UNICO AMERICAN CORP
Form 10-Q
May 15, 2017

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, 2017** 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 Incorporation or Organization)	*(I.R.S. Employee Identification No.)*

26050 Mureau Road, Calabasas, California 91302

(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 X 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 Emerging growth 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 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 15, 2017
Common Stock, $0 par value per share	5,307,133

PART 1 - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

UNICO AMERICAN CORPORATION

AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31 2017 (Unaudited)	December 31 2016
ASSETS		
Investments		
Available-for-sale:		
Fixed maturities, at fair value (amortized cost: $68,236,670 at March 31, 2017, and $80,371,842 at December 31, 2016)	$68,240,425	$80,383,925
Short-term investments, at fair value	21,802,697	10,204,603
Total Investments	90,043,122	90,588,528
Cash and restricted cash	13,602,118	13,496,379
Accrued investment income	211,770	185,916
Receivables, net	6,260,931	6,008,083
Reinsurance recoverable:		
Paid losses and loss adjustment expenses	157,791	260,744
Unpaid losses and loss adjustment expenses	9,885,632	9,520,970
Deferred policy acquisition costs	4,420,746	4,432,299
Property and equipment, net	10,186,014	10,282,532
Deferred income taxes	1,173,686	1,177,346
Other assets	3,018,315	2,269,408
Total Assets	$138,960,125	$138,222,205
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Unpaid losses and loss adjustment expenses	$49,890,049	$47,055,787
Unearned premiums	19,397,282	19,374,740
Advance premium and premium deposits	393,380	224,055
Accrued expenses and other liabilities	2,519,749	2,660,983

Total Liabilities	$72,200,460	$69,315,565
Commitments and contingencies		
STOCKHOLDERS' EQUITY		
Common stock, no par – authorized 10,000,000 shares; issued and outstanding shares 5,307,133 at March 31, 2017, and December 31, 2016	$3,767,096	$3,761,320
Accumulated other comprehensive income	2,478	7,975
Retained earnings	62,990,091	65,137,345
Total Stockholders' Equity	$66,759,665	$68,906,640
Total Liabilities and Stockholders' Equity	$138,960,125	$138,222,205

See notes to condensed consolidated financial statements (unaudited).

UNICO AMERICAN CORPORATION

AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	Three Months Ended March 31	
	2017	2016
REVENUES		
Insurance company operation:		
Net earned premium	$7,920,699	$7,572,415
Investment income	212,186	212,000
Net realized investments losses	—	(1,278)
Other income	68,212	67,594
Total Insurance Company Operation	8,201,097	7,850,731
Other insurance operations:		
Gross commissions and fees	741,175	657,245
Investment income	49	91
Finance fees earned	18,161	16,609
Other income	15	5,002
Total Revenues	8,960,497	8,529,678
EXPENSES		
Losses and loss adjustment expenses	8,525,181	5,085,494
Policy acquisition costs	1,497,634	1,699,660
Salaries and employee benefits	1,348,643	1,381,584
Commissions to agents/brokers	41,889	40,419
Other operating expenses	814,499	592,547
Total Expenses	12,227,846	8,799,704
Loss before taxes	(3,267,349)	(270,026)
Income tax benefit	1,120,097	71,039
Net Loss	$(2,147,252)	$(198,987)
PER SHARE DATA:		
Basic		
Loss Per Share	$(0.40)	$(0.04)

Weighted Average Shares	5,307,133	5,309,377
Diluted		
Loss Per Share	$(0.40)	$(0.04)
Weighted Average Shares	5,307,133	5,309,377

See notes to condensed consolidated financial statements (unaudited).

UNICO AMERICAN CORPORATION

AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(UNAUDITED)

	Three Months Ended March 31	
	2017	2016
Net loss	$(2,147,252)	$(198,987)
Other changes in comprehensive loss:		
Changes in unrealized (losses) and gains on securities classified as available-for-sale arising during the period	(8,328)	92,837
Income tax benefit and (expense) related to changes in unrealized (losses) and gains on securities classified as available-for-sale arising during the period	2,832	(31,564)
Comprehensive Losses	$(2,152,748)	$(137,714)

See notes to condensed consolidated financial statements (unaudited).

UNICO AMERICAN CORPORATION

AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Three Months Ended March 31	
	2017	2016
Cash flows from operating activities:		
Net loss	$(2,147,252)	$(198,987)
Adjustments to reconcile net loss to net cash from operations:		
Depreciation and amortization	132,269	115,283
Bond amortization, net	(2,828)	(4,284)
Bad debt expense	13,352	39
Non-cash stock based compensation	5,776	5,776
Changes in assets and liabilities:		
Net receivables and accrued investment income	(292,054)	(276,402)
Reinsurance recoverable	(261,709)	(871,392)
Deferred policy acquisition costs	11,553	(87,944)
Other assets	375,717	538,725
Unpaid losses and loss adjustment expenses	2,834,262	917,713
Unearned premiums	22,542	134,489
Advance premium and premium deposits	169,325	281,492
Accrued expenses and other liabilities	(141,236)	206,124
Income taxes current/deferred	(1,118,132)	(68,840)
Net Cash Provided (Used) by Operating Activities	(398,415)	691,792
Cash flows from investing activities:		
Purchase of fixed maturity investments	(100,000)	(200,000)
Proceeds from maturity of fixed maturity investments	12,238,000	1,046,000
Net decrease (increase) in short-term investments	(11,598,094)	4,351,412
Additions to property and equipment	(35,752)	(351,777)
Net Cash Provided by Investing Activities	504,154	4,845,635
Cash flows from financing activities:		
Repurchase of common stock	—	(89,582)
Net Cash Used by Financing Activities	—	(89,582)
Net increase in cash and restricted cash	105,739	5,447,845
Cash and restricted cash at beginning of period	13,496,379	8,258,673

Cash and Restricted Cash at End of Period	$13,602,118	$13,706,518
Supplemental cash flow information		
Cash paid during the period for:		
Interest	—	—
Income taxes	—	—

See notes to condensed consolidated financial statements (unaudited).

UNICO AMERICAN CORPORATION

AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

MARCH 31, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

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

Principles of Consolidation

The accompanying condensed 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 condensed 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 Rule 8-03 of Regulation S-X for smaller reporting companies. Accordingly, the financial statements 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, 2017, are not necessarily indicative of the results that may be expected for the year ending December 31, 2017. Quarterly financial statements should be read in conjunction with the consolidated financial statements and related notes in the Company’s 2016 Annual Report on Form 10-K as filed with the Securities and Exchange Commission. Certain reclassifications have been made to prior period amounts to conform to current quarter presentation.

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 condensed 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 for 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 Condensed Consolidated Balance Sheets at fair value are categorized based on the reliability of inputs for the valuation techniques. (See Note 8.)

