aligned to the CFO's responsibilities.

The Compensation Committee established the following targets for Mr. Restrepo's annual performance bonus for 2015:

For adjusted EBITDA:

A minimum threshold of 70% of target adjusted EBITDA, or \$866 million, with a payout of 70% of the adjusted EBITDA portion of the bonus, or \$318,500, at that level;

A target award of 100% of target adjusted EBITDA, or \$1.237 billion, with a payout of 100% of the adjusted EBITDA portion of the bonus, or \$455,000, at that level; and

A maximum goal of 120% of target adjusted EBITDA, or \$1.484 billion with a payout of 200% of the adjusted EBITDA portion of the bonus, or \$910,000, at that level.

For SG&A:

A minimum threshold of \$348.3 million of SG&A, with a payout of 70% of the SG&A portion of the bonus, or \$136,500, at that level;

A target award of \$338.3 million of SG&A, with a payout of 100% of the SG&A portion of the bonus, or \$195,000, at that level; and

A maximum goal of \$328.3 million of SG&A, with a payout of 200% of the SG&A portion of the bonus, or \$390,000, at that level.

In each case, if actual performance falls between target levels, the annual performance bonus is prorated. In addition, adjustments are permitted as deemed appropriate by the Board to account for significant events that warrant an adjustment. Adjustments were made in the SG&A calculation for 2015, solely for purposes of determining that portion of the CFO's annual performance bonus, to remove from the calculation severance costs attributable to the Company's reduction in workforce and the impact of the full consolidation of our prior joint venture in Saudi Arabia, both of which were not anticipated in setting the initial targets.

As noted above, the Company's adjusted EBITDA for 2015 was \$1.132 billion, or 91.5% of target adjusted EBITDA. SG&A was \$323.2 million, after deducting \$9.3 million in unplanned severance costs and \$6.3 million in SG&A resulting from the Saudi Arabia consolidation. Accordingly, Mr. Restrepo earned an annual performance bonus of \$806,000 for 2015, comprised of \$416,000 representing the adjusted EBITDA portion and \$390,000 representing the SG&A portion. For 2016, the Compensation Committee again chose the Company's 2016 adjusted EBITDA objective and SG&A goal to determine 70% and 30%, respectively, of the amount of Mr. Restrepo's annual cash bonus, if any.



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LONG-TERM EQUITY INCENTIVES

Our long-term equity incentives are designed to reward achievement of corporate objectives and incentivize our executive officers to deliver strong long-term shareholder returns. The Compensation Committee supports a practice of providing long-term equity incentives that deliver above-average compensation if financial results and/or shareholder returns exceed expectations.

Our long-term equity incentives are designed to focus our executive officers on achieving and sustaining longer-term shareholder returns. Our TSR Share awards vest at the end of the relevant three-year measurement period based on the Company's share performance relative to its Performance Peer Group (described below) during that period. Our Performance Shares are awarded based on the individual's achievement of performance goals for that year, then vest over a three-year period. The following is a summary of the features of long-term equity incentives for our CEO and CFO:

Restricted common share awards

Restricted common share awards

Vesting based upon the Company's performance relative to the Performance Peer Group over a three-year period

Award amounts based upon the achievement of certain financial or operational objectives, as pre-determined by the Compensation Committee

Minimum performance criteria apply before any TSR Shares vest

Once awarded, subject to a further three-year vesting period

Subject to a maximum award amount

Minimum threshold applies before any amount can be earned

Subject to a maximum award amount

**Performance Peer Group**

For purposes of our TSR Share awards, the Compensation Committee, in consultation with its consultant at the time BDO, determined the Performance Peer Group for 2013-2015 by:

Eliminating from the Compensation Peer Group companies whose operations, although requiring similar management skills, were nevertheless not comparable to the Company's business lines and therefore did not provide a meaningful basis for measuring relative share performance; and

Adding other significant competitors in each of the Company's business lines to provide a comprehensive means for evaluating TSR.

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The resulting Performance Peer Group is comprised of companies that the Compensation Committee believes, as a whole, appropriately represent the composition of our business. In 2015, we had the following two business lines:

**Drilling & Rig Services** comprised of our global land-based and offshore drilling rig operations and other rig services, consisting of equipment manufacturing, rig instrumentation, optimization software and directional drilling services; and

**Completion & Production Services** comprised of our operations involved in the completion, life-of-well maintenance and plugging and abandonment of a well in the United States and Canada.

The Compensation Committee focused on our key competitors in each business line in determining appropriate comparators for assessing relative shareholder return. As a result, for 2015, our Compensation Committee selected the following companies for our Performance Peer Group based upon their comparable business activities:

Diamond Offshore Drilling, Inc.  
Helmerich & Payne, Inc.  
Patterson-UTI Energy, Inc.  
Transocean Ltd.  
Noble Corporation plc  
Unit Corporation  
Rowan Companies plc  
National Oilwell Varco, Inc.\*

Halliburton Company  
Baker Hughes Incorporated  
Weatherford International plc  
ENSCO International Inc.  
Key Energy Services, Inc.  
Superior Energy Services, Inc.  
RPC Inc.

\*

Indicates that equipment manufacturing is determining factor for inclusion.

The Compensation Committee has discretion to adjust the composition of the Performance Peer Group and to set the threshold, target and maximum performance criteria to reflect current circumstances.

For TSR Shares granted in 2015, the target will be achieved if the Company ranks at the median of the Performance Peer Group for TSR during the period 2015 through 2017. If the Company ranks in the first quintile, TSR Shares will vest at the maximum level, and the Company must rank at least in the fourth quintile for any TSR Shares to vest (at 25% of maximum). Other rankings yield proportionate results. The percentage of maximum shares earned based on three-year TSR rank is shown in the table below:

TSR Rank	Percentage of Maximum Shares Earned
1, 2 or 3	100%
4 or 5	75%
6 or 7	60%
8 or 9	50%
10 or 11	40%
12 or 13	25%
14, 15 or 16	0%

Beginning in 2016, the Performance Peer Group will be adjusted to be the same as the Compensation Peer Group. The Compensation Committee made this decision in response to shareholder concerns and



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following the peer group review conducted by Pearl Meyer, in part as a result of the Merger. In addition to our primary and secondary competitors in drilling, rig services, and drilling technology, completion and production services companies remain in the Performance Peer Group because we retain a majority equity interest in C&J Energy Services Ltd., which in turn impacts TSR.

**2015 TSR Share Awards**

**CEO**

Pursuant to Mr. Petrello's employment agreement, the target number of TSR Shares that vest is valued at 150% of base salary on the first day of the measurement period. If the performance goals are achieved at maximum levels, then the maximum number of TSR Shares will be valued at twice that amount. The number of common shares granted is determined using the average daily closing price of our common shares on each of the 20 business days prior to the commencement of the measurement period. For the 2015 award, the maximum number of shares that may vest is 436,772, calculated by multiplying Mr. Petrello's salary on that date of \$1.75 million by three, then dividing by the 20-day average closing price of \$12.02.

Based on the Company's share performance through 2015, the Company's ranking for TSR Shares granted in 2013 was 8, which was the median of the peer group. Accordingly, the number of TSR Shares granted in 2013 that vested, as determined by the Compensation Committee in February 2016, was 176,967, which was at target, or 50% of maximum shares. Despite strong performance in 2013 with a TSR of 18.75%, the industry downturn that began in 2014 resulted in negative TSR for the three-year period for both the Company and most of our peer group. Although the Company's TSR for the performance period was at the median of our peer group, it was significantly higher than the oil and gas drilling composite index. The Company's current ranking for TSR shares granted in 2014 and 2015, is 8 and 10, respectively. Although vesting percentages are determined solely based upon the Company's relative TSR ranking at the end of the applicable three-year measurement period, if those measurement periods ended on December 31, 2015, the number of TSR Shares that would vest are 157,602 from the 2014 grant, at target level, and 174,709 shares from the 2015 grant, 80% of target (or 40% of maximum shares).

**CFO**

Pursuant to Mr. Restrepo's employment agreement, the target number of TSR Shares that vest is valued at base salary on the first day of the measurement period. If the performance goals are achieved at maximum levels, then the maximum number of TSR Shares will be valued at twice that amount. The number of common shares granted is determined using the average daily closing price of our common shares on each of the 20 business days prior to the commencement of the measurement period. For the 2015 award, the maximum number of shares that may vest is 108,153, calculated by multiplying Mr. Restrepo's salary of \$650,000 by two, then dividing by the 20-day average closing price of \$12.02.

Based on the Company's share performance in 2015, the Company's current ranking for TSR Shares granted in 2014 and 2015 is 8 and 10, respectively. Although vesting percentages are determined solely based upon the Company's relative TSR ranking at the end of the applicable three-year measurement period, if those measurement periods ended on December 31, 2015, the number of TSR Shares that would vest is 40,173 shares from the 2014 grant, at target level, and 43,261 shares from the 2015 grant, or 80% of target (or 40% of maximum shares).

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**How We Develop the Criteria for our Performance Shares**

The Compensation Committee pre-determines at the beginning of each performance cycle the specific financial and operational performance metrics for Performance Shares applicable to each executive officer in order to tailor long-term incentives to the specific goals and needs of the Company at such time.

The financial and operational objectives may include one or more of the following:

Earnings per share;

Earnings before interest expense, provision for income taxes, and depreciation and amortization expense;

Sales, general and administrative expenses;

Health, safety and environmental performance; and

Other identifiable strategic or operational targets

By design, the strategic or operational targets contain both objective and subjective components. The Compensation Committee specifically designs the goals to strategically position the Company for long-term success. These objectives may be the same or different than the objectives upon which the annual performance bonus under the Incentive Plan is based. In many cases, the goals can be met and evaluated on a subjective basis, but their success is incapable of objective measurement during the performance cycle. For example, development of an industry-changing technology may be a goal capable of achievement during the performance cycle, but may not generate significant revenue or returns until some future period. The Compensation Committee retains flexibility to determine the specific performance metric(s) for Performance Shares so that it may tailor these long-term incentives to the specific strategies of the Company as they evolve in our dynamic industry.

**2015 Performance Shares**

**CEO**

Pursuant to his employment agreement, Mr. Petrello has the opportunity to receive an award of Performance Shares for each fiscal year targeted at 200% of base salary, with a maximum award of twice that amount (400%), and subject to a minimum threshold before any award can be earned. For 2015, Mr. Petrello had four performance goals, with target set at achievement of two goals; threshold, one goal; and maximum four goals. His performance criteria for purposes of determining the number of Performance Shares earned were tied to initiatives related to streamlining our business operations and enhancing our strategic position.

The Compensation Committee chose criteria designed to incentivize continued focus on our renewed core businesses, enhance our market position as a global leader in drilling and rig services and strategically poise the Company for stable future growth in the eventual industry recovery. For example, a criterion aimed at streamlining and consolidating the new core business was developed in direct response to shareholder feedback and our business strategy to unlock long-term shareholder value and improve core operational performance.

In 2015, Mr. Petrello achieved his four performance goals by:

Streamlining and consolidating the Company's structure to focus on our core competency drilling. Both the corporate structure and senior management structure were overhauled, and over \$7 million in salary and benefits was eliminated among the CEO's direct reports and their direct reports alone. This goal supports the Company's overall strategy of reducing costs during the industry downturn;

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Enhancing the Company's competitive market position by bringing to market a new 1500 horsepower fast-moving land rig, designed for faster more efficient pad-to-pad rig moves, more advanced walking capabilities, and greater drilling efficiencies. This goal furthered the Company's strategy of leveraging technology to enhance its position in the industry;

Growing non-rig drilling services revenues on a per-rig year basis by 69% (more than double the goal of 30%) over 2014 levels. This goal furthered the Company's strategy of integrating its drilling services expertise into its commercial offerings, capitalizing on its technological prowess and market position; and

Formalizing a succession plan for key positions in the new corporate structure. This goal was designed to provide long-term sustainability of the Company's strategic growth plan.

