UNICO AMERICAN CORP
Form 10-Q
May 13, 2011

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended **March 31, 2011** or

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

Commission File No. **0-3978**

UNICO AMERICAN CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Nevada	**95-2583928**
(State or Other Jurisdiction of	*(I.R.S. Employee*
Incorporation or Organization)	*Identification No.)*

23251 Mulholland Drive, Woodland Hills, California 91364

(Address of Principal Executive Offices) (Zip Code)

(818) 591-9800

(Registrant's Telephone Number, Including Area Code)

No Change

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No __

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes__ No__

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

Large accelerated filer __ Accelerated filer __

Non-accelerated filer __ Smaller reporting company X

(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 X

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 May 13, 2011
Common Stock, $0 par value per share	5,334,283

PART 1 - FINANCIAL INFORMATION

ITEM 1 – FINANCIAL STATEMENTS

UNICO AMERICAN CORPORATION

AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	March 31 2011 (Unaudited)	December 31 2010
ASSETS		
Investments		
Available for sale:		
Fixed maturities, at fair value (amortized cost: March 31, 2011 - $122,414,283; December 31, 2010 - $123,301,280)	$125,231,141	$126,711,982
Short-term investments, at cost	5,902,740	6,465,649
Total Investments	131,133,881	133,177,631
Cash	30,675	45,210
Accrued investment income	626,210	690,718
Premiums and notes receivable, net	5,117,253	4,364,393
Reinsurance recoverable:		
Paid losses and loss adjustment expenses	87,691	48,877
Unpaid losses and loss adjustment expenses	10,790,886	11,816,314
Deferred policy acquisition costs	4,322,339	4,300,927
Property and equipment (net of accumulated depreciation)	1,688,757	1,630,574
Deferred income taxes	998,198	1,059,557
Other assets	506,667	540,519
Total Assets	$155,302,557	$157,674,720
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Unpaid losses and loss adjustment expenses	$58,077,968	$61,559,695
Unearned premiums	15,968,996	15,929,948
Advance premium and premium deposits	1,177,150	829,746
Income taxes payable	240,937	1,175
Accrued expenses and other liabilities	5,761,277	6,000,340
Total Liabilities	$81,226,328	$84,320,904

Commitments and contingencies

STOCKHOLDERS' EQUITY		
Common stock, no par – authorized 10,000,000 shares; issued and outstanding shares 5,334,283 at March 31, 2011, and 5,333,081 at December 31, 2010	$3,554,976	$3,554,973
Accumulated other comprehensive income	1,859,126	2,251,063
Retained earnings	68,662,127	67,547,780
Total Stockholders' Equity	$74,076,229	$73,353,816
Total Liabilities and Stockholders' Equity	$155,302,557	$157,674,720

See notes to unaudited consolidated financial statements.

UNICO AMERICAN CORPORATION

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	Three Months Ended March 31	
	2011	2010
REVENUES		
Insurance Company Revenues		
Premium earned	$7,959,539	$9,389,158
Premium ceded	1,323,401	1,946,931
Net premium earned	6,636,138	7,442,227
Investment income	772,362	938,258
Other income	170,346	180,126
Total Insurance Company Revenues	7,578,846	8,560,611
Other Revenues from Insurance Operations		
Gross commissions and fees	1,003,889	1,249,138
Investment income	1,035	1,060
Finance charges and fees earned	20,508	85,782
Other income	3,567	1,222
Total Revenues	8,607,845	9,897,813
EXPENSES		
Losses and loss adjustment expenses	3,387,067	5,308,149
Policy acquisition costs	1,773,160	1,886,826
Salaries and employee benefits	1,012,445	888,989
Commissions to agents/brokers	54,167	191,978
Other operating expenses	654,832	857,440
Total Expenses	6,881,671	9,133,382
Income Before Taxes	1,726,174	764,431
Income Tax Expense	611,827	265,238
Net Income	$1,114,347	$499,193

PER SHARE DATA

Basic		
Earnings Per Share	$0.21	$0.09
Weighted Average Shares	5,334,213	5,306,204
Diluted		
Earnings Per Share	$0.21	$0.09
Weighted Average Shares	5,358,106	5,349,923

See notes to unaudited consolidated financial statements.

UNICO AMERICAN CORPORATION

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

	Three Months Ended March 31	
	2011	2010
Net Income	$1,114,347	$499,193
Other changes in comprehensive income, net of tax:		
Unrealized (losses) on securities classified as available-for-sale arising during the period	(391,937)	(133,799)
Comprehensive Income	$722,410	$365,394

See notes to unaudited consolidated financial statements.