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

- Fixed maturities:

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

2. Long-term certificates of deposit – The carrying amounts reported in the Condensed Consolidated Balance Sheets for these instruments approximate their fair values.

- Cash and short-term investments – The carrying amounts reported in the Condensed Consolidated Balance Sheets approximate their fair values given the short- term nature of these instruments.

- Receivables, net – The carrying amounts reported in the Condensed Consolidated Balance Sheets approximate their fair values given the short-term nature of these instruments.

- Accrued expenses and other liabilities – The carrying amounts reported in the Condensed Consolidated Balance Sheets approximate the fair values given the short-term nature of these instruments.

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

On December 19, 2008, the Board of Directors authorized a stock repurchase program to acquire from time to time up to an aggregate of 500,000 shares of the Company's common stock. This program has no expiration date and may be terminated by the Board of Directors at any time. As of March 31, 2017, and December 31, 2016, the Company had remaining authority under the 2008 program to repurchase up to an aggregate of 188,655 shares of its common stock. The 2008 program is the only program under which there is authority to repurchase shares of the Company's common stock. The Company did not repurchase any stock during the three months ended March 31, 2017. The Company repurchased 8,812 shares of stock during the three months ended March 31, 2016, in unsolicited transactions at a cost of $89,582 of which $4,331 was allocated to capital and $85,251 was allocated to retained earnings. The Company has or will retire all stock repurchased.

NOTE 3 – LOSS PER SHARE

The following table represents the reconciliation of the Company's basic loss per share and diluted loss per share computations reported on the Condensed Consolidated Statements of Operations for the three months ended March 31, 2017 and 2016:

	Three Months Ended March 31	
	2017	2016
Basic Loss Per Share		
Net loss	$(2,147,252)	$(198,987)
Weighted average shares outstanding	5,307,133	5,309,377
Basic loss per share	$(0.40)	$(0.04)
Diluted Loss per Share		
Net loss	$(2,147,252)	$(198,987)
Weighted average shares outstanding	5,307,133	5,309,377
Diluted shares outstanding	5,307,133	5,309,377
Diluted loss per share	$(0.40)	$(0.04)

Basic earnings per share exclude the impact of common share equivalents and are based upon the weighted average common shares outstanding. Diluted earnings per share utilize the average market price per share when applying the treasury stock method in determining common share dilution. When outstanding stock options are dilutive, they are treated as common share equivalents for purposes of computing diluted earnings per share and represent the difference between basic and diluted weighted average shares outstanding. In loss periods, stock options are excluded from the calculation of diluted loss per share, as the inclusion of stock options would have an anti-dilutive effect.

NOTE 4 – RECENTLY ISSUED ACCOUNTING STANDARDS

During the three months ended March 31, 2017, the Financial Accounting Standards Board (“FASB”) has not issued any accounting standards that are expected to have a material impact on the Company’s condensed consolidated financial statements.

In June 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-13 “Measurement of Credit Losses on Financial Instruments.” ASU 2016-13 replaces the current incurred loss methodology for recognizing credit losses with a current expected credit loss model, which requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. ASU 2016-13 also requires enhanced disclosures for better understanding of significant estimates and judgments used in estimating credit losses. The Company is currently evaluating the effect ASU 2016-13 will have on the Company's consolidated financial statements, but expects the primary changes to be (i) the use of the expected credit loss model for its premium receivables and reinsurance recoverables and (ii) the presentation of credit losses within the available-for-sale fixed maturities portfolio through an allowance method rather than as a direct write-down. ASU 2016-13 will become effective for fiscal years beginning after December 31, 2019, but provides for an early adoption for fiscal years beginning after December 31, 2018. The Company has not determined when it will adopt ASU 2016-13.

In February 2016, the FASB issued ASU 2016-02 “Leases.” This ASU requires lessees to recognize on the balance sheet the assets and liabilities for the rights and obligations created by all leases, including those historically accounted for as operating leases. The Company is currently evaluating the effect ASU 2016-02 will have on the Company's consolidated financial statements. The guidance is effective for interim and annual periods beginning after December 31, 2018, and will be applied under a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18 “Statement of Cash Flows: Restricted Cash.” The ASU requires that a statement of cash flows explain the change during the period of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statements of cash flows. The Company early adopted this ASU as of December 31, 2016, and the ASU was applied using a retrospective approach for each period presented. Upon adoption of this ASU, the Company's consolidated statements of cash flows included restricted cash in the beginning-of-period and end-of-period total amounts for cash and restricted cash. The ASU did not have a material impact on the Company’s consolidated financial statements, but the ASU required additional disclosures in “Note 10 – Cash and Restricted Cash” to these condensed consolidated financial statements.

In May 2015, the FASB issued ASU 2015-09 “Disclosures About Short-Duration Contracts.” The objective of this ASU is to increase transparency about significant estimates in unpaid losses and loss adjustment expenses and provide additional information about amount, timing and uncertainty of cash flows related to unpaid losses and loss adjustment expenses. ASU 2015-09 also requires entities to disclose information about significant changes in methodologies and assumptions used to calculate the liability for loss and loss expense reserves, including reasons for the change and the effects on the financial statements. ASU 2015-09 also requires entities to disclose a roll forward of the liability of loss and loss expense reserves for annual and interim reporting periods. The effective date of ASU 2015-09 is for annual reporting periods beginning after December 15, 2015, and interim reporting periods beginning after December 15, 2016. The Company adopted this ASU as of December 31, 2016. The ASU did not have a material impact on the Company’s consolidated financial statements, but the ASU required additional disclosures in “Note 11 – Unpaid Losses and Loss Adjustment Expenses” to these condensed 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 a tax allocation agreement, the Company’s subsidiaries, Crusader Insurance Company (“Crusader”) and American Acceptance Corporation (“AAC”), 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 2013 and California state income tax authorities for tax returns filed starting at taxable year 2012. There are no ongoing examinations of income tax returns by federal or state tax authorities.

As of March 31, 2017, and December 31, 2016, the Company had no unrecognized tax benefits or liabilities and, therefore, had not accrued interest and penalties related to unrecognized tax benefits or liabilities. However, if interest and penalties would need to be accrued related to unrecognized tax benefits or liabilities, such amounts would be recognized as a component of federal income tax expense.

As a California based insurance company, Crusader is obligated to pay a premium tax on gross premiums written in all states that Crusader is admitted. Premium taxes are deferred and amortized as the related premiums are earned. The premium tax is in lieu of state franchise taxes and is not included in the provision for state taxes.