Because Mr. Petrello achieved all of his 2015 performance criteria, the Compensation Committee approved a Performance Share award that vests over a three-year period, valued at 2x target, or \$7 million. Pursuant to Mr. Petrello's employment agreement, the Compensation Committee agreed to grant him a Performance Share award of 1,083,591 shares, determined on February 19, 2016, based upon the average daily closing price of our shares on each of the preceding 20 business days. The shares are expected to be issued from the 2016 Stock Plan upon its approval.

The performance criteria associated with Performance Shares that can be earned by Mr. Petrello during 2016 are tied to initiatives related to streamlining and strengthening our business operations and organization, as well as enhancing our competitive market position.

### CFO

Pursuant to his employment agreement, Mr. Restrepo has the opportunity to receive an award of Performance Shares for each fiscal year targeted at 100% of base salary, with a maximum award of twice that amount (200%), and subject to a minimum threshold before any award can be earned. For 2015, Mr. Restrepo had five performance goals, with target set at achievement of three goals; threshold, two goals; and maximum, five goals. His performance criteria in 2015 included objectives and other key performance goals similar to our CEO's, with even more focus on improvements in financial position. The Compensation Committee chose criteria with both objective and subjective criteria designed to incentivize continued focus on core businesses, capitalize on opportunities to deliver savings and improvements in our financial, tax and accounting functions and achieve capital and cost reductions in line with challenging industry conditions. Specifically, Mr. Restrepo's performance goals were designed to maintain the strength and flexibility of the Company's balance sheet, as well as liquidity in the continuing market downturn.

In 2015, Mr. Restrepo achieved all of his five performance goals by:

Restructuring the Company's corporate structure in line with operational streamlining;

Developing a plan to optimize the Company's tax position;

Consolidating accounting functions to reduce materially both costs (20% overall; 35.5% based on a fourth-quarter run rate) and headcount (23%) and to improve financial reporting quality;

Obtaining a material reduction (\$56 million) in addressable supply chain spend, with additional projected savings of \$26 million through the first half of 2016 based upon actions taken in 2015; and

Maintaining planned capital expenditures at \$780 million, nearly 20% lower than the goal of \$975 million.

As a result, the Compensation approved a Performance Share award for Mr. Restrepo that vests over a three-year period, valued at 2x target, or \$1.3 million. Pursuant to Mr. Restrepo's employment agreement, the Compensation Committee agreed to grant him a Performance Share award of 201,238 shares, determined on February 19, 2016, based upon the average daily closing price of our shares on each of the

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preceding 20 business days. The shares are expected to be issued from the 2016 Stock Plan upon its approval.

The performance criteria associated with Performance Shares that can be earned by Mr. Restrepo during 2016 are tied to initiatives related to streamlining our business operations and strengthening our financial position.

**2015 Special Bonus**

The transaction with C&J Energy, which was developed and spearheaded under the leadership of Mr. Petrello, Mr. Restrepo, and the rest of our management team, exceeded the initial goal of our strategic review process, which was focused on optimizing the value of the completion services business only. It resulted in increased liquidity for the Company with the receipt at closing of \$693.5 million in cash and the transformation of the Company into a pure-play drilling and rig services global leader. In addition, we retained a continuing equity interest in the combined company, C&J Energy Services Ltd., which allows us to continue to participate in the completion and production services market.

In significant corporate transactions such as this one, management personnel instrumental in the development and execution of the transaction are often awarded a special bonus. In fact, the management team of C&J Energy was awarded bonuses at the consummation of the transaction that were overwhelmingly approved by shareholders as part of their approval of the Merger. The Compensation Committee, in consultation with Pearl Meyer, determined that a similar special bonus program should be implemented for the Company's key management personnel, including Messrs. Petrello and Restrepo. In addition to the size and significance of the Merger to the Company's strategic goals, the committee also considered that consummation of a transaction involving the completions services portion of the business had been a performance goal for 2014 for Messrs. Petrello and Restrepo, but that no bonus had been awarded with respect to that goal because the larger transaction (involving both the completions and production services businesses) had not been consummated by the time bonus determinations were made.

In consultation with Pearl Meyer, and in line with similar bonus structures both at C&J Energy and in other comparable transactions, the Compensation Committee determined in April 2015 to pay bonuses to Messrs. Petrello and Restrepo in the form of both cash and restricted shares valued at \$14.0 million and \$1.9 million, respectively. The primary goals of the transaction incentive were to reward the significant contribution made by the individuals in executing this transformative transaction, to ensure proper focus on transition execution, and to maximize the value of the transaction for shareholders. In developing and evaluating the transaction bonus structure, Pearl Meyer and the Compensation Committee considered both the size of the total proposed bonus pool in relation to the value of the total transaction, the size of the bonus in relation to each executive's compensation, and the proportion of the bonus to the corresponding bonus awarded both to C&J Energy executives and in other similar transactions. The Committee also considered that the bonuses were less than or equally proportionate to those awarded to C&J Energy executives, which were disclosed, recommended by proxy advisory services such as Institutional Shareholder Services, and approved by the C&J Energy shareholders in the transaction. Mr. Petrello received \$6.1 million in cash and \$7.9 million in restricted shares that vest over three years. Similarly, Mr. Restrepo received \$1.0 million in cash and \$875,000 in restricted shares with the same vesting period.

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**OTHER EXECUTIVE OFFICERS**

We provide incentives to our other executive officers in two categories:

The Compensation Committee balances the goals of rewarding past performance and incentivizing future performance and retention in determining the amount and form of these incentives. Through our annual performance bonus and long-term equity incentives, we link individual awards to both Company and individual performance.

**Annual Performance Bonus**

Annual performance bonuses are not guaranteed. As previously discussed, the annual performance bonus is paid out of our Incentive Plan. Generally, the Compensation Committee determines the amount available for annual performance bonuses based upon the achievement of financial and operational objectives of the Company as a whole and the individual business unit or corporate department. Bonuses are then allocated based upon individual performance. As with awards to our CEO and CFO, the annual performance bonus is subject to a minimum threshold, target and maximum payout based upon:

Other targets are selected based upon the specific goals and needs of the Company at any given point in time. Our other executive officers' annual performance bonuses for 2013-2015 are reported in the Summary Compensation Table below under the "Bonus" and "Non-Equity Incentive Plan Compensation" columns, as applicable.





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**Long-Term Equity Incentives**

The Compensation Committee determines long-term incentive equity awards for the other executive officers and senior leadership team as a multiple (generally 1x to 2x) of the annual performance bonus, based upon a subjective evaluation of the executive's performance. This subjective evaluation allows for consideration of the executive officer's contributions to the Company's performance, whether or not encompassed in financial and operational criteria. Because the future value of those awards is inherently subject to the risk of future share performance, the Compensation Committee typically provides for time-vesting of those awards to encourage retention. The grant-date values of long-term equity incentives granted to our other executive officers in 2015 are reported in the Summary Compensation Table below under the "Stock Awards" column.

For 2015, long-term equity incentives were determined by multiplying the value of the annual performance bonus amount by a multiple determined for the applicable executive based upon his or her position and performance. Our executive officers received an equity award based on the resulting value.

For example, Mr. Andrews earned an annual performance bonus of \$60,000 for 2015 based upon the Company's overall performance and his performance against specific goals. He also received a long-term equity incentive award in the form of restricted shares, the number of which was determined by applying a multiplier of 1.25 to his annual performance bonus and dividing the product by the value of our shares on the grant date. Based on this calculation, he was granted 10,901 shares of restricted shares, with restrictions lapsing ratably over four years.

**Equity Award Policy**

**The Company has established a Stock Option/Restricted Share Award Policy that applies to the grant of long-term equity incentive awards to all employees, including our executive officers. Here is how this policy works in practice:**

The policy does not restrict the timing of awards, although the Compensation Committee typically makes awards to our executive officers and senior leadership at its first meeting each year, which usually occurs in February following publication of our annual results.

The Compensation Committee delegated authority to the CEO, subject to predetermined caps, to approve equity awards to employees at other times during the year, such as in connection with

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new hires and promotions, or in connection with the appraisal review and compensation adjustment process for employees.

All awards granted by the CEO are required to be reported to the Compensation Committee at its next regularly scheduled meeting. In connection with the appraisal review and compensation adjustment process for 2015, the CEO was delegated authority to grant up to an aggregate of 700,000 restricted shares to employees.

## RETIREMENT BENEFITS

### Retirement Plans

Our executive officers are eligible to participate in the following retirement plans:

**401(k) Plan** a tax-qualified defined contribution plan, which covers substantially all our employees; and

**Deferred Compensation Plan** a nonqualified deferred compensation plan, which allows certain employees to defer an unlimited portion of their cash compensation and receive Company-matching contributions.

Collectively, these plans facilitate retention and provide our executive officers an opportunity to accumulate assets for retirement.

### Executive Plan

Messrs. Petrello and Restrepo are also eligible to participate in the Executive Deferred Compensation Plan (the "Executive Plan").

Pursuant to Mr. Petrello's employment agreement, and at the end of each calendar quarter through the first quarter of 2019, the Company credits \$300,000 to an account for Mr. Petrello under this plan. These deferred amounts, together with earnings thereon, will be distributed to Mr. Petrello when (1) he reaches age 65 or (2) earlier (a) when he reaches age 62, to the extent of any quarterly contributions in excess of \$250,000, together with accumulated deemed earnings thereon or (b) upon termination of employment for any reason other than cause, but will be forfeited upon his earlier termination of employment for cause. Mr. Petrello will forfeit his account balance under this plan upon termination of employment for cause.

Mr. Restrepo is also eligible to participate in the Executive Plan on the same basis as other senior leaders. The Compensation Committee elected to credit \$400,000 to Mr. Restrepo's account under the Executive Plan in 2015.

Information regarding our Deferred Compensation Plan and Executive Plan, as well as the terms of their participation, can be found under "2015 Nonqualified Deferred Compensation" below.

## OTHER BENEFITS AND PERQUISITES

All of our employees, including our executive officers, may participate in health, pension and welfare benefits plans on the same basis as other employees and may receive special bonuses from time to time as determined by the Board. Our executive officers may also receive company-sponsored club memberships as part of their overall compensation package. In addition, Messrs. Petrello and Restrepo receive additional benefits under the terms of their respective agreements, as described below. In 2014, we eliminated the CEO's automobile allowance in line with perquisite reductions across the Company.

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**Severance Protection**

Severance protection, particularly in the context of a change in control transaction, can play a valuable role in attracting and retaining key executive officers. Accordingly, we have provided such protection for Messrs. Petrello and Restrepo.

Mr. Petrello's and Mr. Restrepo's employment agreements each provide for severance payments in the event the agreement is terminated (i) by the Company prior to the expiration date of the agreement for any reason other than for cause, including in connection with a change in control, or (ii) by the executive for constructive termination without cause, including in connection with a change in control, each as defined in their respective employment agreement.

Under Mr. Petrello's agreement, termination within twelve months of a change in control (as defined in the agreement), including by voluntary resignation, is considered a constructive termination without cause. Under Mr. Restrepo's agreement, termination within twelve months of a change in control (as defined in the agreement) qualifies as a constructive termination only under circumstances that otherwise qualify as constructive termination (not including voluntary resignation) under the agreement. The executive officer would have the right to receive within 30 days of a termination without cause or constructive termination without cause, including in connection with a change in control, 2.99 times the average sum of his base salary and annual performance bonus during the three fiscal years preceding the termination. The cap on the annual performance bonus opportunity beginning in 2013 serves to reduce the potential severance benefit in the future.

