

UNICO AMERICAN CORP  
Form 10-Q  
November 15, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended **September 30, 2018** or

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

For the transition period from \_\_\_\_ to \_\_\_\_.

Commission File No. 000-03978

**UNICO AMERICAN CORPORATION**

*(Exact Name of Registrant as Specified in Its Charter)*

**Nevada** **95-2583928**  
(State or other jurisdiction of incorporation or organization) (IRS Employer Identification No.)

**26050 Mureau Road, Calabasas, California** **91302**  
(Address of Principal Executive Offices) (Zip Code)

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

**No Change**

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company  Emerging growth company

(Do not check if a smaller reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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

<u>Class</u>	<u>Outstanding at November 15, 2018</u>
Common Stock, no par value per share	5,307,103

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**UNICO AMERICAN CORPORATION**

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## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Form 10-Q, and the documents incorporated by reference in this document, our press releases and oral statements made from time to time by us or on our behalf, may contain “forward-looking statements” within the meaning of the federal securities laws, including Section 27A of the Securities Act of 1933, as amended (or “the Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (or “the Exchange Act”). In this context, forward-looking statements are not historical facts and include statements about our plans, objectives, beliefs and expectations. Forward-looking statements include statements preceded by, followed by, or that include the words “believes,” “expects,” “anticipates,” “seeks,” “plans,” “estimates,” “intends,” “projects,” “targets,” “should,” “could,” “may,” “have,” “likely,” the negatives thereof or similar words and expressions. These forward-looking statements are contained throughout this Form 10-Q, including, but not limited to, statements found in Part I – Item 2 – “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Forward-looking statements are only predictions and are not guarantees of future performance. These statements are based on current expectations and assumptions involving judgments about, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. These predictions are also affected by known and unknown risks, uncertainties and other factors that may cause our actual results to be materially different from those expressed or implied by any forward-looking statement. Many of these factors are beyond our ability to control or predict. Our actual results could differ materially from the results contemplated by these forward-looking statements due to a number of factors. Such factors include, but are not limited to, the following:

- failure to meet minimum capital and surplus requirements;
- vulnerability to significant catastrophic property loss;
- a change in accounting standards issued by the Financial Accounting Standards Board;
- ability to adjust claims accurately;
- insufficiency of loss and loss adjustment expense reserves to cover future losses;
- changes in federal or state tax laws;
- ability to realize deferred tax assets;
- ability to accurately underwrite risks and charge adequate premium;
- ability to obtain reinsurance or collect from reinsurers and or losses in excess of reinsurance limits;
- extensive regulation and legislative changes;
- reliance on subsidiaries to satisfy obligations;
- downgrade in financial strength rating by A.M. Best;
- changes in interest rates;
- investments subject to credit, prepayment and other risks;
- geographic concentration;
- reliance on independent insurance agents and brokers;
- insufficient reserve for doubtful accounts;
- litigation;
- enforceability of exclusions and limitations in policies;
- reliance on information technology systems;
- single operating location;

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- ability to prevent or detect acts of fraud with disclosure controls and procedures;
  - change in general economic conditions;
  - dependence on key personnel;
- ability to attract, develop and retain employees and maintain appropriate staffing levels;
- insolvency, financial difficulties, or default in performance of obligations by parties with significant contracts or relationships;
  - ability to effectively compete;
- maximization of long-term value and no focus on short-term earnings expectations;
  - control by a small number of shareholders;
  - limited trading of stock;
- failure to maintain effective system of internal controls; and
- difficulty in effecting a change of control or sale of any subsidiaries.

Please see Part I - Item 1A – “Risk Factors” in the Company’s 2017 Annual Report on Form 10-K as filed with the U.S. Securities and Exchange Commission (“SEC”), as well as other documents we file with the SEC from time-to-time, for other important factors that could cause our actual results to differ materially from our current expectations and from the forward-looking statements discussed herein. Because of these and other risks, uncertainties and assumptions, you should not place undue reliance on these forward-looking statements. In addition, these statements speak only as of the date of this Form 10-Q and, except as may be required by law, we undertake no obligation to revise or update publicly any forward-looking statements for any reason.

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

## UNICO AMERICAN CORPORATION

## AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30 2018 (Unaudited)	December 31 2017
<b>ASSETS</b>		
Investments		
Available-for-sale:		
Fixed maturities, at fair value (amortized cost: \$74,869,321 at September 30, 2018, and \$58,153,120 at December 31, 2017)	\$72,856,107	\$57,849,454
Held-to-maturity:		
Fixed maturities, at amortized cost (fair value: \$14,864,000 at September 30, 2018, and \$28,098,000 at December 31, 2017)	14,864,000	28,098,000
Short-term investments, at fair value	200,000	1,847,778
Total Investments	87,920,107	87,795,232
Cash, cash equivalents, and restricted cash	4,412,669	9,366,944
Accrued investment income	468,198	490,579
Receivables, net	4,152,861	6,005,764
Reinsurance recoverable:		
Paid losses and loss adjustment expenses	151,691	126,682
Unpaid losses and loss adjustment expenses	8,291,385	8,393,550
Deferred policy acquisition costs	3,603,930	4,162,771
Property and equipment, net	9,693,555	10,014,869
Deferred income taxes	4,384,772	3,380,806
Other assets	512,738	561,561
Total Assets	\$123,591,906	\$130,298,758
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Unpaid losses and loss adjustment expenses	\$49,240,342	\$49,076,991

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Unearned premiums	16,157,775	18,768,264
Advance premium and premium deposits	367,253	207,808
Accrued expenses and other liabilities	1,932,838	2,300,358
Total Liabilities	\$67,698,208	\$70,353,421
Commitments and contingencies		
STOCKHOLDERS' EQUITY		
Common stock, no par value – authorized 10,000,000 shares; 5,307,103 and 5,307,133 shares issued and outstanding at September 30, 2018, and at December 31, 2017, respectively	\$3,772,857	\$3,772,872
Accumulated other comprehensive loss	(1,590,439 )	(239,896 )
Retained earnings	53,711,280	56,412,361
Total Stockholders' Equity	\$55,893,698	\$59,945,337
Total Liabilities and Stockholders' Equity	\$123,591,906	\$130,298,758

See notes to condensed consolidated financial statements (unaudited).