NOTE 6 – PROPERTY AND EQUIPMENT, NET

Property and equipment consist of the following:

	March 31 2017	December 31 2016
Building and leasehold improvements located in Calabasas, California	$8,345,740	$8,339,807
Furniture, fixtures, and equipment	2,683,288	2,673,670
Computer software	189,377	169,177
Accumulated depreciation and amortization	(2,819,876)	(2,687,607)
Land located in Calabasas, California	1,787,485	1,787,485
Property and equipment, net	$10,186,014	$10,282,532

Depreciation on the Calabasas building, owned by Crusader, is computed using the straight line method over 39 years. Depreciation on furniture, fixtures, and equipment in the Calabasas building is computed using the straight line method over 3 to 15 years. Amortization of leasehold improvements in the Calabasas building is being computed using the shorter of the useful life of the leasehold improvements or the remaining years of the lease. Depreciation and amortization expense on all property and equipment for the three months ended March 31, 2017 and 2016, was $132,269 and $115,283, respectively.

For the three months ended March 31, 2017 and 2016, the Calabasas building has generated rental revenue from non-affiliated tenants in the amount of $57,745 and $59,406 which is included in "Other income" from insurance company operation in the Company's Condensed Consolidated Statements of Operations.

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For the three months ended March 31, 2017 and 2016, the Calabasas building incurred operating expenses (including depreciation) in the amount of $166,974 and $171,877 which are included in "Other operating expenses" in the Company's Condensed Consolidated Statements of Operations.

The total square footage of the Calabasas building is 46,884, including common areas. As of March 31, 2017, 10,292 square feet of the Calabasas building was leased to non-affiliated entities and 4,189 square feet was vacant and available to be leased to non-affiliated entities.

The Company capitalizes certain computer software costs purchased from outside vendors for internal use. These costs also include configuration and customization activities, coding, testing and installation. Training costs and maintenance are expensed as incurred, while upgrade and enhancements are capitalized if it is probable that such expenditure will result in additional functionality. The capitalized costs are not depreciated until the software is placed into production. The Company's software related to the Company's new general ledger system was placed into production in the current period, and, thus the Company began depreciating the software.

NOTE 7 – SEGMENT REPORTING

ASC Topic 280, "Segment Reporting," establishes standards for the way information about operating segments is reported in financial statements. The Company has identified its insurance company operation as its primary reporting segment. Revenues from this segment comprised 92% of consolidated revenues for the three months ended March 31, 2017 and 2016. The Company's remaining operations constitute a variety of specialty insurance services, each with unique characteristics and individually insignificant to consolidated revenues.

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

	Three Months Ended March 31	
	2017	2016
Revenues		
Insurance company operation	$8,201,097	$7,850,731
Other insurance operations	3,389,455	3,198,146
Intersegment eliminations (1)	(2,630,055)	(2,519,199)
Total other insurance operations	759,400	678,947
Total revenues	$8,960,497	$8,529,678
Income (Loss) before Income Taxes		
Insurance company operation	$(3,063,919)	$253,754
Other insurance operations	(203,430)	(523,780)
Total loss before income taxes	$(3,267,349)	$(270,026)

	As of	
	March 31 2017	December 31 2015
Assets		
Insurance company operation	$126,857,152	$124,325,620
Intersegment eliminations (2)	(2,456,298)	(1,579,820)
Total insurance company operation	124,400,854	122,745,800
Other insurance operations	14,559,271	15,476,405
Total assets	$138,960,125	$138,222,205

(1) Intersegment revenue eliminations reflect rents paid by Unico to Crusader for spaced leased in the Calabasas building and commissions paid by Crusader to Unifax Insurance Systems, Inc. (“Unifax”), a wholly owned subsidiary of Unico.

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

NOTE 8 – 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 for the 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 Condensed Consolidated Balance Sheets at fair value are categorized based on the reliability of inputs for 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 or liabilities as of the reporting date.

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 as of the reporting date.

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 as of the reporting date.

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 entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. Thus, a Level 3 fair value measurement may include inputs that are observable (Level 1 or Level 2) or unobservable (Level 3). The Company’s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

The following table presents information about the Company's consolidated financial instruments and their estimated fair values, which are measured on a recurring basis, and are allocated among the three levels within the fair value hierarchy as of March 31, 2017, and December 31, 2016:

	Level 1	Level 2	Level 3	Total
March 31, 2017				
Financial instruments:				
Fixed maturity securities:				
U.S. treasury securities	$14,098,425	$—	$ —	$14,098,425
Certificates of deposit	—	54,142,000	—	54,142,000
Total fixed maturity securities	14,098,425	54,142,000	—	68,240,425
Cash and restricted cash	13,602,118	—	—	13,602,118
Short-term investments	21,802,697	—	—	21,802,697
Total financial instruments at fair value	$49,503,240	$54,142,000	$ —	$103,645,240
December 31, 2016				
Financial instruments:				
Fixed maturity securities:				
U.S. treasury securities	$19,103,925	$—	$ —	$19,103,925
Certificates of deposit	—	61,280,000	—	61,280,000
Total fixed maturity securities	19,103,925	61,280,000	—	80,383,925
Cash and restricted cash	13,496,379	—	—	13,496,379
Short-term investments	10,204,603	—	—	10,204,603
Total financial instruments at fair value	$42,804,907	$61,280,000	$ —	$104,084,907

Fair value measurements are not adjusted for transaction costs. The Company recognizes transfers between levels at either the actual date of the event or a change in circumstances that caused the transfer. The Company did not have any transfers between Levels 1, 2, and 3 of the fair value hierarchy during the three months ended March 31, 2017 and 2016.

NOTE 9 – INVESTMENTS

A summary of total investment income and net realized losses is as follows:

Three Months Ended

March 31
2017 2016

Mar. 31 Dec. 31 Mar. 31

	2008	2007	2007
3-year floating notes issued 2007	$ 325,000	$ 325,000	$
5.60% 5-year notes issued 2007[1]	299,494	299,471	
6.40% 10-year notes issued 2007[2]	349,812	349,808	
7.15% 30-year notes issued 2007[3]	249,307	249,305	
6.00% 10-year notes issued 1999	250,000	250,000	250,000
Private placement notes	48,727	48,844	49,212
Medium-term notes	21,000	21,000	21,000
Industrial revenue bonds	17,550	17,550	
Other notes	3,616	4,031	2,018
Total debt excluding short-term borrowings	$ 1,564,506	$ 1,565,009	$ 322,230
Less current maturities of long-term debt	34,834	35,181	727
Total long-term debt	$ 1,529,672	$ 1,529,828	$ 321,503
Estimated fair value of total long-term debt	$ 1,545,831	$ 1,548,084	$ 332,050

[1] Includes a decrease in valuation for unamortized discounts of

$506 thousand and $529 thousand as of March 31, 2008 and December 31, 2007, respectively. The effective interest rate for these 5-year notes is 6.58%.

2 Includes a decrease in valuation for unamortized discounts of $188 thousand and $192 thousand as of March 31, 2008 and December 31, 2007, respectively. The effective interest rate for these 10-year notes is 7.39%.