Mr. Petrello's and Mr. Restrepo's employment agreements also provide that, in the event of a termination without cause or constructive termination without cause, including in connection with a change in control, (a) TSR Shares previously granted would be deemed earned at target; (b) earned Performance Shares would immediately vest; and (c) for Mr. Petrello, Performance Shares for the year of termination would be deemed earned at maximum levels.

Additional information regarding severance benefits is included in the table under "2015 Potential Payments Upon Termination or Change in Control" below.

**Death, Disability and Certain Terminations**

Mr. Petrello's and Mr. Restrepo's employment agreements also provide that, upon death, disability, termination without cause, or constructive termination without cause, he would receive (a) any unvested stock options and restricted shares outstanding (except for TSR Shares), which will immediately and fully vest; (b) any amounts earned, accrued or owing to him but not yet paid (including executive benefits, life insurance, disability benefits and reimbursement of expenses and perquisites); (c) continued participation in medical, dental and life insurance coverage; and (d) certain perquisites and other or additional benefits in accordance with our applicable plans and programs, including distribution of account balances under the Company's Executive Plan.

In addition, under the agreements, (a) any unvested TSR Shares at the time of termination for these reasons will vest at target levels; and (b) for Mr. Petrello, any unearned Performance Shares will be deemed earned at the maximum level (in the case of death or disability, on a pro rata basis). The Compensation Committee provided for the vesting of outstanding restricted shares, including Performance Shares, and outstanding stock options because in each instance those awards have already been earned based upon performance at the time of grant.

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**Life Insurance and Other Perquisites**

In addition to salary and bonus, Mr. Petrello receives group life insurance, various split-dollar life insurance policies, reimbursement of expenses, and various perquisites (including personal use of company aircraft). Premium payments under the split-dollar life insurance policies were suspended in 2002. Under Mr. Petrello's employment agreement, the Company is obligated to make contributions during the term of his employment in the amounts necessary to maintain the face value of the insurance coverage. If the Company is not legally permitted to make such contributions to the policies, it will pay an additional bonus to Mr. Petrello equal to the amount required to permit him to lend sufficient funds to the insurance trusts that own the policies to keep them in force. Mr. Restrepo also receives group life insurance, reimbursement of expenses and various perquisites available to other senior leaders.

**TERM OF EMPLOYMENT**

Mr. Petrello's current employment agreement provides for an initial term of five years, through December 31, 2017, with automatic one-year extensions at the end of each term, unless either party provides notice of termination 90 days prior to such anniversary. If the Company provides notice of termination to Mr. Petrello, then provided that he remains employed with the Company for a period of up to six months as specified by the Company to assist with the transition of management, the termination will be treated as a constructive termination without cause. Neither Mr. Petrello nor the Company has provided notice of termination.

Mr. Restrepo's employment agreement provides for an initial term through 2017, with automatic one-year extensions at the end of each term, unless either party provides notice of termination one year prior to such anniversary. Such notice by the Company does not constitute a constructive termination under Mr. Restrepo's agreement. Neither Mr. Restrepo nor the Company has provided notice of termination.

**SHARE OWNERSHIP POLICY**

**We encourage our executive officers to own the Company's shares to further align their interests with those of other shareholders.**

Mr. Petrello's employment agreement requires that he own Company common shares with a minimum acquisition value of five times his base salary. As noted in the table under "Corporate Governance Beneficial Ownership of Company Common Shares", Mr. Petrello owns 10,394,479 common shares (inclusive of vested but unexercised stock options) as of the record date, which represent over 3.11% of our outstanding common shares and over 23 times the required minimum ownership.

Mr. Restrepo's employment agreement requires that he own Company common shares with a minimum acquisition value of three times his base salary. As noted in the table under "Corporate Governance Beneficial Ownership of Company Common Shares", Mr. Restrepo currently owns 636,516 common shares and over 5 times the required minimum ownership.

None of our other executive officers in 2015 were subject to a minimum share ownership requirement during that year.

"Acquisition value" for purposes of our share ownership requirement means, for shares, the market closing price on the date of grant or purchase. For stock options, it means the Black Scholes value on the date of grant. Acquisition value was chosen by our Compensation Committee as an appropriate measure because of the volatility of stock prices in our industry and the complications that may arise from the use of a fluctuating valuation method.

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**RISK ASSESSMENT**

The Compensation Committee continues to review with management the design and operation of our incentive compensation arrangements, including the performance objectives and the mix of short- and long-term performance horizons used in connection with incentive awards, to ensure that these arrangements do not encourage our executives to engage in business activities or other behavior that would impose unnecessary or excessive risk to the value of our Company or the investments of our shareholders.

**TAX CONSIDERATIONS**

Section 162(m) of the Internal Revenue Code of 1986 (as amended, the "Code") limits to \$1 million the amount of compensation that we may deduct in any year with respect to any of our executive officers, other than the chief financial officer. Certain performance-based compensation approved by shareholders is not subject to the limit. At our 2013 annual general meeting, shareholders approved the Incentive Plan, the purpose of which was to provide us the flexibility to grant annual cash incentive bonuses to our executive officers that could qualify as performance-based compensation under Section 162(m) of the Code. Although we intend to take reasonable steps to obtain deductibility of compensation, we reserve the right not to do so in our judgment, particularly with respect to retaining the service of our executive officers.

**COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION**

The Compensation Committee for 2015 was comprised of Messrs. Linn (Chairman), Crane and Kotts, all independent directors. None of these directors has ever served as an officer or employee of the Company or participated in any transaction during the last fiscal year required to be disclosed pursuant to the SEC's proxy rules, except above under "Certain Relationships and Related-Party Transactions". No executive officer of the Company serves as a member of the compensation committee of the board of directors of any entity that has one or more of its executive officers serving as a member of our Compensation Committee or as a director. In addition, none of our executive officers serves as a member of the compensation committee of the board of directors of any entity that has one or more of its executive officers serving as a member of our Board.

**COMPENSATION COMMITTEE REPORT**

The Compensation Committee of the Board has reviewed and discussed with management the CD&A provided above. Based on that review and discussion, the Compensation Committee has recommended to the Board that the CD&A be included in this Proxy Statement and incorporated by reference into the Company's annual report on Form 10-K for the year ended December 31, 2015.

Respectfully submitted,

THE COMPENSATION COMMITTEE

Michael C. Linn, Chairman

James R. Crane

John P. Kotts

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## 2015 SUMMARY COMPENSATION TABLE

The table below summarizes the total compensation paid to or earned by each of our named executive officers for the fiscal years ended December 31, 2015, 2014 and 2013.

<b>Anthony G. Petrello</b>	2015	1,580,077	6,125,000	16,863,656	0	1,602,000	150,663	1,342,206	27,663,602
<i>Chairman of the Board,</i>	2014	1,750,000	0	9,816,826	0	1,664,250	131,975	1,431,652	14,794,703
<i>President and CEO</i>	2013	1,700,000	0	18,686,961	0	1,479,000	32,460	46,347,766	68,246,187
<b>William J. Restrepo</b>	2015	587,000	1,042,500	2,537,236	0	806,000	6,182	422,418	5,401,336
<i>CFO</i>	2014	525,000	0	6,053,128	0	618,250	0	1,131	7,197,509
<b>Mark D. Andrews</b>	2015	197,320	0	75,000	0	60,000	0	88,042	420,362
<i>Corporate Secretary</i>	2014	210,000	65,000	75,000	0	0	0	86,674	436,674
	2013	200,000	60,000	65,000	0	0	0	84,182	409,182

- (1) A portion of Mr. Petrello's contractual salary is deemed to include payment for his service as a director of the Company. In 2015, Messrs. Petrello and Restrepo both agreed to reduce their salaries by 10% in light of the difficult market conditions. For 2014, the amount in this column for Mr. Restrepo pertains to salary earned from March 3, 2014, the date on which Mr. Restrepo commenced employment with the Company, through December 31, 2014.
- (2) In 2015, each of Mr. Petrello and Mr. Restrepo received a special cash bonus in recognition of their leadership and role in the Merger. See " Compensation Discussion and Analysis Long-Term Equity Incentives 2015 Special Bonus".
- (3) Except as otherwise described below, the amounts shown in this column reflect the value of restricted share awards based on the grant-date closing price of our common shares.

For Mr. Petrello, the amount for 2015 includes the grant of maximum TSR Shares eligible to vest in 2018, the grant of Performance Shares based on 2014 performance, and the equity portion of the special bonus Mr. Petrello received in connection with the Merger. Pursuant to Mr. Petrello's employment agreement, the number of TSR Shares granted was determined using the average daily closing price of our shares on each of the 20 business days prior to January 1, 2015. The grant-date fair value of the TSR Share awards of \$3,787,224 was determined based on a Monte Carlo model, using the assumptions detailed in Note 7 of our annual audited financial statements included in our 2015 Annual Report. Similarly, the number of Performance Shares granted was determined using the average daily closing price of our shares on each of the 20 business days preceding the date of the award. The grant-date fair value of the Performance Shares of \$5,201,428 reflected in the table was determined using the closing price of our shares on the date of grant, February 20, 2015. These shares vest ratably over a three-year period ending in 2017. The remaining amount of \$7,875,004 represents the grant-date fair value of the shares Mr. Petrello received as a special equity bonus in connection with the Merger. See " Compensation Discussion and Analysis Long-Term Equity Incentives 2015 Special Bonus".

Mr. Petrello's amount for 2014 includes the grant of maximum TSR Shares eligible to vest in 2017 and the grant of Performance Shares based on 2013 performance. The number of TSR Shares and Performance Shares was calculated in the same manner as for 2015 and was discussed in our 2014 proxy statement. The grant-date fair value of TSR Share awards was \$3,356,826, and the grant-date fair value of Performance Shares was \$6,460,000.



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The amount for 2013 includes a one-time grant of restricted shares valued at \$15,000,000 received in connection with the restructuring of Mr. Petrello's employment agreement, as described in our 2014 proxy statement. These shares vest in three equal annual installments ending in 2016. The remaining amount for Mr. Petrello for 2013 reflects the grant of maximum TSR Shares eligible to vest in 2016 based upon the Company's relative share performance.

For Mr. Restrepo, the amount for 2015 includes the grant of maximum TSR Shares eligible to vest in 2018, the grant of Performance Shares based on 2014 performance, and the equity portion of the special bonus Mr. Restrepo received in connection with the Merger. Pursuant to Mr. Restrepo's employment agreement, the number of TSR Shares granted was determined using the average daily closing price of our shares on each of the 20 business days prior to January 1, 2015. The grant-date fair value of the TSR Share awards of \$937,756 was determined based on a Monte Carlo model, using the assumptions detailed in Note 7 of our annual audited financial statements included in our 2015 Annual Report. Similarly, the number of Performance Shares granted was determined using the average daily closing price of our shares on each of the 20 business days preceding the date of the award. The grant-date fair value of the Performance Shares of \$724,483 reflected in the table was determined using the closing price of our shares on the date of grant, February 20, 2015. The remaining amount of \$874,997 represents the grant-date fair value of the shares Mr. Restrepo received as a special equity bonus in connection with the Merger. See " Compensation Discussion and Analysis Long-Term Equity Incentives 2015 Special Bonus".

Mr. Restrepo's amount for 2014 includes a one-time grant of restricted shares valued at \$4,900,000 in connection with his initial hiring, which was necessary to incentivize Mr. Restrepo to leave his previous employer. The remaining amounts for Mr. Restrepo reflect the grant of maximum TSR Shares eligible to vest in 2016. Pursuant to Mr. Restrepo's employment agreement, the number of shares granted was determined using the average daily closing price of our shares on each of the 20 business days prior to January 1, 2014. The grant-date fair value of the TSR Share awards was determined based on a Monte Carlo model, using the assumptions detailed in Note 9 of our annual audited financial statements included in our 2014 Annual Report.