## UNICO AMERICAN CORPORATION

## AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	Three Months Ended September 30		Nine Months Ended <u>September 30</u>	
	2018	2017	<u>2018</u>	<u>2017</u>
<b>REVENUES</b>				
Insurance company operation:				
Net earned premium	\$6,924,444	\$8,168,252	\$21,969,016	\$24,309,101
Investment income	487,538	309,405	1,384,748	785,579
Net realized investments gains	11	373	148	528
Other income	125,958	108,169	293,847	243,642
Total Insurance Company Operation	7,537,951	8,586,199	23,647,759	25,338,850
Other insurance operations:				
Gross commissions and fees	578,485	685,288	1,856,592	2,097,916
Investment income	21	87	216	206
Finance charges and fees earned	44,575	21,814	97,051	58,155
Other income	2	1	9,759	65
Total Revenues	8,161,034	9,293,389	25,611,377	27,495,192
<b>EXPENSES</b>				
Losses and loss adjustment expenses	5,638,620	9,917,896	18,369,580	24,351,751
Policy acquisition costs	1,375,222	1,854,212	4,512,203	4,943,350
Salaries and employee benefits	1,142,827	1,221,182	3,557,408	4,534,550
Commissions to agents/brokers	43,381	39,737	125,262	126,620
Other operating expenses	773,125	695,587	2,383,965	2,592,318
Total Expenses	8,973,175	13,728,614	28,948,418	36,548,589
Loss before taxes	(812,141 )	(4,435,225 )	(3,337,041 )	(9,053,397 )
Income tax benefit	150,216	1,507,976	636,161	3,104,390
Net Loss	\$(661,925 )	\$(2,927,249 )	\$(2,700,880 )	\$(5,949,007 )

## PER SHARE DATA:

## Basic

Loss per share	\$(0.12 )	\$(0.55 )	\$(0.51 )	\$(1.12 )
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Weighted average shares	5,307,113	5,307,133	5,307,126	5,307,133
Diluted				
Loss per share	\$(0.12 )	\$(0.55 )	\$(0.51 )	\$(1.12 )
Weighted average shares	5,307,113	5,307,133	5,307,126	5,307,133

See notes to condensed consolidated financial statements (unaudited).

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## UNICO AMERICAN CORPORATION

## AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(UNAUDITED)

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Net loss	\$(661,925)	\$(2,927,249)	\$(2,700,880)	\$(5,949,007)
Other changes in comprehensive loss:				
Changes in net unrealized losses on securities classified as available-for-sale arising during the period	(267,259)	(6,208)	(1,709,400)	(22,009)
Income tax benefit related to changes in unrealized losses on securities classified as available-for-sale arising during the period	56,124	2,111	358,974	7,482
Net realized investments gains	(11)	(373)	(148)	(528)
Income tax expense related to net realized investment gains	2	127	31	180
Comprehensive Loss	\$(873,069)	\$(2,931,592)	\$(4,051,423)	\$(5,963,882)

See notes to condensed consolidated financial statements (unaudited).

## UNICO AMERICAN CORPORATION

## AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Nine Months Ended September 30	
	2018	2017
Cash flows from operating activities:		
Net loss	\$(2,700,880 )	\$(5,949,007 )
Adjustments to reconcile net loss to net cash from operations:		
Depreciation and amortization	417,261	386,250
Bond amortization, net	160,724	(533,123 )
Bad debt expense	384	15,534
Non-cash stock based compensation	—	11,552
Realized investment gains	(148 )	(528 )
Changes in assets and liabilities:		
Net receivables and accrued investment income	1,874,900	(304,116 )
Reinsurance recoverable	77,156	(3,801,282 )
Deferred policy acquisition costs	558,841	201,467
Other assets	51,589	478,374
Unpaid losses and loss adjustment expenses	163,351	6,010,728
Unearned premiums	(2,610,489 )	97,396
Advance premium and premium deposits	159,445	206,055
Accrued expenses and other liabilities	(367,520 )	(505,559 )
Income taxes current/deferred	(647,727 )	(3,108,695 )
Net Cash Used by Operating Activities	(2,863,113 )	(6,794,954 )
Cash flows from investing activities:		
Purchase of fixed maturity investments	(21,034,427)	(44,321,953)
Proceeds from maturity of fixed maturity investments	16,121,354	39,354,000
Proceeds from sale or call of fixed maturity investments	1,270,296	1,594,097
Net decrease (increase) in short-term investments	1,647,778	(2,274,664 )
Additions to property and equipment	(95,947 )	(221,281 )
Net Cash Used by Investing Activities	(2,090,946 )	(5,869,801 )
Cash flows from financing activities:		
Repurchase of common stock	(216 )	—
Net Cash Used by Financing Activities	(216 )	—
	&n	