3 Includes a decrease in valuation for unamortized discounts of $693 thousand and $695 thousand as of March 31, 2008 and December 31, 2007, respectively. The effective interest rate for these 30-year notes is 8.04%

The estimated fair value amounts of long-term debt presented in the table above have been determined by discounting expected future cash flows based on interest rates on U.S. Treasury bills, notes or bonds, as appropriate. The fair value estimates are based on information available to management as of the respective balance sheet dates. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued since those dates.

Our debt agreements do not subject us to contractual restrictions with regard to working capital or the amount we may expend for cash dividends and purchases of our stock. The percentage of consolidated debt to total capitalization (total debt as a percentage of total capital), as defined in our bank credit facility agreements, must be less than 65%. Our total debt as a percentage of total capital was 50.1% as of March 31, 2008; 49.3% as of December 31, 2007; and 21.2% as of March 31, 2007.

12. Asset Retirement Obligations

SFAS No. 143, Accounting for Asset Retirement Obligations (FAS 143) applies to legal obligations associated with the retirement of long-lived assets resulting from the acquisition, construction, development and/or normal use of the underlying assets.

FAS 143 requires recognition of a liability for an asset retirement obligation in the period in which it is incurred at its estimated fair value. The associated asset retirement costs are capitalized as part of the carrying amount of the underlying asset and depreciated over the estimated useful life of the asset. The liability is accreted through charges to operating expenses. If the asset retirement obligation is settled for other than the carrying amount of the liability, we recognize a gain or loss on settlement.

We record all asset retirement obligations for which we have legal obligations for land reclamation at estimated fair value. Essentially all these asset retirement obligations relate to our underlying land parcels, including both owned properties and mineral leases. FAS 143 results in ongoing recognition of costs related to the depreciation of the assets and accretion of the liability. For the three month periods ended March 31, we recognized operating costs related to FAS 143 as follows: 2008 $5,678,000; and 2007 $4,545,000. FAS 143 operating costs for our continuing operations are reported in cost of goods sold. FAS 143 asset retirement obligations are reported within other noncurrent liabilities in our accompanying Condensed Consolidated Balance Sheets.

A reconciliation of the carrying amount of our asset retirement obligations is as follows (in thousands of dollars):

	Three Months Ended March 31	
	2008	2007
Balance at beginning of period	$ 131,383	$ 114,829
Liabilities incurred	217	174
Liabilities (settled)	(3,463)	(3,085)
Accretion expense	1,619	1,439
Revisions up (down)	1,699	1,512
Balance at end of period	$ 131,455	$ 114,869

13. Standby Letters of Credit

We provide certain third parties with irrevocable standby letters of credit in the normal course of business. We use commercial banks to issue standby letters of credit to back our obligations to pay or perform when required to do so pursuant to the requirements of an underlying agreement or the provision of goods and services. The standby letters of credit listed below are cancelable only at the option of the beneficiary who is authorized to draw drafts on the issuing bank up to the face amount of the standby letter of credit in accordance with its terms. Since banks consider letters of credit as contingent extensions of credit, we are required to pay a fee until they expire or are canceled. Substantially all of our standby letters of credit are renewable annually at the option of the beneficiary.

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Our standby letters of credit as of March 31, 2008 are summarized in the table below (in thousands of dollars):

	Amount
Risk management requirement for insurance claims	$ 45,034
Payment surety required by utilities	443
Contractual reclamation/restoration requirements	52,418
Financing requirement for industrial revenue bond	14,230
Total standby letters of credit[1]	$ 112,125

1 Substantially all of the standby letters of credit have a one-year term and are renewable annually

14. Acquisitions and Divestitures

As a result of the November 2007 Florida Rock acquisition, we entered into a Final Judgment with the Antitrust Division of the U.S. Department of Justice (DOJ) that requires us to divest certain Florida Rock and Vulcan assets at nine sites. In a transaction with Luck Stone Corporation during the quarter ended March 31, 2008, we completed the divestiture of two legacy Florida Rock sites, an aggregates production facility and a distribution yard located in Virginia, by exchanging these assets for two aggregates production facilities in Virginia and cash.

In addition to the assets acquired in the aforementioned exchange, during the three months ended March 31, 2008, we acquired the assets of an aggregates production facility in Illinois for cash.

As a result of these acquisitions, we recognized $25,972,000 of goodwill, all of which is expected to be fully deductible for income tax purposes. The purchase price allocations for these 2008 acquisitions are preliminary and subject to adjustment.

As of March 31, 2008 and December 31, 2007, the assets and related liabilities referable to the sites that we are required to divest under the Final Judgment with the DOJ are classified as held for sale in the accompanying Condensed Consolidated Balance Sheets under two captions: assets held for sale and liabilities of assets held for sale. The major classes of assets and liabilities of assets classified as held for sale were as follows (in thousands of dollars):

	Mar. 31 2008	Dec. 31 2007
Current assets	$ 11,112	$ 12,417
Property, plant and equipment, net	94,954	105,170
Goodwill and intangibles	42,631	142,166
Other assets	30	22
Total assets held for sale	$ 148,727	$ 259,775

Current liabilities	$	567	$	299
Minority interest		5,867		6,010
Total liabilities of assets held for sale	$	6,434	$	6,309

As described more fully in Note 20, in April 2008 we completed the remaining divestitures required by the DOJ.

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15. Goodwill

Changes in the carrying amount of goodwill by reportable segment for the periods presented are summarized below (in thousands of dollars):

	Aggregates	Asphalt mix and Concrete	Cement	Total
Goodwill as of March 31, 2007	$ 558,573	$ 91,633	$	$ 650,206
Goodwill of acquired businesses	2,972,283		297,662	3,269,945
Less goodwill classified as assets held for sale	131,060			131,060
Goodwill as of December 31, 2007	$ 3,399,796	$ 91,633	$ 297,662	$ 3,789,091
Goodwill of acquired businesses[1]	25,972			25,972
Purchase price allocation adjustment[2]	85,297			85,297
Goodwill as of March 31, 2008	$ 3,511,065	$ 91,633	$ 297,662	$ 3,900,360

1 The goodwill of acquired businesses for 2008 relates to the acquisitions listed in Note 14. We are currently evaluating the final purchase price allocations; therefore, the goodwill amount is subject to change. When finalized, the goodwill from these 2008 acquisitions is expected to be fully deductible for income tax purposes.

2 The purchase price allocation

adjustment relates primarily to the November 16, 2007 acquisition of Florida Rock. Further refinements to our purchase price allocation are likely to be made as valuation analyses and other studies are completed. We expect to complete the purchase price allocation related to the Florida Rock acquisition during the third quarter of 2008, and when finalized, material adjustments to goodwill may result.

16. New Accounting Standards

See Note 2 for a discussion of the accounting standards adopted in 2008.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations [FAS 141(R)], which requires the acquirer in a business combination to measure all assets acquired and liabilities assumed at their acquisition date fair value. FAS 141(R) applies whenever an acquirer obtains control of one or more businesses. Additionally, the new standard requires that in a business combination:

Acquisition related costs, such as legal and due diligence costs, be expensed as incurred.