- (4) The annual performance bonuses of our named executive officers are governed by our Incentive Plan, as described above under " Compensation Discussion and Analysis Components of Executive Compensation How We Determine the Annual Performance Bonus" and " Compensation Discussion and Analysis Other Executive Officers Annual Performance Bonus."
- (5) The amounts in this column are attributable to above-market earnings in the Executive Plan. For 2015, above-market earnings represent the difference between the 6% interest rate earned under this plan and 3.99%, which is 120% of the Internal Revenue Service Long-Term Applicable Federal Rate as of December 31, 2013. Nonqualified deferred compensation activity for 2015 is detailed in the table under "2015 Nonqualified Deferred Compensation" below.
- (6) The amounts in the "All Other Compensation" column of this table consist of the following:

<b>Anthony G. Petrello</b>	2015	0	25,046	10,208	0	1,293,736	0	13,216	1,342,206
<i>Chairman of the Board,</i>	2014	0	20,215	7,420	0	1,393,617	0	10,400	1,431,652
<i>President and CEO</i>	2013	0	22,587	7,198	23,315	46,289,445	0	5,231	46,347,776
<b>William J. Restrepo</b>	2015	0	5,431	2,312	0	400,000	0	14,675	422,418
<i>CFO</i>	2014	0	0	1,131	0	0	0	0	1,131
<b>Mark D. Andrews</b>	2015	0	0	0	0	88,042	0	0	88,042
<i>Corporate Secretary</i>	2014	0	0	0	0	86,674	0	0	86,674
	2013	0	0	0	0	84,182	0	0	84,182

- (a) The economic benefit related to a split-dollar life insurance arrangement was \$29,728 for Mr. Petrello for 2015. These amounts were reimbursed to the Company during 2015. The benefit as



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projected on an actuarial basis was a loss of \$202,806 before taking into account any reimbursements to the Company. We have used the economic-benefit method for purposes of disclosure in the Summary Compensation Table. Nabors suspended premium payments under these policies in 2002.

(b) Represents value of life insurance premiums for coverage in excess of \$50,000 for Messrs. Petrello and Restrepo.

(c) In 2014, we eliminated Mr. Petrello's automobile allowance in line with perquisite reductions across the Company.

(d) For 2015, the amount in this column for Mr. Petrello includes contributions to the Executive Plan of \$1,200,000 and unreimbursed incremental variable operating costs to the Company attributable to his personal use of corporate aircraft of \$93,736. For 2014, the amount in this column for Mr. Petrello includes contributions to the Executive Plan of \$1,200,000 and unreimbursed incremental variable operating costs to the Company attributable to his personal use of corporate aircraft of \$193,617. For 2013, the amount in this column for Mr. Petrello includes a one-time payment in the amount of \$45,000,000, of which \$27,000,000 was paid in our common shares, upon the termination of his previous employment agreement, as discussed in our 2014 proxy statement.

The amount in this column for Mr. Restrepo in 2015 includes contributions to the Executive Plan of \$400,000. The amount in this column for Mr. Andrews for each of 2015, 2014 and 2013 includes a housing allowance of \$49,846, \$48,000 and \$48,000, respectively, as well as reimbursement of Bermuda payroll taxes, company matching contributions to a Bermuda pension plan, and reimbursement of Bermuda health and social insurance premiums, none of which individually exceeds the greater of \$25,000 or 10% of the total amount of these benefits for Mr. Andrews.

As noted above, Messrs. Petrello and Restrepo each received special bonuses as a result of the Merger, as contemplated under their employment agreements for extraordinary transactions. Because inclusion of those bonuses in the Summary Compensation Table, as required by the rules and regulations of the SEC, makes both a peer group comparison and a year-over-year comparison for these executives difficult, we are providing the following summary table that presents their compensation excluding those extraordinary, one-time payments for purposes of allowing a comparison based upon normalized compensation:

<b>Anthony G. Petrello</b>	2015	1,580,077	8,988,652	0	1,602,000	150,663	1,342,206	13,663,598
<i>Chairman of the Board,</i>	2014	1,750,000	9,816,826	0	1,664,250	131,975	1,431,652	14,794,703
<i>President and CEO</i>	2013	1,700,000	18,686,961	0	1,479,000	32,460	1,347,766	23,246,187
<b>William J. Restrepo</b>	2015	587,000	1,662,239	0	806,000	6,182	422,418	3,483,839
<i>CFO</i>	2014	525,000	6,053,128	0	618,250	0	1,131	7,197,509

(1) For 2015, the amounts reflect the exclusion of the special bonus Messrs. Petrello and Restrepo received in connection with the Merger in the form of (a) for Mr. Petrello, shares valued at \$7.9 million as of the grant date and \$6.1 million in cash and (b) for Mr. Restrepo, shares valued at \$0.9 million as of the grant-date and \$1.0 million in cash.

(2) For 2013, the amounts reflect the exclusion of incentives Mr. Petrello received in consideration for the termination of his old employment agreement, in the form of a one-time stock grant valued at \$27.0 million, which vested immediately as of the grant date, and \$18.0 million in cash. The amounts include a one-time award of restricted shares valued at \$15.0 million and scheduled to vest through 2016 because it was intended to take the place of the annual long-term performance award contemplated under the new agreement, but for which no measurement criteria were in place for the preceding year.



Table of Contents**COMPARISON OF 2015 REALIZED PAY & REALIZABLE PAY TO REPORTED PAY**

The calculation of total compensation as reported in the 2015 Summary Compensation Table ("SCT") is based upon the rules and regulations of the SEC and includes compensation in the form of long-term equity incentives subject to a vesting period and/or future performance, not current cash compensation. Such compensation may not be realized at all or for many years, and the value of such compensation, if or when realized, may differ significantly from the amounts shown in the SCT. For example, total compensation reported in the SCT ("reported pay") includes the value of restricted share awards, which are subject to a three-year vesting period and are based on the grant-date value of our common shares. These values are included in the calculation of total compensation even though such awards do not vest until the end of a three-year period utilizing various methodologies and, in the case of TSR Shares, minimum performance criteria based upon the Company's performance relative to the Performance Peer Group must be met before any shares can vest. See " Compensation Discussion & Analysis 2015 Summary Compensation Table" and the accompanying footnotes for more information on how reported pay is calculated under the SEC's rules and regulations.

In 2013, 2014 and 2015, approximately 61%, 66% and 27%, respectively, of the CEO's compensation granted by the Compensation Committee and included as reported pay was in the form of long-term equity incentives. These incentives take two forms: those whose grant-date value is determined based on prior year's performance goals and vest over three years (Performance Shares) and those which do not vest until the expiration of a three-year period and, until such time, remain at risk of forfeiture depending on the Company's total shareholder return relative to its Performance Peer Group measured at the end of the applicable three-year period (TSR Shares). For example, in 2015, Mr. Petrello was awarded two-thirds of his maximum Performance Shares because he achieved two-thirds of his 2014 performance goals. Likewise, for the year ended 2015, one-half of Mr. Petrello's maximum TSR Shares vested because the TSR goal for the three-year period beginning January 1, 2013 was met at target. To supplement our SCT disclosure, the following table sets forth the "realized pay" and "realizable pay" of our CEO in the last three fiscal years.

**Realized Pay**

We calculate "realized pay" to include the following elements of compensation attributable to each year presented:

base salary, cash bonus and cash awards under the Incentive Plan (each as reported in the SCT);

the value of restricted share awards vested in the applicable year;

the value realized upon exercise of stock options; and

the value of all perquisites and other personal benefits, to the extent they were includible in the named executive officer's gross income or otherwise resulted in imputed income for tax purposes.

We calculate the realized pay value of our restricted share awards by multiplying (i) the total number of shares vested, including any shares withheld for tax purposes, by (ii) the closing share price of our common stock on the NYSE on the day preceding the vesting date.

The following table reflects the realized pay of our CEO for 2013, 2014 and 2015 compared to reported pay for the corresponding years.

2015	1,580,077	6,125,000	7,551,861	1,602,000	150,663	1,342,206	18,351,807	27,663,602	(33.7)
2014	1,750,000	0	6,984,286	1,664,250	131,975	1,431,652	11,962,163	14,794,703	(19.1)
2013	1,700,000	0	27,000,003	1,479,000	32,460	19,347,766	49,559,229	68,246,187	(27.4)

(1)

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Vested Restricted Share Awards are calculated using the value upon vesting in the applicable year.

(2)

Total Reported Pay reflects total compensation reported in the SCT pursuant to SEC rules.

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**Realizable Pay**

We calculate "realizable pay" to include the following elements of compensation attributable to each year presented:

base salary, cash bonus and cash awards under the Incentive Plan (each as reported in the SCT);

the value of long-term equity incentive awards granted in the applicable year that have vested or are expected to vest in the future (valued as of December 31, 2015; for 2014 and 2015, this includes TSR Awards expected to vest in 2017 and 2018 at target);

if stock options were granted in the applicable year, the intrinsic value of those options as of the end of the most recently completed fiscal year; and

the value of all perquisites and other personal benefits, to the extent they were includible in the named executive officer's gross income or otherwise resulted in imputed income for tax purposes.

We calculate realizable pay value with respect to our restricted share awards by multiplying (i) the total number of shares vested or expected to vest, including any shares withheld for tax purposes, by (ii) the closing price of our common shares on the NYSE on the date of valuation. No stock options were granted for the years 2013-2015.

The following table reflects the realizable pay of our CEO for 2013, 2014 and 2015 compared to reported pay for the corresponding years.

2015	1,580,077	6,125,000	1,858,465	7,729,846	1,602,000	150,663	1,342,206	20,388,257	27,663,602	(26.3)
2014	1,750,000	0	1,341,193	3,011,970	1,664,250	131,975	1,431,652	9,331,040	14,794,703	(36.9)
2013	1,700,000	0	1,505,989	21,622,506	1,479,000	32,460	19,347,766	45,687,721	68,246,187	(33.0)

(1) TSR Share Awards are calculated using the closing share price on December 31, 2015, of \$8.51, assuming vesting at target level.

(2) Performance Share Awards and Other Equity are calculated based on the closing share price on December 31, 2015. For 2015, amounts in this column include \$4,455,870, representing the value of restricted shares granted as part of the special bonus in connection with the Merger. For 2013, amounts in this column represent shares granted in connection with the termination of the CEO's old employment agreement and negotiation of his new employment agreement. All other amounts in this column represent the value of Performance Shares awarded during the relevant year.

Table of Contents**CEO Comparison of Realized Pay & Realizable Pay to Reported Pay**

The above tables reflect the significant disparity between reported pay and pay actually realized/realizable for the years indicated. In addition, our CEO's practice of holding stock options until maturity and selling shares infrequently has resulted in realized pay substantially different than reported pay for many years. Particularly in light of the recent significant industry downturn, this practice has resulted in significant losses to our CEO and strengthened even further the tie between executive pay and the Company's performance. For example, as reflected above in "Proxy Summary Management Ownership", our CEO currently holds 7,634,090 shares with an acquisition date value of \$204.3 million, granted over the past 25 years. Based on the closing price of our shares on the record date those shares are currently valued at \$71.7 million, a greater than 35% loss in value.

In addition, our CEO held a total of 6,033,487 of stock options during the reporting period, 3,583,334 of which expired by December 31, 2015, as reflected in the table below. These expired stock options represent a total forfeited value of \$80,300,259 based on the maximum share price attained during the applicable period post-vesting. Similarly, our CEO continues to hold 2,450,153 stock options, whose exercise prices and current values are shown in the table below. At the closing price of our shares on the record date, these stock options are worthless. Had our CEO exercised them at the maximum share price attained post-vesting, their value would have been \$47,967,358. Our CEO may or may not exercise these stock options prior to expiration depending on a variety of factors. This table demonstrates the direct impact our CEO's practice of holding shares for long periods of time has on pay alignment to Company performance.