UNICO AMERICAN CORPORATION

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	For the Three Months Ended March 31	
	2011	2010
Cash flows from operating activities:		
Net Income	$1,114,347	$499,193
Adjustments to reconcile net income to net cash from operations		
Depreciation	13,548	30,607
Bond amortization, net	39,998	10,965
Other	—	12,332
Changes in assets and liabilities		
Premium, notes and investment income receivable	(688,352)	(109,773)
Reinsurance recoverable	986,614	838,922
Deferred policy acquisition costs	(21,412)	108,943
Other assets	32,260	(64,531)
Unpaid losses and loss adjustment expenses	(3,481,727)	(2,048,004)
Unearned premium	39,048	(920,199)
Advance premium and premium deposits	347,404	330,458
Accrued expenses and other liabilities	(239,063)	333,031
Income taxes current/deferred	504,621	266,996
Net Cash (Used) by Operating Activities	(1,352,714)	(711,060)
Cash flows from investing activities		
Purchase of fixed maturity investments	(350,000)	(1,297,000)
Proceeds from maturity of fixed maturity investments	1,196,998	8,500,000
Net decrease (increase) in short-term investments	562,909	(6,602,836)
Additions to property and equipment	(71,731)	—
Net Cash Provided by Investing Activities	1,338,176	600,164
Cash flows from financing activities		
Proceeds from issuance of common stock	3	—
Net Cash Provided by Financing Activities	3	—
Net decrease in cash	(14,535)	(110,896)

Cash at beginning of period	45,210	118,512
Cash at End of Period	$30,675	$7,616
Supplemental cash flow information		
Cash paid during the period for:		
Interest	—	—
Income taxes	$108,800	—

See notes to unaudited consolidated financial statements.

UNICO AMERICAN CORPORATION

AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Unico American Corporation is an insurance holding company that underwrites property and casualty insurance through its subsidiary Crusader Insurance Company (Crusader); provides property, casualty, and health insurance through its agency subsidiaries; and provides insurance premium financing and membership association services through its other subsidiaries. Unico American Corporation is referred to herein as the "Company" or "Unico" and such references include both the corporation and its subsidiaries, all of which are wholly owned, unless otherwise indicated. Unico was incorporated under the laws of Nevada in 1969.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Unico American Corporation and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2011, are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. Quarterly financial statements should be read in conjunction with the consolidated financial statements and related notes in the Company’s 2010 Annual Report on Form 10-K as filed with the Securities and Exchange Commission.

Reclassifications

Certain reclassifications have been made to prior year balances to conform to current year presentations.

Use of Estimates in the Preparation of the Financial Statements

The preparation of financial statements in conformity with GAAP requires the Company to make estimates and assumptions that affect its reported amounts of assets and liabilities and its disclosure of any contingent assets and liabilities at the date of its financial statements, as well as its reported amounts of revenues and expenses during the reporting period. The most significant assumptions in the preparation of these consolidated financial statements relate to losses and loss adjustment expenses. While every effort is made to ensure the integrity of such estimates, actual results may differ.

Fair Value of Financial Instruments

The Company employs a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). Financial assets and financial liabilities recorded on the consolidated balance sheets at fair value are categorized based on the reliability of inputs to the valuation techniques. (See Note 7.)

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

- Fixed Maturities:

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

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

- Cash and short-term investments - The carrying amounts reported at cost in the balance sheet approximate their fair values given the short-term nature of these instruments.
- Premiums and notes receivable - The carrying amounts reported at cost in the balance sheet approximate their fair values given the short-term nature of these instruments.

NOTE 2 - REPURCHASE OF COMMON STOCK – EFFECTS ON STOCKHOLDERS' EQUITY

On December 19, 2008, the Board of Directors authorized a stock repurchase program to acquire from time to time up to an aggregate of 500,000 shares of the Company's common stock. This program has no expiration date and may be terminated by the Board of Directors at any time. As of March 31, 2011, the Company had remaining authority under the 2008 program to repurchase up to an aggregate of 247,356 shares of its common stock. The 2008 program is the only program under which there is authority to repurchase shares of the Company's common stock. The Company has retired all stock repurchased.

NOTE 3 - EARNINGS PER SHARE

The following table represents the reconciliation of the numerators and denominators of the Company's basic earnings per share and diluted earnings per share computations reported on the Consolidated Statements of Operations for the three months ended March 31, 2011 and 2010:

	Three Months Ended	
	March 31	
	2011	2010
Basic Earnings Per Share		
Net income numerator	$1,114,347	$499,193
Weighted average shares outstanding denominator	5,334,213	5,306,204
Basic earnings per share	$0.21	$0.09
Diluted Earnings per Share		
Net income numerator	$1,114,347	$499,193
Weighted average shares outstanding	5,334,213	5,306,204
Effect of dilutive securities	23,893	43,719
Diluted shares outstanding denominator	5,358,106	5,349,923
Diluted earnings per share	$0.21	$0.09

NOTE 4 – RECENTLY ISSUED ACCOUNTING STANDARDS

Accounting Guidance Adopted

In January 2010, the FASB issued a new standard related to fair value measurements and disclosures, which amends the earlier FASB standard to provide the Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which became effective for the interim reporting period ended March 31, 2011. The Company adopted the new standard, and the adoption of the new standard did not have a material impact on the Company's consolidated financial statements.