Acquirer shares issued as consideration be recorded at fair value as of the acquisition date.

Contingent consideration arrangements be included in the purchase price allocation at their acquisition date fair value.

With certain exceptions, pre-acquisition contingencies be recorded at fair value.

Negative goodwill be recognized as income rather than as a pro rata reduction of the value allocated to particular assets.

Restructuring plans be recorded in purchase accounting only if the requirements in FASB Statement No. 146, Accounting for Costs Associated with Exit or Disposal Activities, are met as of the acquisition date.

FAS 141(R) requires prospective application for business combinations consummated in fiscal years beginning on or after December 15, 2008; we expect to adopt FAS 141(R) as of January 1, 2009.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 (FAS 160). The standard requires all entities to report noncontrolling interests, sometimes referred to as minority interests, in subsidiaries as equity in the consolidated financial statements. Noncontrolling interest under FAS 160 is defined as the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. The standard requires that ownership interests in subsidiaries held by parties other than the parent be clearly identified and presented in the consolidated balance sheet within equity, but separate from the parent s equity. The amount of consolidated net earnings attributable to the parent and to the noncontrolling interest should be presented separately on the face of the consolidated statement of earnings. When a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary should be measured at fair value, and a gain or loss recognized accordingly. FAS 160 is effective for fiscal years beginning on or after December 15, 2008; we expect to adopt FAS 160 as of January 1, 2009.

In March 2008, the FASB issued SFAS No. 161, Disclosures About Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 (FAS 161). The enhanced disclosure requirements of FAS 161 are intended to help investors better understand how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under FAS 133, and how derivative instruments and hedging activities affect an entity s financial position, financial performance and cash flows. The enhanced disclosures include, for example:

- Qualitative disclosure about the objectives and strategies for using derivative instruments.
- Tabular disclosures of the fair value amounts of derivative instruments, their gains and losses and locations within the financial statements.
- Disclosure of any features in a derivative instrument that are credit-risk related.

FAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. We expect to adopt the disclosure requirements of FAS 161 no later than our interim period ended March 31, 2009.

In April 2008, the FASB issued Staff Position No. FAS 142-3, Determination of the Useful Life of Intangible Assets (FSP FAS 142-3). This position amends the factors an entity should consider when developing renewal or extension assumptions used in determining the useful life over which to amortize the cost of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets. FSP FAS 142-3 requires an entity to consider its own historical experience in renewing or extending similar arrangements in determining the amortizable useful life. Additionally, this position requires expanded disclosure regarding renewable intangible assets. FSP FAS 142-3 is effective for fiscal years beginning after December 15, 2008. The guidance for determining the useful life of a recognized intangible asset must be applied prospectively to intangible assets acquired after the effective date. Early adoption is prohibited. We expect to adopt FSP FAS 142-3 as of January 1, 2009.

17. Segment Reporting Continuing Operations

Prior to the November 2007 acquisition of Florida Rock, our Construction Materials business was organized in seven regional divisions that produced and sold aggregates and related products and services. All these divisions exhibited similar economic characteristics, production processes, products and services, types and classes of customers, methods of distribution and regulatory environments. Accordingly, they were aggregated into one reporting segment for financial statement purposes.

Subsequent to our acquisition of Florida Rock, we redefined our operating segments, and as a result, we have three reporting segments organized around our principal product lines: aggregates, asphalt mix, concrete and cement. For reporting purposes, we have combined our Asphalt mix and Concrete operating segments into one reporting segment as the products are similar in nature and the businesses exhibit similar economic characteristics, product processes, types and classes of customer, methods of distribution and regulatory environments. We have recast our March 31, 2007 data to reflect this change in reportable segments. Management reviews earnings from the product line reporting units principally at the gross profit level.

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The majority of our activities are domestic. We sell a relatively small amount of aggregates outside the United States. All transactions between our reportable segments are recorded at prices approximating market.

Segment Financial Disclosure Amounts in millions	Three Months Ended March 31 2008	 2007
TOTAL REVENUES		
Aggregates	$ 536.1	$ 510.6
Asphalt mix and Concrete	266.6	145.9
Cement	31.1	
Intersegment sales	(62.0)	(26.3)
Total net sales	771.8	630.2
Delivery revenues	45.5	57.0
Total revenues	$ 817.3	$ 687.2
GROSS PROFIT		
Aggregates	$ 126.9	$ 147.4
Asphalt mix and Concrete	20.1	19.8
Cement	7.5	
Total gross profit	$ 154.5	$ 167.2

18. Supplemental Cash Flow Information

Supplemental information referable to our Condensed Consolidated Statements of Cash Flows for the three months ended March 31 is summarized below (in thousands of dollars):

	2008	2007
Cash payments:		
Interest (exclusive of amount capitalized)	$31,404	$ 1,632
Income taxes	13,094	3,145
Noncash investing and financing activities:		
Accrued liabilities for purchases of property, plant and equipment	25,754	29,500
Exchanges of noncash assets and liabilities:		
Net assets acquired	29,086	
Net assets divested	36,586	
Debt issued for purchases of property, plant and equipment	4	5
Proceeds receivable from exercise of stock options	911	48
Other noncash transactions	16	

19. Other Commitments and Contingencies

We are a defendant in various lawsuits and legal proceedings which were specifically described in our most recent Annual Report on Form 10-K. Legal proceedings for which events have occurred subsequent to the filing of our most recent Annual Report on Form 10-K, which we believe are material to the development of such proceedings, are described below.

On October 12, 2007, we reached an agreement with the city of Modesto in the case styled City of Modesto, et al. v. Dow Chemical Company, et al., filed in San Francisco County Superior Court, California, to resolve all claims against Vulcan for a sum of $20 million. The agreement provides for a release and dismissal or withdrawal without prejudice of all claims against Vulcan. The agreement also expressly states that the settlement paid by Vulcan is for compensatory damages only and not for any punitive damages, and that Vulcan denies any conduct capable of giving rise to an assignment of punitive damages. The settlement has been approved by the San Francisco Superior Court judge presiding over this case and thus is now final. While we believe the verdicts rendered and damages awarded during the first phase of the trial are contrary to the evidence presented, we settled the city s claims in order to avoid the costs and uncertainties of protracted litigation. The $20 million was paid during the fourth quarter of 2007. We believe the settlement damages, legal defense costs, and other potential claims are covered by insurance for all losses in excess of deductible amounts. Although the Company s $20 million settlement resolved all claims against Vulcan by the City of Modesto, certain ancillary claims related to this matter remain unresolved. Such an ancillary claim includes the litigation filed against the Company by RR Street and Company and National Union Fire Insurance Company of Pittsburgh, Pennsylvania, in the United States District Court for the Northern District of Illinois, Eastern Division. Street, a former distributor of Vulcan perchloroethylene, and, also a defendant in the Modesto, Halford s, and Garcia litigation alleges that Vulcan owes Street, and its insurer, National Union, a defense and indemnity in all of these litigation matters. National Union alleges that Vulcan is obligated to pay contribution to National Union s share of defense fees, costs and any indemnity payments made on Street s behalf. At this time we cannot determine the likelihood or reasonably estimate a range of loss resulting from any claims asserted by Street or National Union.