**CEO Total Vested & Expired Stock Options**

2/20/2003	950,000	\$19.38	2/20/2013	\$28,875,250	\$0*
2/20/2004	950,000	\$22.96	2/20/2014	\$25,474,250	\$0*
2/24/2005	350,000	\$28.83	2/24/2015	\$7,330,750	\$0*
12/5/2005	1,333,334	\$35.81	12/5/2015	\$18,620,010	\$0*
2/25/2009	1,698,427	\$9.87	2/25/2019	\$37,688,095	\$0
9/30/2009	1,726	\$20.90	9/30/2019	\$19,262	\$0
8/22/2011	750,000	\$16.36	8/22/2021	\$10,260,000	\$0
	6,033,487			\$128,267,617	\$0

\*

Forfeited upon expiration



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## 2015 GRANTS OF PLAN-BASED AWARDS

The table below shows each grant of restricted share awards or stock options made to a named executive officer under any plan during the year ended December 31, 2015.

Anthony G. Petrello	1/1/2015	N/A	N/A	N/A	109,913	218,386	436,772	N/A	N/A	N/A	\$3,787,224
	2/20/2015	N/A	N/A	N/A	N/A	N/A	N/A	384,721	N/A	N/A	\$5,201,428
	4/24/2015	N/A	N/A	N/A	N/A	N/A	N/A	523,604	N/A	N/A	\$7,875,004
William J. Restrepo	1/1/15	N/A	N/A	N/A	27,038	54,077	108,153	N/A	N/A	N/A	\$937,756
	2/20/2015	N/A	N/A	N/A	N/A	N/A	N/A	53,586	N/A	N/A	\$724,483
	4/24/2015	N/A	N/A	N/A	N/A	N/A	N/A	58,178	N/A	N/A	\$874,997
Mark D. Andrews	2/20/15	N/A	N/A	N/A	N/A	N/A	N/A	5,547	N/A	N/A	\$75,000

(1) Pursuant to Messrs. Petrello and Restrepo's employment agreements, these TSR Shares are eligible to vest in 2018 based upon the Company's relative share performance.

(2) The Performance Shares earned by Messrs. Petrello and Restrepo in February 2015 pursuant to their respective employment agreements were based upon the achievement of certain objectives for the 2014 year. The shares earned by Messrs. Petrello and Restrepo in April 2015 were related to a special bonus. In February 2015 and April 2015, Mr. Petrello received 384,721 and 523,604 restricted shares, respectively. 153,888 shares, or 40%, of the February award were surrendered to satisfy the tax withholding on the restricted stock, with the remaining shares vesting in three (3) equal annual installments beginning on the first anniversary of the date of the award. In February 2015 and April 2015, Mr. Restrepo received 53,586 and 58,178 restricted shares, respectively, scheduled to vest ratably over a three-year period. In February 2015, Mr. Andrews received 5,547 restricted shares relating to 2014 performance, which are scheduled to vest ratably over a four-year period.

## 2015 OPTION EXERCISES AND SHARES VESTED

The following table shows stock options exercised by the named executive officers and restricted share awards vested during 2015.

Anthony G. Petrello	0	0	265,448	7,551,861
William J. Restrepo	0	0	32,240	444,191
Mark D. Andrews	0	0	2,676	35,590



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## 2015 OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END

The table below shows unexercised options, restricted share awards that have not vested, and equity incentive plan awards for each named executive officer outstanding as of December 31, 2015. The amounts reflected as market value are based on the closing price of our common shares of \$8.51 on December 31, 2015 as reported on the NYSE.

Anthony G. Petrello <sup>(1)</sup>	1,698,427	0	\$9.870	2/25/2019				
	1,726	0	\$20.900	9/30/2019				
	750,000	0	\$16.360	8/22/2021				
					302,480	2,574,105	N/A	N/A
					241,540	2,055,505	N/A	N/A
William J. Restrepo <sup>(2)</sup>					230,833	1,964,389	N/A	N/A
					523,604	4,455,870	N/A	N/A
					N/A	N/A	176,967	1,505,989
					N/A	N/A	157,602	1,341,193
					N/A	N/A	174,709	1,486,774
Mark D. Andrews <sup>(3)</sup>	3,397	0	\$9.870	2/25/2019	107,034	910,859	N/A	N/A
	2,746	0	\$9.180	3/10/2019	53,586	456,017	N/A	N/A
					58,178	495,095	N/A	N/A
					N/A	N/A	40,173	341,872
					N/A	N/A	43,262	368,160
					561	4,774	N/A	N/A
					1,987	16,909	N/A	N/A
					2,557	21,760	N/A	N/A
					5,547	47,205	N/A	N/A

(1)

Mr. Petrello's restricted shares are scheduled to vest as follows: 76,943 shares vested on 2/20/16; 120,769 shares vested on 2/21/16; 302,480 shares vested on 3/7/16; 174,536 shares vested on 4/24/16; 76,945 shares vest on 2/20/17; 120,771 shares vest on 2/21/17; 174,534 shares vest on 4/24/17; 76,945 shares vest on 2/20/18; and 174,534 shares vest on 4/24/18. Based upon the Company's TSR performance relative to our Performance Peer Group for Performance Shares granted in 2014, the number of shares that would vest is at target, and for Performance Shares granted in 2015, the number of shares that would vest exceeds the threshold, but is less than target. These shares are not scheduled to vest until after the performance cycle ending 12/31/16 and 12/31/17, respectively. On 2/21/16, 176,967 shares of the TSR Shares granted in 2013 vested following a determination by the Compensation Committee. The remaining 176,966 shares were forfeited.

(2)

Mr. Restrepo's restricted shares are scheduled to vest as follows: 17,863 shares vested on 2/20/16; 19,393 shares vested on 4/24/16; 53,516 shares vest on 12/31/16; 17,861 shares vest on 2/20/17; 19,392 shares vest on 4/24/17; 53,518 shares vest on 12/31/17; 17,862 shares vest on 2/20/18; and 19,393 shares vest on 4/24/18. Based upon the Company's TSR performance relative to our Performance Peer Group for Performance Shares granted in 2014, the number of shares that would vest is at target, and for Performance Shares granted in 2015, the number of shares that would vest exceeds the threshold, but is less than target. These shares are not scheduled to vest until after the performance cycle ending 12/31/16 and 12/31/17, respectively.

(3)

Mr. Andrews' restricted shares are scheduled to vest as follows: 1,386 shares vested on 2/20/16; 1,845 shares vested on 2/21/16; 561 shares vested on 2/24/16; 1,387 shares vest on 2/20/17; 1,846 shares vest on 2/21/17; 1,387 shares vest on 2/20/18; 853 shares vest on 2/21/18; and 1,387 shares vest on 2/20/19.

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Table of Contents**2015 NONQUALIFIED DEFERRED COMPENSATION****Deferred Compensation Plan**

Our Deferred Compensation Plan allows certain employees, including some of our named executive officers, to defer an unlimited portion of their base salary and annual performance bonus and, through 2015, to receive Company matching contributions in excess of contributions allowed under our 401(k) Plan because of IRS qualified plan limits. Individual account balances in the Deferred Compensation Plan are adjusted in accordance with deemed investment elections made by the participant using investment vehicles made available from time to time. Distributions from the Deferred Compensation Plan are generally made in the form of a lump-sum payment upon separation of service from the Company.

**Executive Plan**

Under our Executive Plan, we make deferred bonus contributions to accounts established for certain employees, including some of our named executive officers and other senior leaders, based upon their employment agreements, as applicable, or their performance during the year. Individual account balances in the Executive Plan are adjusted in accordance with deemed investment elections made by the participant either using investment vehicles made available from time to time or in a deemed investment fund that provides an annual interest rate on such amounts as established by the Compensation Committee from time to time. The interest rate for the deemed investment fund is currently set at 6%. Messrs. Petrello and Restrepo have elected to participate in this fund, as have some of our other senior management. Distributions from the Executive Plan are made in the form of lump-sum payments upon death, disability, termination without cause (as defined in the employment agreement), upon vesting or upon departure from the Company after vesting, which generally occurs three to five years after a contribution to the participant's account.

Both the Deferred Compensation Plan and Executive Plan are unfunded deferred-compensation arrangements. The table below shows aggregate earnings and balances for each of the named executive officers under these plans as of December 31, 2015.

Anthony G. Petrello	0	1,200,000	441,190	0	8,685,595
William J. Restrepo	0	400,000	18,220	0	418,220
Mark D. Andrews <sup>(5)</sup>	0	0	0	0	0

- (1) The amounts shown reflect contributions to the Deferred Compensation Plan.
- (2) The amounts shown reflect contributions to the Executive Plan. These amounts are included in the "All Other Compensation" column of the Summary Compensation Table above.
- (3) The amount shown reflects earnings in the Executive Plan. The portion of these amounts representing above-market earnings is reflected in the "Change in Pension Value and Nonqualified Deferred Compensation Earnings" column of the Summary Compensation Table above.
- (4) All amounts reflect balances in the Executive Plan. Mr. Andrews did not participate in either of our nonqualified deferred compensation plans in 2015.

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The following table reflects potential payments to executive officers on December 31, 2015 for termination upon a change in control, termination without cause or constructive termination without cause (as defined in the respective employment agreement). The amounts shown assume the termination was effective on December 31, 2015. In addition to the amounts set forth below, in the event of death, disability or termination without cause, Messrs. Petrello and Restrepo would each have the right to a distribution of his account balance under the Executive Plan, as described above under " Compensation Discussion and Analysis Retirement Benefits".

Anthony G. Petrello	9,912,099	0	0	18,299,646	0	0	0	28,211,745
William J. Restrepo	3,823,712	0	0	3,468,944	0	0	0	7,292,656
Mark D. Andrews	0	0	0	0	0	0	0	0

- (1) Pursuant to their employment agreements, Mr. Petrello and Mr. Restrepo would each have the right to receive within 30 days of a termination without cause or constructive termination without cause, including in connection with a change of control, 2.99x the average sum of his base salary and annual cash bonus during the three fiscal years preceding the termination.
- (2) Pursuant to their employment agreements, in the event of a termination without cause or constructive termination without cause, including in connection with a change of control, TSR Shares previously granted would be deemed earned at target, and, for Mr. Petrello only, Performance Shares for the year of termination would be deemed earned at maximum levels. In addition, earned Performance Shares would immediately vest.

**COMPANY PROPOSALS (ITEMS 3-4)****ITEM 3: APPROVAL OF COMPANY'S 2016 STOCK PLAN**

We are proposing the Company's 2016 Stock Plan (the "2016 Stock Plan") for your approval at the meeting. The 2016 Stock Plan is attached to this Proxy Statement as Appendix A. The Board of Directors believes it to be in the best interest of the Company to adopt the 2016 Stock Plan to promote our long-term growth and profitability by aligning the interests of our key employees with those of other shareholders and providing additional incentives to increase the long-term performance of the Company. We are seeking your approval so that we may use the 2016 Stock Plan to grant equity-based incentive awards, as well as to enhance our ability to grant awards that qualify for the performance-based exception to the federal income tax deduction limits that otherwise apply to us under Section 162(m) of the Code.

The Company's 2013 Employee Stock Plan (the "2013 Plan"), currently the only vehicle through which equity awards may be made to the Company's employees, has only 317,353 shares available for award as of April 8, 2016, and approximately 700 employees currently participate in the 2013 Plan. The depletion of the 2013 Plan has occurred more rapidly than anticipated due to the prolonged depressed market price of the Company's shares as a result of the continuing industry downturn. Providing competitive compensation packages, including equity-based incentive awards to our employees, is critical to our ability to recruit and retain key employees. Further, as part of the performance-based long-term incentive compensation provided to our CEO and CFO under their employment agreements, the Company is required to grant certain amounts of restricted stock to them on an annual basis, with vesting dependent upon the achievement of specified performance goals. Other grants are made depending upon satisfaction of additional performance goals. The grants must be made pursuant to a shareholder-approved equity

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compensation plan of the Company. Because of the unanticipated depletion of the 2013 Plan, we are seeking approval of the 2016 Stock Plan.