Accounting Guidance Not Yet Adopted

In October 2010, the FASB issued ASU 2010-26, "Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts" (ASC 944). The new standard modifies the types of policy acquisition costs that can be capitalized and are eligible for deferral. Specifically, the new guidance limits deferrable costs to those that are incremental direct costs of contract acquisition and certain costs related to acquisition activities performed by the insurer, such as underwriting, policy issuance and processing, inspection costs and broker commissions. The ASU defines incremental direct costs as those costs that result directly from and were essential to the contract acquisition and would not have been incurred absent the acquisition. Accordingly, under the new guidance, deferrable acquisition costs are limited to costs related to successful contract acquisitions. Acquisition costs that are not eligible for deferral are to be charged to expense in the period incurred. The new guidance is effective for interim periods and annual fiscal years beginning after December 15, 2011, and may be applied prospectively or retrospectively. The Company is currently in the process of evaluating the impact of the new standard on the Company's consolidated financial statements.

NOTE 5 – ACCOUNTING FOR INCOME TAXES

The Company and its wholly owned subsidiaries file consolidated federal and state income tax returns. Pursuant to the tax allocation agreement, Crusader Insurance Company and American Acceptance Corporation are allocated taxes or tax credits in the case of losses, at current corporate rates based on their own taxable income or loss. The Company files income tax returns under U.S. federal and various state jurisdictions. The Company is subject to examination by U.S. federal income tax authorities for tax returns filed starting at taxable year 2007 and California state income tax authorities for tax returns filed starting at taxable year 2006. The Company has been notified that its U.S. federal income tax return for the 2009 tax year has been selected for examination.

ASC 740 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. Since adoption of ASC 740 and as of March 31, 2011, the Company had no unrecognized tax benefits and no additional liabilities or reduction in deferred tax asset. In addition, the Company had not incurred interest and penalties related to unrecognized tax benefits. However, if interest and penalties would need to be accrued related to unrecognized tax benefits, such amounts would be recognized as a component of federal income tax expense.

NOTE 6 – SEGMENT REPORTING

ASC 280 establishes standards for the way information about operating segments are reported in financial statements. The Company has identified its insurance company operation as its primary reporting segment. Revenues from this segment comprised 88% of consolidated revenues for the three months ended March 31, 2011, compared to 86% of consolidated revenues for the three months ended March 31, 2010. The Company's remaining operations constitute a variety of specialty insurance services, each with unique characteristics and individually insignificant to consolidated revenues.

Revenues, income before income taxes, and assets by segment are as follows:

	Three Months Ended March 31 2011	2010
Revenues		
Insurance company operation	$7,578,846	$8,560,611
Other insurance operations	3,222,420	3,659,299
Intersegment eliminations (1)	(2,193,421)	(2,322,097)
Total other insurance operations	1,028,999	1,337,202
Total revenues	$8,607,845	$9,897,813
Income Before Income Taxes		
Insurance company operation	$2,133,259	$1,231,813
Other insurance operations	(407,085)	(467,382)
Total income before income taxes	$1,726,174	$764,431

	As of March 31 2011	December 31 2010
Assets		
Insurance company operation	$138,758,663	$140,555,882
Intersegment eliminations (2)	(970,280)	(600,113)

Total insurance company operation	137,788,383	139,955,769
Other insurance operations	17,514,174	17,718,951
Total assets	$155,302,557	$157,674,720

(1) Intersegment revenue eliminations reflect commission paid by Crusader to Unifax Insurance Systems, Inc., (Unifax) a wholly owned subsidiary of the Unico.

(2) Intersegment asset eliminations reflect the elimination of Crusader receivables and Unifax payables.

NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS

In determining the fair value of its financial instruments, the Company employs a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). Financial assets and financial liabilities recorded on the consolidated balance sheets at fair value are categorized based on the reliability of inputs to the valuation techniques as follows:

Level 1 - Financial assets and financial liabilities whose values are based on unadjusted quoted prices in active markets for identical assets.

Level 2 - Financial assets and financial liabilities whose values are based on quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in non-active markets; or valuation models whose inputs are observable, directly or indirectly, for substantially the full term of the asset or liability.

Level 3 - Financial assets and financial liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect the Company's estimates of the assumptions that market participants would use in valuing the financial assets and financial liabilities.

The hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entir