We have also recently been named as a defendant in the matter of Garcia v. Dow Chemical Company, et al., filed in Modesto, Stanislaus County, California. This is a wrongful death action that generally alleges the water supply and environment in the city of Modesto were contaminated with toxic chlorinated solvents by the defendants, including Vulcan, and that Ms. Garcia was hurt and injured in her health as a result of exposure to said solvents. Ms. Garcia died in December 2004.

We produced and marketed industrial sand from 1988 to 1994. Since 1993 we have been sued in numerous suits in a number of states by plaintiffs alleging that they contracted silicosis or incurred personal injuries as a result of exposure to, or use of, industrial sand used for abrasive blasting. As of April 3, 2008, the number of suits totaled 88 involving an aggregate of 554 plaintiffs. There are 51 pending suits with 495 plaintiffs filed in Texas. Those Texas cases are in a State Multidistrict Litigation Court and are stayed until discovery issues are resolved. The balance of the suits have been brought in California, Florida and Louisiana. We are seeking dismissal of all suits on the grounds that plaintiffs were not exposed to our product. To date we have been successful in getting dismissals from cases involving approximately 17,000 plaintiffs with little or no payments made in settlement. As of March 31, 2008, we have not accrued any liability for damages or settlements related to these suits, and do not believe that future losses or settlements, if any, will be material to our financial position, results of operations or cash flows.

In September 2001, we were named a defendant in a suit brought by the Illinois Department of Transportation (IDOT), in the Circuit Court of Cook County, Chancery Division, Illinois, alleging damage to a 0.9-mile section of Joliet Road that bisects our McCook quarry in McCook, Illinois, a Chicago suburb. IDOT seeks damages to repair, restore, and maintain the road or, in the alternative, judgment for the cost to improve and maintain other roadways to accommodate vehicles that previously used the road. The complaint also requests that the court enjoin any McCook quarry operations that will further damage the road. The court in this case recently granted summary judgment in favor of Vulcan on certain claims. The court also granted the plaintiff s motion to amend their complaint to add a punitive damages claim, although the court made it clear that it was not ruling on the merits of this claim. Discovery is ongoing. The court has indicated a trial will be set in 2009. At this time we cannot determine the likelihood or reasonably estimate a range of loss related to this matter.

The Internal Revenue Service (IRS) has issued to one of our subsidiaries an unsigned Notice of Proposed Adjustment dated March 13, 2008, proposing adjustments in federal excise tax liability imposed under Section 4681 of the Internal Revenue Code on the sale or use of ozone-depleting chemicals. The sales were made by our former chemicals business which was divested in June 2005. We believe that substantially all of the proposed adjustment is inconsistent with existing law and we have legal defenses available to us. We intend to vigorously oppose payment of substantially all of the proposed adjustment. If we are determined to be liable for any portion of this potential excise tax liability, we would also owe interest to the IRS from the due date of the tax liability (either from April 30, 2005 or from July 31, 2005) through the date of payment. Our current estimate of the maximum amount of loss is approximately $21 million after income taxes. As of March 31, 2008, we had accrued approximately $48,000 after income taxes related to two particular items included in the Notice of Proposed Adjustment for which we believe a loss is probable. Any loss referable to this matter will be included in discontinued operations.

It is not possible to predict with certainty the ultimate outcome of these and other legal proceedings in which we are involved. We believe the amounts accrued in our financial statements as of March 31, 2008 are sufficient to address claims and litigation for which a loss was determined to be probable and reasonably estimable. In addition, losses on certain claims and litigation may be subject to limitations on a per occurrence basis by excess insurance, as described in our most recent Annual Report on Form 10-K.

20. Subsequent Events

On April 11, 2008 we completed the divestitures required in connection with the Florida Rock acquisition pursuant to the Final Judgment with the Antitrust Division of the U.S. Department of Justice. In a transaction with Martin Marietta Materials, Inc. (Martin Marietta), we divested four aggregates production facilities and a greenfield (undeveloped) aggregates site located in Georgia and an aggregates production facility located in Tennessee. In return, we received cash, an aggregates production facility near Sacramento, California, real property with proven and permitted reserves adjacent to one of our aggregates production facilities in San Antonio, Texas, and fee ownership of property at one of our aggregates production facilities in North Carolina that we had previously leased from Martin Marietta. In a second transaction, we sold our interest in an aggregates production facility in Georgia to The Concrete Company, which had been the joint venture partner with Florida Rock in this operation.

Two of the divested sites included in the transaction with Martin Marietta were owned by Vulcan prior to our acquisition of Florida Rock. Accordingly, we expect to recognize a pretax gain on the sale of these assets of approximately $76.0 million, which will be recognized during the second quarter of 2008.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

GENERAL COMMENTS

Overview

Vulcan provides essential infrastructure materials required by the U.S. economy. We are the nation s largest producer of construction aggregates primarily crushed stone, sand and gravel and a major producer of asphalt mix and concrete and a leading producer of cement in Florida. We operate primarily in the United States and our principal product aggregates is consumed in virtually all types of publicly and privately funded construction. While aggregates are our primary business, we believe vertical integration between aggregates and downstream products, such as asphalt mix and concrete, can be managed effectively in certain markets to generate acceptable financial returns. As such, we evaluate the structural characteristics of individual markets to determine the appropriateness of an aggregates only or vertical integration strategy. Demand for our products is dependent on construction activity. The primary end uses include public construction, such as highways, bridges, airports, schools and prisons, as well as private nonresidential (e.g., manufacturing, retail, offices, industrial and institutional) and private residential construction (e.g., single-family and multifamily). Customers for our products include heavy construction and paving contractors; commercial building contractors; concrete products manufacturers; residential building contractors; state, county and municipal governments; railroads; and electric utilities. Customers are served by truck, rail and water distribution networks from our production facilities and sales yards.

Seasonality of Our Business

Virtually all our products are produced and consumed outdoors. Our financial results for any individual quarter are not necessarily indicative of results to be expected for the year, due primarily to the effect that seasonal changes and other weather-related conditions can have on the production and sales volumes of our products. Normally, the highest sales and earnings are attained in the third quarter and the lowest are realized in the first quarter. Our sales and earnings are sensitive to national, regional and local economic conditions and particularly to cyclical swings in construction spending. These cyclical swings are further affected by fluctuations in interest rates, and demographic and population fluctuations.