The 2016 Stock Plan is intended to encourage the key employees of the Company and its subsidiaries and affiliates to own our common shares and to provide additional incentive to those employees whose contributions are essential to the growth and success of the Company's business. The 2016 Stock Plan is designed to strengthen the commitment of plan participants to the Company, motivate them to faithfully and diligently perform their responsibilities and attract and retain competent and dedicated persons whose efforts will result in the long-term growth and profitability of the Company.

Our long-term goal is to limit the annual average dilution from our equity incentive plans to less than 3%. "Dilution" is measured as the total number of shares under all outstanding equity awards (i.e., share awards granted, less share award cancellations), as a percentage of the weighted average number of common shares outstanding for that year. Over the past three years, the average annual dilution was 0.38%, (0.79)% and (1.14)% (for 2013, 2014 and 2015, respectively).

The "burn rate" for the Company's active plans measures the number of shares under outstanding equity awards granted during the year (disregarding cancellations), as a percentage of the weighted average number of common shares outstanding for that year. Over the past three years, the burn rate was 1.67%, 0.68% and 1.30% (for 2013, 2014 and 2015, respectively). We believe that our three-year average burn rate is within the levels recommended by shareholder advisory groups for the Energy sector (Global Industry Classification Standard Code 10).

The "overhang rate" for the Company's active plans measures the total number of shares under all outstanding plan awards, plus the number of shares authorized for future plan awards, as a percentage of the common shares outstanding. Over the past three years, the overhang rate was 8.11%, 5.38% and 2.61% (for 2013, 2014 and 2015, respectively). Our overhang rate, although generally within the levels recommended by shareholder advisory groups, has traditionally been high as the result of our senior executives' tendency to hold their stock through industry cycles rather than liquidating profits, thus aligning their interests with those of other shareholders. For example, in 2013, 2014 and 2015, 950,000, 950,000 and 1,683,334 stock options that Mr. Petrello received in 2003, 2004 and 2005, respectively, were forfeited upon their expiration. Rather than exercise them at the peak of our stock's performance in 2008, when he would have realized over \$80 million in compensation, Mr. Petrello held them until their expiration. For that reason, we believe dilution is a better standard for evaluating our proposed plan. If this new 2016 Stock Plan is approved by the shareholders, our overhang rate would be 4.48%, based on the number of common shares outstanding as of April 8, 2016. This new plan would also result in a 2.36% increase in the "adjusted common shares outstanding," which is the sum of the total number of shares under all outstanding awards and authorized for future plan awards (i.e., the overhang amount), plus the total number of common shares outstanding.

**Plan Description**

The following is a brief description of the principal features of the 2016 Stock Plan. It does not purport to be complete and is qualified in its entirety by the full text of the 2016 Stock Plan, which is attached hereto as Appendix A.

**General.** We have reserved for issuance under the 2016 Stock Plan a maximum of 8,000,000 common shares. If an award granted under the 2016 Stock Plan expires or is terminated, the common shares underlying the award will again be available under the 2016 Stock Plan. In addition, to the extent common shares are used to exercise any award (as described below) or to satisfy tax withholding obligations under the 2016 Stock Plan, an equal number of shares will remain available for issuance under the 2016 Stock Plan.

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No individual, including directors, may be granted awards under the 2016 Stock Plan in any calendar year covering more than 3,000,000 shares. No more than 8,000,000 shares may be issued in the form of incentive stock options. In the event of any change in the Company's capitalization or in the event of a corporate transaction such as a merger, amalgamation, consolidation, separation or similar event, the 2016 Stock Plan provides for appropriate adjustments in the number and class of common shares available for issuance or grant and in the number and/or price of shares subject to awards.

**Types of Awards.** The following awards may be granted under the 2016 Stock Plan:

stock options, including incentive stock options and non-qualified stock options;

restricted stock;

restricted stock units;

stock appreciation rights; and

stock bonuses.

These awards are described in more detail below.

**Administration.** The 2016 Stock Plan will be administered by the Board of Directors or, in the discretion of the Board of Directors, a committee of the Board. The Board anticipates that the Compensation Committee will administer the 2016 Stock Plan. For convenience, the administrator of the 2016 Stock Plan will be referred to below as the Committee.

The Committee may, subject to the provisions of the 2016 Stock Plan, determine the persons to whom awards will be granted, the type of awards to be granted, the number of shares to be made subject to awards and the exercise price. The Committee may also condition the award on the attainment of certain goals, determine other terms and conditions that shall apply to awards, interpret the 2016 Stock Plan and prescribe, amend and rescind rules and regulations relating to the 2016 Stock Plan. The Committee may delegate to any of our employees (or a committee of employees) the authority to grant awards to our employees who are not our executive officers or directors. The terms and conditions of each award granted under the 2016 Stock Plan will be set forth in a written award agreement.

In the event that the Committee grants an award that is intended to constitute qualified performance-based compensation within the meaning Section 162(m) of the Code, the Committee in its discretion may condition payment under the award in whole or in part on the attainment of (or a specified increase or decrease in) one or more of the following business criteria as applied to an award recipient under the 2016 Stock Plan and/or a business unit of the Company or its subsidiaries or affiliates:

- (i) income before federal taxes and net interest expense;
- (ii) achievement of specific and measurable operational objectives in the areas of rig operating costs, accident records, downtime and employee turnover;
- (iii) completion of one or more specifically designated tasks identified as being important to the strategy or success of the Company;
- (iv) working capital, generally defined to include receivables;
- (v) inventories and controllable current liabilities, measured either in absolute dollars or relative to sales;
- (vi) earnings growth, revenues, expenses, stock price, net operating profit after taxes, market share, days sales outstanding, return on assets, equity, capital employed or investment, regulatory



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compliance, satisfactory internal or external audits, improvement of financial ratings, or achievement of balance sheet, income statement or cash flow objectives;

(vii)

earnings per share, operating income, gross income, cash flow, gross profit, gross profit return on investment, gross margin return on investment, gross margin, operating margin, earnings before interest and taxes, earnings before interest, tax, depreciation and amortization, return on equity, return on assets, return on capital, return on invested capital, net revenues, gross revenues, revenue growth, annual recurring revenues, recurring revenues, license revenues, sales or market share, total shareholder return, economic value added;

(viii)

the growth in the value of an investment in the common shares assuming the reinvestment of dividends; or

(ix)

reduction in operating expenses.

Payments under such awards will be made, in the case of employees covered under Section 162(m) of the Code, solely on account of the attainment of such performance goals established in writing by the Committee not later than the date on which 25% of the period of service to which the award relates has elapsed (or if earlier, 90 days after the beginning of the period).

**Eligibility.** Awards may be granted under the 2016 Stock Plan to employees, directors and consultants of the Company or its subsidiaries or affiliates, as selected by the Committee in its sole discretion.

Awards may be granted under the 2016 Stock Plan from time to time in substitution for awards held by employees, directors or service providers of other companies who are about to become employees of the Company or a subsidiary or affiliate as the result of a merger or consolidation or other corporate event involving the employing company, as the result of which it merges with or becomes a subsidiary or affiliate of the Company. The terms and conditions of the awards so granted may vary from the terms and conditions otherwise set forth in the 2016 Stock Plan as the Committee may deem appropriate to conform, in whole or in part, to the provisions of the awards in substitution for which they are made.

**Terms and Conditions of Options.** Stock options granted under the 2016 Stock Plan may be either "incentive stock options," as that term is defined in Section 422 of the Code, or non-qualified stock options (i.e., any option that is not such an incentive stock option). The exercise price of a stock option granted under the 2016 Stock Plan will be determined by the Committee at the time the option is granted, but the exercise price may not be less than the fair market value of the common shares (determined generally as the closing price per common share of the Company on the date of grant). Stock options are exercisable at the times and upon the conditions that the Committee may determine, as reflected in the applicable option agreement. The Committee will also determine the maximum duration of the period in which the option may be exercised, which may not exceed ten years from the date of grant.

The option exercise price must be paid in full at the time of exercise, and is payable (in the discretion of the Committee) by any one of the following methods or a combination thereof:

in cash or cash equivalents,

by the surrender of previously acquired common shares that have been held by the participant for at least six months prior to the date of surrender, or

to the extent permitted by applicable law, through a "cashless exercise" procedure acceptable to the Committee.

**Restricted Stock.** The 2016 Stock Plan provides for awards of common shares that are subject to restrictions on transferability and other restrictions that may be determined by the Committee in its



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discretion. Such restrictions will lapse on terms established by the Committee. Except as may be otherwise provided under the award agreement relating to the restricted stock, a participant granted restricted stock will have all the rights of a shareholder (for instance, the right to receive dividends on the shares of restricted stock, if any, and the right to vote the shares). The restricted period shall not be less than three years, but the restricted period can be shortened to one or more years if vesting of the restricted stock is conditioned upon the attainment of the performance goals identified above or other corporate or individual performance goals established by the Committee at the time of grant.

**Restricted Stock Units.** The 2016 Stock Plan provides for awards of restricted stock units which, upon vesting, entitle the participant to receive an amount in cash or common shares (as determined by the Committee and set forth in the applicable award agreement) equal to the fair market value of the number of shares made subject to the award. Vesting of all or a portion of a restricted stock unit award may be subject to terms and conditions established by the Committee. As with awards of restricted stock, the restricted period shall not be less than three years, but the restricted period can be shortened to one or more years if vesting of the restricted stock unit is conditioned upon the attainment of the performance goals identified above or other corporate or individual performance goals established by the Committee at the time of grant.

**Stock Appreciation Rights ("SARs").** The 2016 Stock Plan provides that the Committee, in its discretion, may award SARs, either in tandem with stock options or freestanding and unrelated to options. The grant price of a freestanding SAR will be not less than the fair market value of a common share (as described above). The grant price of tandem SARs will equal the exercise price of the related option. Tandem SARs may be exercised for all or part of the shares subject to the related option upon surrender of the right to exercise the equivalent portion of the related option. Freestanding SARs may be exercised upon whatever terms and conditions the Committee imposes. SARs will be payable in cash, common shares or a combination of both, as determined in the Committee's discretion and set forth in the applicable award agreement.

**Stock Bonuses.** The 2016 Stock Plan provides that the Committee, in its discretion, may award common shares to employees that are not subject to restrictions on transferability or otherwise, but only in lieu of salary or a cash bonus otherwise payable to the employee.

**Change in Control.** The Committee in its discretion may provide that, in the event of a change in control (as defined in an applicable award agreement), whether alone or in combination with other events, the vesting and exercise restrictions on any outstanding award that is not yet fully vested and exercisable will lapse in part or in full.

**Termination of Employment.** Unless otherwise determined by the Committee in an award agreement, upon a termination of a participant's employment or service other than for cause or resignation, a participant's vested options will expire upon the earlier of the option expiration date or the 90<sup>th</sup> day following the termination date. If a participant's employment or service is terminated for cause or resignation, all options, whether vested or unvested, will be forfeited and cancelled as of the termination date. In addition, if a participant's employment with the Company terminates, but the participant continues to serve as a member of the Board, such participant's options will expire upon the earlier of the option expiration date or the 90<sup>th</sup> day following the date the participant ceases to serve as a member of the Board.