Forward-looking Statements

Certain matters discussed in this report, including expectations regarding future performance, contain forward-looking statements that are subject to assumptions, risks and uncertainties that could cause actual results to differ materially from those projected. These assumptions, risks and uncertainties include, but are not limited to, those associated with general economic and business conditions; changes in interest rates; the timing and amount of federal, state and local funding for infrastructure; changes in the level of spending for residential and private nonresidential construction; the highly competitive nature of the construction materials industry; the impact of future regulatory or legislative actions; the outcome of pending legal proceedings; pricing; weather and other natural phenomena; energy costs; costs of hydrocarbon-based raw materials; increasing healthcare costs; the timing and amount of any future payments to be received under the 5CP earn-out contained in the agreement for the divestiture of our Chemicals business; our ability to secure and permit aggregates reserves in strategically located areas; our ability to manage and successfully integrate acquisitions; risks and uncertainties related to our acquisition of Florida Rock including our ability to successfully integrate the operations of Florida Rock and to achieve the anticipated cost savings and operational synergies; the possibility that business may suffer because management s attention is diverted to integration concerns; and other assumptions, risks anbsp;$348,284 Losses and loss adjustment expenses: Provision for insured events of current year 6,497,566 82% 4,723,668 62% 1,773,898 Development of insured events of prior years 2,027,615 26% 361,826 5% 1,665,789 Total losses and loss adjustment expenses $8,525,181 108% $5,085,494 67% $3,439,687

Revenues from Other Insurance Operations

The Company's revenues from other insurance operations consist of commissions, fees, investment and other income. Excluding investment and other income, these operations accounted for approximately 9% and 8% of total revenues in the three months ended March 31, 2017 and 2016, respectively.

Investments and Liquidity

The Company generated revenues from its total invested assets of $90,039,367 (at amortized cost) and $92,650,402 (at amortized cost) as of March 31, 2017 and 2016, respectively, and from two cash deposits placed with the Los Angeles Superior Court by Crusader in lieu of appeal bonds. These two deposits, totaling $13,373,793, were made on December 28, 2015, for $7,924,178, and on March 21, 2016, for $5,449,615, and their respective balances were included in "Cash and restricted cash" on the Condensed Consolidated Balance Sheets and were not a part of the total invested assets as of March 31, 2017, and December 31, 2016.

Investment income increased $144 (0.1%) to $212,235 for the three months ended March 31, 2017, compared to $212,091 for the three months ended March 31, 2016. The Company's annualized yield on average invested assets was 0.9% for the three months ended March 31, 2017 and 2016. Due to the current interest rate and financial market environment, management believes it is prudent to purchase fixed maturity investments with maturities of 5 years or less and with minimal credit risk. As of March 31, 2017, all of the Company's investments are in U.S. treasury securities, FDIC insured certificates of deposit, money market funds, and a savings account. The Company's investments in U.S treasury securities and money market funds are readily marketable. As of March 31, 2017, the weighted average maturity of the Company's investments is approximately 1.2 years.

Liquidity and Capital Resources

Crusader generates a significant amount of cash as a result of its holdings of unearned premium reserves, its reserves for loss and loss adjustment expense payments, and its capital and surplus. Crusader's loss and loss adjustment expense payments are the most significant cash flow requirement of the Company. These payments are continually monitored and projected to ensure that the Company has the liquidity to cover these payments without the need to liquidate its investments. Cash, restricted cash, and investments (at amortized cost) of the Company at March 31, 2017, were $103,641,485, compared to $104,072,824 at December 31, 2016. Crusader's cash, restricted cash, and investments were 99% of the total cash and investments (at amortized cost) held by the Company as of March 31, 2017, and December 31, 2016.

As of March 31, 2017, the Company had invested $68,236,670 (at amortized cost) or 76% of its total invested assets in fixed maturity obligations, which included $14,094,670 (21% of fixed maturity investments) in U.S. treasury notes and $54,142,000 (79% of fixed maturity investments) in long-term certificates of deposit. As of December 31, 2016, the Company had invested $80,371,842 (at amortized cost) or 89% of its total invested assets in fixed maturity obligations, which included $19,091,842 (24% of fixed maturity investments) in U.S. treasury notes and $61,280,000 (76% of fixed maturity investments) in long-term certificates of deposit. The remaining balance of the Company's investments are in short-term investments that include U.S. treasury bills, a U.S. treasury money market fund, certificates of deposit, bank money market accounts, and a bank savings account that are all highly rated and redeemable within one year.

The Company is required to classify its investment securities into one of three categories: held-to-maturity, available-for-sale, or trading securities. Although all of the Company's investment in fixed maturity securities are classified as available-for-sale and, while the Company may sell investment securities from time to time in response to economic and market conditions, its investment guidelines place primary emphasis on buying and holding high-quality investments to maturity.

For a period beginning prior to fiscal 2015 and ending on March 24, 2017, the Company’s investment guidelines on equity securities limited investments in equity securities to an aggregate maximum of $2,000,000. The Company’s investment guidelines on fixed maturities limited those investments to high-grade obligations with a maximum term of 8 years. The maximum investment authorized in any one issuer was $2,000,000. This dollar limitation excluded bond premiums paid in excess of par value and U.S. government or U.S. government guaranteed issues. When the Company invested in fixed maturity municipal securities, preference was given to issues that are pre-refunded and secured by U.S. treasury securities. The short-term investments were either U.S. government obligations, FDIC insured, or are in an institution with a Moody's rating of at least P2 and/or a Standard & Poor's rating of A1. All of the Company's fixed maturity investment securities were rated, readily marketable, and could be liquidated without any materially adverse financial impact.

On March 24, 2017, the Company’s Board of Directors approved new investment guidelines. Those guidelines are similar to what the Company believes are general investment guidelines used by Crusader’s peers.

Under the new investment guidelines, investments may only include U.S. treasury notes, U.S. government agency notes, mortgage-backed securities (including pass through securities and collateralized mortgage obligations) that are backed by agency and non-agency collateral, commercial mortgage-backed securities, U.S. corporate obligations, asset backed securities, (including but not limited to credit card, automobile and home equity backed securities), tax-exempt bonds, preferred stocks, common stocks, commercial paper, repurchase agreements (treasuries only), mutual funds, exchange traded funds, bank certificates of deposits and time deposits. The new investment guidelines provide for certain investment limitations in each investment category.

Unless agreed to in advance in writing by Crusader, investments in the following types of securities are prohibited:

- Mortgage loans, except for mortgage backed securities issued by an agency of the U.S. government.
- Derivative mortgage-backed securities including interest only, principal only and inverse floating rate securities.
- All fixed maturity real estate securities, except mortgage-backed securities (including pass through securities and collateralized mortgage obligations) that are backed by agency and non-agency collateral and commercial mortgage-backed securities.
- Options and futures contracts.
- All non-U.S. dollar denominated securities.
- Any security that would not be in compliance with the regulations of Crusader’s state of domicile.