**Amendment and Termination.** The Board of Directors may modify or terminate the 2016 Stock Plan or any portion of the 2016 Stock Plan at any time, except that an amendment that requires shareholder approval in order for the 2016 Stock Plan to continue to comply with any law, regulation or stock exchange requirement will not be effective unless approved by the requisite vote of our shareholders. In addition, any amendment shall be subject to approval of our shareholders if it materially increases the benefits

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accruing to participants under the 2016 Stock Plan, materially increases the number of shares that may be issued under the 2016 Stock Plan, or materially modifies the requirements for participation in the 2016 Stock Plan. Any amendment to the 2016 Stock Plan or an award agreement that accelerates the date on which an award is exercisable or payable or that reduces the exercise price of any outstanding option will also be subject to the approval of our shareholders. No awards may be granted under the 2016 Stock Plan after the day prior to the tenth anniversary of the date of its approval by the Company's shareholders, but awards granted prior to that time can continue after such time in accordance with their terms.

**2016 Stock Plan Benefits.** The terms and number of options or other awards to be granted in the future under the 2016 Stock Plan (if approved) are to be determined in the discretion of the Compensation Committee. Because no such determinations have been made (other than as provided in the table below), the benefits or amounts that will be received by or allocated to the Company's executive officers, directors or other eligible employees cannot be determined at this time, although the Company intends to make awards to such groups under the 2016 Stock Plan (if approved) consistent with its existing compensation practices. During 2015, shares of restricted stock were granted under the 2013 Plan to the Company's named executive officers as set forth in the table captioned "2015 Grants of Plan-Based Awards". As a group, the Company's executive officers received 1,570,561 shares of restricted stock. Options were granted to all of the Company's other officers and employees as a group under the 2013 Plan to purchase 68,000 common shares at a weighted-average exercise price of \$14.45 per share, and 1,869,472 shares of restricted stock were granted to all of the Company's other officers and employees as a group. The Company's non-employee directors were granted 90,000 shares of restricted stock as a group under the 2013 Plan for their service during 2015. As of April 8, 2016 the closing price on the NYSE of a common share was \$9.39 per share.

**2016 Stock Plan Benefits Table**

Anthony G. Petrello	7,000,000	1,083,591 <sup>(1)</sup>
<i>Chairman of the Board, President &amp; CEO</i>		
William J. Restrepo	1,300,000	201,238 <sup>(2)</sup>
<i>CFO</i>		

- (1) Because Mr. Petrello achieved all of his 2015 performance criteria, the Compensation Committee approved a Performance Share award that vests over a three-year period, valued at 2x target, or \$7 million. Accordingly, the Compensation Committee agreed to grant Mr. Petrello 1,083,591 shares, determined on February 19, 2016, based upon the average daily closing price of our shares on each of the preceding 20 business days.
- (2) Because Mr. Restrepo achieved all of his 2015 performance criteria, the Compensation Committee approved a Performance Share award for Mr. Restrepo that vests over a three-year period, valued at 2x target, or \$1.3 million. Accordingly, the Compensation Committee agreed to grant Mr. Restrepo 201,238 shares, determined on February 19, 2016, based upon the average daily closing price of our shares on each of the preceding 20 business days.

**Current Awards Outstanding**

Set forth below is information regarding shares currently outstanding under the 2013 Plan, the 2003 Employee Stock Plan ("2003 Plan") and the 1999 Stock Option Plan for Non-Employee Directors ("1999 Plan"). The Company made its annual award grant to employees in March 2016, and those awards are included in the data below.

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Selected Data as of April 8, 2016:

Stock options outstanding	271,178	68,000	4,925,922
Weighted average exercise price	\$14.48	\$14.45	\$12.36
Weighted average remaining contractual life	8.10 years	9.15 years	3.67 years
Restricted stock outstanding (unvested)	0	5,363,919	383,268
Shares remaining for grant	1,284,822	317,353 <sup>(1)</sup>	0

(1)

Any remaining shares under the 2013 Plan will be available for grant until June 4, 2023. We do not anticipate making any material grants between April 8, 2016 and June 7, 2016.

For additional information regarding share-based awards previously granted, please see Note 7 to the Company's consolidated financial statements in our 2015 Annual Report.

## **Securities Authorized For Issuance Under Equity Compensation Plans**

The following tables provide information about our equity compensation plans (1999 Plan, 2003 Plan and 2013 Plan) as of December 31, 2015 and as of the record date, respectively:

### **As of December 31, 2015**

Equity compensation plans approved by security holders	5,058,523	\$12.35	2,026,110
Equity compensation plans not approved by security holders	239,297	\$15.19	1,316,703 <sup>(1)</sup>
Total	5,297,820		3,342,813

(1)

Includes shares listed above as available for grant under the 1999 Plan.

### **As of April 8, 2016**

Equity compensation plans approved by security holders	4,993,922	\$12.39	317,353
Equity compensation plans not approved by security holders	271,178	\$14.48	1,284,822 <sup>(1)</sup>
Total	5,265,100		1,602,175

(1)

Includes shares listed above as available for grant under the 1999 Plan.

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**Certain Federal Income Tax Consequences of Options and Other Awards**

The following is a brief summary of the current United States federal income tax consequences of awards under the 2016 Stock Plan to participants who are subject to United States tax. This summary is not intended to be complete and does not describe state, local or foreign tax consequences, or the effect of the alternative minimum tax, and is not intended to be tax guidance to participants in the 2016 Stock Plan.

**Stock Options.** An optionee will generally not recognize taxable income upon receipt of a nonqualified stock option to purchase common shares. Upon exercise of the option, the optionee will generally recognize ordinary income for federal income tax purposes equal to the excess of the fair market value of the common shares over the exercise price. The tax basis of the common shares in the hands of the optionee will equal the exercise price paid for common shares plus the amount of ordinary compensation income the optionee recognizes upon exercise of the option, and the holding period for the common shares for capital gains purposes will commence on the day the option is exercised. An optionee who sells any of the common shares will recognize short-term or long-term capital gain or loss measured by the difference between the tax basis of the common shares and the amount realized on the sale. The Company will be entitled to a federal income tax deduction equal to the amount of ordinary compensation income recognized by the optionee. The deduction will be allowed at the same time the optionee recognizes the income.

An optionee will generally not recognize income upon the grant of an incentive stock option to purchase common shares and will generally not recognize income upon exercise of the option, provided that the optionee is an employee of Company at all times from the date of grant and exercises such options within 90 days of a termination of employment. If an optionee who has exercised an incentive stock option sells the common shares acquired upon exercise more than two years after the grant date and more than one year after exercise, capital gain or loss will be recognized equal to the difference between the sales price and the exercise price. An optionee who sells the common shares before the expiration of the foregoing holding periods will generally recognize ordinary income upon the sale in an amount equal to the difference between the sales price and the exercise price, and the Company will be entitled to a corresponding federal income tax deduction at the same time the participant recognizes ordinary income.

**Other Awards.** The current United States federal income tax consequences of other awards authorized under the 2016 Stock Plan are generally in accordance with the following: (i) stock appreciation rights are generally subject to ordinary income tax at the time of exercise or settlement; (ii) restricted stock is generally subject to ordinary income tax at the time the restrictions lapse, unless the recipient elects to accelerate recognition as of the date of grant; (iii) restricted stock units and performance awards are generally subject to ordinary income tax at the time of settlement, and (iv) unrestricted stock awards are generally subject to ordinary income tax at the time of grant. In each of the foregoing cases, the Company will generally be entitled to a corresponding federal income tax deduction at the same time the participant recognizes ordinary income.

**Section 162(m).** Section 162(m) of the Code generally disallows the corporate tax deduction for certain compensation paid in excess of \$1,000,000 annually to each of the chief executive officer and the other four most highly paid executive officers of publicly held companies. Awards that qualify as "performance-based compensation" are exempt from Section 162(m), thus allowing us the full federal tax deduction otherwise permitted for such compensation

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**ITEM 4: ADVISORY VOTE ON COMPENSATION OF NAMED EXECUTIVE OFFICERS**

As described in detail under "Executive Compensation Compensation Discussion and Analysis," we seek to attract, retain and motivate leaders who understand the complexities of our business and can deliver positive business results for the benefit of our shareholders. We have structured our compensation program to accomplish this purpose. Our executive compensation philosophy is to provide our executives with appropriate and competitive individual pay opportunities with actual pay outcomes that reward superior corporate and individual performance. The ultimate goal of our program is to increase shareholder value by providing executives with appropriate incentives to achieve our long-term business objectives. To that end, we provide a program of cash and equity-based awards designed to reward executives for superior performance, as measured by both financial and nonfinancial factors. We use equity-based awards to align executives' interests with those of other shareholders.

Shareholders are invited to vote to approve, on a nonbinding, advisory basis, the compensation of our named executive officers as disclosed in this Proxy Statement in accordance with the SEC's compensation disclosure rules. Because Say-on-Pay votes do not reveal shareholders' specific concerns, following last year's vote, our Lead Director, other directors and certain members of management engaged in dialogue with several of our significant shareholders regarding the reasons for their vote. The principal concerns communicated to the Board and our responses were as follows:

**Composition of Peer Group**

Engaged in comprehensive review of peer groups with our new compensation consultant.

Eliminated exploration and production companies from our peer group.

Added more competitors to our peer group.

Added/retained large oilfield services companies with whom we compete for talent and enhanced disclosure in this Proxy Statement of the reasons for their inclusion.

Decreased median size (based on enterprise value) and CEO compensation of the companies in our peer groups.

Retained completion and production services companies in view of our sizable equity investment in C&J Energy Services Ltd. and its impact on our financial statements.

**Rationale for Dual Peer Group  
Unclear**

Reverted to single peer group beginning in 2016.

**Limited Transparency  
Regarding Performance  
Metrics For Prior Year**

Provided more detailed disclosure on 2015 executive performance goals in this Proxy Statement, together with greater visibility to targets and thresholds.

Clarified link between performance goals and Company's long-term strategy in this Proxy Statement.

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Messrs. Petrello and Restrepo's compensation is governed by the terms of their respective employment agreements. Each agreement sets a base salary, then subjects a significant portion of annual compensation both short- and long-term incentives to specific financial and operational objectives tied to our corporate strategy. Over 80% of Mr. Petrello's target compensation and 75% of Mr. Restrepo's target compensation is performance-based.

The Board believes that this compensation structure has created a direct alignment between Messrs. Petrello's and Restrepo's compensation and both the performance of the Company and long-term

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shareholder value creation. For example, Mr. Petrello's annual performance bonus for 2015 was tied directly to the short-term financial metric of the Company's 2015 adjusted EBITDA goals. The Company's 2015 adjusted EBITDA exceeded the threshold amount, but was only 91.5% of target performance. Accordingly, Mr. Petrello earned an annual performance bonus of 91.5% of the target amount, or \$1.602 million, a 4% decrease from his corresponding bonus in 2014 based on the same performance metric. Mr. Restrepo's annual performance bonus for 2015 was tied directly to adjusted EBITDA (weighted at 70%) and SG&A (weighted at 30%). The Company's SG&A was \$323.2 million, after deducting \$9.3 million in unplanned severance costs and \$6.3 million of SG&A resulting from the consolidation of the interest previously held by our partner in our Saudi Arabia joint venture. Accordingly, Mr. Restrepo earned an annual performance bonus of \$806,000, comprised of \$416,000 representing the adjusted EBITDA portion and \$390,000 representing the SG&A portion. In addition, Messrs. Petrello and Restrepo each received a special bonus, as contemplated under their employment agreements for extraordinary transactions, as a result of the Merger. Those bonuses were in line with similar bonuses paid to C&J Energy executives at the time and approved overwhelmingly by C&J Energy shareholders. This value-creating transaction for the Completion & Production Services business was developed in direct response to shareholder feedback and as a result of the Board's comprehensive strategic review process aimed at unlocking long-term shareholder value and improving our core operational performance.

Messrs. Petrello's and Restrepo's Performance Share award for 2015, on the other hand, was tied to the achievement of strategic objectives designed to promote long-term growth, as more specifically detailed under "Executive Compensation Compensation Discussion and Analysis Components of Executive Compensation Long-Term Equity Incentives" above. The Compensation Committee chose these criteria to incentivize continued focus on our core businesses, strengthening of our financial position and enhancing our market position in what is widely viewed as our core market. More specifically, several criteria were aimed at optimizing the Company's organizational and financial structure following the divestiture of our non-core businesses and in light of the prolonged industry downturn. Messrs. Petrello's and Restrepo's Performance Share goals for 2015 were achieved at 200% of their respective targets. As a result, in February 2016, it was determined that Messrs. Petrello and Restrepo would be awarded Performance Share awards valued at 2x target, or \$7 million and \$1.3 million, respectively. Those shares are expected to be issued from the 2016 Stock Plan upon its approval. The Board believes that accomplishment of those long-term goals has already begun to translate into enhanced shareholder value.

For purposes of the Summary Compensation Table above under "Executive Compensation", the full grant date value of all equity granted during the applicable year is included, even if the realization of such value is subject to the attainment of performance goals. As discussed above under "Executive Compensation Comparison of 2015 Realized Pay & Realizable Pay to Reported Pay", this reporting method can lead to the overstatement of actual compensation received. For example, \$3.8 million (or 13.7%) of Mr. Petrello's reported compensation for 2015 remains subject to our three-year relative share performance. Similarly, \$900,000 (or 16.7%) of Mr. Restrepo's reported compensation is subject to the same contingency. Although the maximum potential TSR Share award is reported, they receive that amount of equity in 2018 only if our shares perform in the top quintile of our Performance Peer Group over the three-year measurement period. By way of reference, the first tranche of TSR Shares (granted in 2013) vested at target. As of the end of 2015, the Company also ranked at the target level (8 or 9) with respect to the TSR Shares granted in 2014 (with a TSR of (41.733%)) and ranked below target with respect to the TSR Shares granted in 2015 (with a TSR of (28.352%)) relative to the Performance Peer Group. Those rankings at the end of the relevant measurement periods would result in vesting of 50% and 40% of the TSR Shares granted in 2014 and 2015, respectively.

The vote on this resolution is not intended to address any specific element of compensation, but to advise the Board (including the Compensation Committee) on shareholders' views of our overall executive compensation as described herein. While the vote on executive compensation is nonbinding, the Board and



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the Compensation Committee will review the voting results and give consideration to the outcome. We ask our shareholders to vote on the following resolution at the meeting:

"RESOLVED, that the Company's shareholders approve, on an advisory basis, the compensation of the named executive officers, as disclosed in the Company's Proxy Statement for the 2016 Annual General Meeting of Shareholders pursuant to the SEC's compensation disclosure rules, including the Compensation Discussion and Analysis, the 2015 Summary Compensation Table and the other related tables and narrative disclosure."

Because the vote on this proposal is advisory in nature, it will not affect any compensation already paid or awarded to any named executive officer and will not be binding on or overrule any decisions of the Company, the Board or the Compensation Committee; nor will it change the fiduciary duties of the Company, the Board or the Compensation Committee. The Board has decided that the Company will hold an advisory Say-on-Pay vote each year in connection with its annual general meeting, until the next vote on the frequency of shareholder votes on the compensation of executives or until the Board otherwise determines that a different frequency for such advisory votes is in the best interests of the shareholders. The next required advisory vote on the frequency of the Say-on-Pay vote will occur no later than 2017.

## SHAREHOLDER PROPOSAL (ITEM 5)

### ITEM 5: SHAREHOLDER PROPOSAL TO ADOPT A PROXY ACCESS BYE-LAW

The following shareholder proposal has been submitted to the Company for action by the New York City Employees' Retirement System, The New York City Fire Department Pension Fund, The New York City Teachers' Retirement System, the New York City Police Pension Fund, and the New York City Board of Education Retirement System, along with an additional co-sponsor, the beneficial owners of more than \$2,000 in market value of the Company's stock, One Centre Street, 8th Floor North, New York, NY 10007-2341. Further information about the sponsors of this proposal will be provided upon request. The vote on this proposal is advisory and non-binding. **Our Board recommends that you vote "Against" this Proposal.** The text of the proposal follows:

**RESOLVED:** Shareholders of Nabors Industries Ltd. (the "Company") ask the board of directors (the "Board") to take the steps necessary to adopt a "proxy access" bylaw. Such a bylaw shall require the Company to include in proxy materials prepared for a shareholder meeting at which directors are to be elected the name, Disclosure and Statement (as defined herein) of any person nominated for election to the board by a shareholder or group (the "Nominator") that meets the criteria established below. The Company shall allow shareholders to vote on such nominee on the Company's proxy card.

The number of shareholder-nominated candidates appearing in proxy materials shall not exceed one quarter of the directors then serving. This bylaw, which shall supplement existing rights under Company bylaws, should provide that a Nominator must:

(a) have beneficially owned 3% or more of the Company's outstanding common stock continuously for at least three years before submitting the nomination;

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(b) give the Company, within the time period identified in its bylaws, written notice of the information required by the bylaws and any Securities and Exchange Commission rules about (i) the nominee, including consent to being named in the proxy materials and to serving as director if elected; and (ii) the Nominator, including proof it owns the required shares (the "Disclosure"); and

(c) certify that (i) it will assume liability stemming from any legal or regulatory violation arising out of the Nominator's communications with the Company shareholders, including the Disclosure and Statement; (ii) it will comply with all applicable laws and regulations if it uses soliciting material other than the Company's proxy materials; and (iii) to the best of its knowledge, the required shares were acquired in the ordinary course of business and not to change or influence control at the Company.

The Nominator may submit with the Disclosure a statement not exceeding 500 words in support of each nominee (the "Statement"). The Board shall adopt procedures for promptly resolving disputes over whether notice of a nomination was timely, whether the Disclosure and Statement satisfy the bylaw and applicable federal regulations, and the priority to be given to multiple nominations exceeding the one-quarter limit.

**Supporting Statement**

We believe proxy access is a fundamental shareholder right that will make directors more accountable and enhance shareholder value. The case for greater accountability at Nabors is compelling: the Board has repeatedly awarded excessive CEO compensation despite poor performance and been unresponsive to shareholder concerns.

Significantly, this proposal received the majority of votes cast in 2012, 2013, 2014 and 2015. Rather than adopt the requested bylaw, the Board instead adopted a far more limited and restrictive proxy access "policy."

The proposed terms are similar to those in vacated SEC Rule 14a-11 ( <https://www.sec.gov/rules/final/2010/33-9136.pdf>). The SEC determined that those terms struck the proper balance of providing shareholders with a viable proxy access right while containing appropriate safeguards.

Similar bylaws have been adopted by more than 100 companies through December 2015.

We urge shareholders to vote FOR this proposal.

**BOARD'S STATEMENT AGAINST SHAREHOLDER PROPOSAL IN ITEM 5**

**OUR BOARD RECOMMENDS THAT YOU VOTE "AGAINST" THIS PROPOSAL.** The Board believes that this proposal is not in the best interest of shareholders and opposes it for the following reasons.

At the 2013 annual general meeting of shareholders, an identical proposal failed to garner shareholder support with only 46.7% of shareholders voting in favor of the proposal. Nevertheless, in response to that proposal and following extensive dialogue with one of the prior proponents of the proxy access proposal, the Governance and Nominating Committee adopted a revised "Policy Regarding Director Candidates Recommended by Shareholders" that provides for proxy access (as previously defined, our "Proxy Access Policy"), one of the first public companies to do so at the time, and committed to consider in 2017 reducing the share ownership threshold required to nominate a director. An identical shareholder proposal failed again at the 2014 annual general meeting of shareholders, but gained a majority of shareholder support at the 2015 annual general meeting of shareholders. In light of the results of the 2015 meeting, the Governance and Nominating Committee reviewed the ownership threshold earlier than originally planned, as further discussed below.

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While nearly ten percent of S&P 500® companies provide proxy access, we are one of only *six* companies in the Russell 3000® Index (0.2%) to provide any type of proxy access, the majority of which provide proxy access on the same basis as adopted by our Board. Our Proxy Access Policy, which is available on our website, provides that a single shareholder may nominate a single director candidate for inclusion in the Company's proxy materials if the shareholder has continuously owned 5% or more of the Company's outstanding common shares for at least three years commencing on or after June 3, 2014 and meets certain procedural requirements. Our policy requires continuous 5% ownership for three years and tracks the proposal in all respects, except for the threshold of share ownership required to obtain proxy access and the unlimited aggregation of shares permitted to reach the threshold. In its review, the Governance and Nominating Committee considered lowering the ownership threshold and allowing multiple shareholders to aggregate shares, both in the context of prevailing practices of other Russell 3000® companies and discussions with our shareholders. The Committee and the Board determined that the Company has a proxy access policy equivalent to proxy access provided by the majority of its peers included in the Russell 3000® index, or more specifically two-thirds of Russell 3000® companies with proxy access. Accordingly, the Governance and Nominating Committee concluded that the Company's existing Proxy Access Policy is appropriate.

The reason for the differences between S&P 500® and Russell 3000® companies seems clear market capitalization. At the time of the Board's review in late 2015, the 46 companies in the S&P 500® with proxy access had an average market capitalization of \$65.2 billion, with the two lowest at \$8 billion and \$4.6 billion. At a three-percent threshold, the average investment required for proxy access would be nearly \$2 billion, with the two lowest at \$240 million and \$138 million. By definition, the market capitalization of Russell 3000® companies is significantly lower. The six companies with proxy access had an average market capitalization of \$5.72 billion, with the lowest at \$299 million. Comparing three-percent and five-percent thresholds, the average investment required for proxy access at these six Russell 3000® companies would be just over \$170 million and \$285 million, respectively, both below all but the lowest in the S&P 500®. At the Company's market capitalization on the record date of \$2.64 billion, a three-percent threshold would require ownership of only \$79.2 million to allow proxy access, whereas a five-percent threshold requires ownership of \$132 million. The Company's current threshold of five percent still provides proxy access at a level below even the lowest in the S&P 500®.

It is worth noting that, in adopting the 5% ownership threshold in 2014, the Board balanced strong shareholder interest in proxy access with the transparency and accountability that comes from setting the threshold equivalent to the SEC's threshold for public disclosure of ownership. This threshold still provides to long-term shareholders the meaningful voice in director elections that the proponent advocates. The U.S. Chamber of Commerce supports this very company-specific approach saying, "we believe any company that chooses to formulate a proxy access bylaw should do so only after giving due regard to the individual composition and unique needs of its own shareholder base, and to tailor such a bylaw accordingly. We reject the 'one-size-fits-all' approach to corporate governance that the [proponent's] proposal embodies." In fact, the California State Teachers' Retirement System, one of the 2012 co-proponents, has commented that the Company's carefully-tailored policy provides "significant benefits to Nabors shareholders. After many productive conversations with Nabors and particularly Messrs. Petrello and Yearwood regarding proxy access and other issues, we commend the positive progress the company has made in strengthening its corporate governance principles on the issues of most interest to shareholders."

The Board also considered the fact that shareholders have other effective means of influencing the director nomination process. In fact, two of the seven directors nominated for election at the meeting were originally appointed at the suggestion of our then-largest shareholder. The Governance and Nominating Committee, which is comprised entirely of independent directors and has the responsibility to identify and nominate qualified director candidates to serve on our Board, has in place a procedure for individuals to recommend director candidates, which is described above under "Corporate Governance Key

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Governance Topics Shareholder Nominations and Proxy Access Policy." This procedure gives shareholders an opportunity