Historically, the Company managed Crusader’s investments in-house. Effective April 1, 2017, an outside investment advisor began managing Crusader’s investments. The advisor’s role currently is limited to maintaining Crusader’s portfolio within the new investment guidelines and providing investment accounting services to the Company. The investments will continue to be held by Crusader’s current custodian, Union Bank Global Custody Services.

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, 2017, and December 31, 2016, the Company had remaining authority under the 2008 program to repurchase up to an aggregate of 188,655 shares of its common stock. The 2008 program is the only program under which there is authority to repurchase shares of the Company’s common stock. The Company did not repurchase any stock during the three months ended March 31, 2017. The Company repurchased 8,812 shares of stock during the three months ended March 31, 2016, in unsolicited transactions at a cost of $89,582 of which $4,331 was allocated to capital and $85,251 was allocated to retained earnings. The Company has or will retire all stock repurchased.

The Company reported $398,415 net cash used by operating activities for the three months ended March 31, 2017, compared to $691,792 net cash provided by operating activities for the three months ended March 31, 2016. Other fluctuations in cash flows from operating activities relate to the timing of the collection and the payment of insurance-related receivables and payables. The variability of the Company’s losses and loss adjustment expenses is primarily due to its small population of claims which may result in greater fluctuations in claim frequency and/or severity. Although the Condensed Consolidated Statements of Cash Flows reflect net cash used by operating activities, the Company does not anticipate future liquidity problems, and it continues to be well capitalized and adequately reserved.

Although material capital expenditures may also be funded through borrowings, the Company believes that its cash and short-term investments at March 31, 2017, net of statutory deposits of $700,000, and California insurance company statutory dividend restrictions applicable to Crusader, plus the cash to be generated from operations, should be sufficient to meet its operating requirements during the next 12 months without the necessity of borrowing funds. Since trust receivables were in excess of trust payables, there were no trust restrictions on cash and short-term investments at March 31, 2017.

Results of Operations

All comparisons made in this discussion are comparing the three months ended March 31, 2017, to the three months ended March 31, 2016, unless otherwise indicated.

For the three months ended March 31, 2017, total revenues were $8,960,497, an increase of $430,819 (5%) compared to total revenues of $8,529,678 for the three months ended March 31, 2016. For the three months ended March 31, 2017, the Company had loss before taxes of $3,267,349, an increase of $2,997,323 (1110%) compared to loss before taxes of $270,026 for the three months ended March 31, 2016. For the three months ended March 31, 2017, the Company had net loss of $2,147,252, an increase of $1,948,265 (979%) compared to net loss of $198,987 for the three months ended March 31, 2016.

The increase in revenues of $430,819 (5%) for the three months ended March 31, 2017, when compared to March 31, 2016, was primarily due to an increase in net earned premium of $348,284 (5%).

The increase in loss before tax of $2,997,323 for the three months ended March 31, 2017, compared to the three months ended March 31, 2016, was due primarily to the increase in losses and loss adjustment expenses of $3,439,687 (68%) offset partially by an increase in revenues of $430,819 (5%).

Written premium is a required statutory measure. Direct written premium reported on Crusader's statutory financial statements increased $387,470 (4%) to $9,570,025 for the three months ended March 31, 2017, compared to $9,182,555 for the three months ended March 31, 2016.

The property casualty insurance marketplace continues to be intensely competitive. 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. As a result, in November 2016, Crusader filed for rate increases on several programs with California Department of Insurance; those increases were approved on May 15, 2017.

Nonetheless, Crusader believes that it can grow its sales and profitability by continuing to focus upon five areas of its operations: (1) product development, (2) improved service to retail brokers, (3) appointment of captive and independent retail agents, (4) geographical expansion, and (5) use of alternative marketing channels. While the Company’s policy administration system continues to support the Company’s existing operations, the Company believes it would realize more competitive parity with respect to product and service by switching or upgrading to a more contemporary platform. The Company is currently evaluating its alternatives.

Earned premium (before reinsurance) increased $499,409 (6%) to $9,547,484 for the three months ended March 31, 2017, compared to $9,048,075 for the three months ended March 31, 2016. The Company writes annual policies and, therefore, earns written premium ratably over the one-year policy term.

Ceded earned premium increased $151,125 (10%) to $1,626,785 for the three months ended March 31, 2017, compared to $1,475,660 for the three months ended March 31, 2016. Ceded earned premium as a percentage of direct earned premium was 17% and 16% for the three months ended March 31, 2017 and 2016, respectively.

In calendar years 2017 and 2016, Crusader retained a participation in its excess of loss reinsurance treaties of 5% and 10%, respectively in its 1st layer ($500,000 in excess of $500,000), 0% in its 2nd layer ($2,000,000 in excess of $1,000,000) and 0% in its property and casualty clash treaty. In calendar year 2017 and 2016, Crusader retained a participation in its Catastrophe excess of loss reinsurance treaties of 5% in its 1st layer ($9,000,000 in excess of $1,000,000) and 0% in its 2nd layer ($36,000,000 in excess of $10,000,000).

The Company evaluates each of its ceded reinsurance contracts at its inception to determine if there is a sufficient risk transfer to allow the contract to be accounted for as reinsurance under current accounting literature. As of March 31, 2017, all such ceded contracts are accounted for as risk transfer reinsurance.

Crusader's direct, ceded and net earned premium are as follows:

	Three Months Ended March 31 2017	2016	Increase
Direct earned premium	$9,547,484	$9,048,075	$499,409
Ceded earned premium	1,626,785	1,475,660	151,125
Net earned premium	$7,920,699	$7,572,415	$348,284
Ratio of ceded earned premium to direct earned premium	17 %	16 %	

Investment income increased $144 (0.1%) to $212,235 for the three months ended March 31, 2017, compared to $212,091 for the three months ended March 31, 2016. The Company had no realized gains or losses for the three months ended March 31, 2017 and had realized losses of $1,278 for the three months ended March 31, 2016. The Company's annualized yield on average invested assets was 0.9% for the three months ended March 31, 2017 and 2016.

Investment income, excluding net realized losses, and average annualized yields on the Company's average invested assets are as follows:

	Three Months Ended March 31 2017	2016
Average invested assets* - at amortized cost	$90,310,610	$95,246,966
Interest income:		
Insurance company operation	$212,186	$212,000
Other insurance operations	49	91
Total investment income	$212,235	$212,091
Annualized yield on average invested assets	0.9 %	0.9 %

*The average is based on the beginning and ending balance of the amortized cost of the invested assets for each respective period.

The par value, amortized cost, estimated market value and weighted average yield of fixed maturity investments at March 31, 2017, by contractual maturity are as follows:

Maturities by Par Value Weighted

Calendar Year		Amortized Cost	Fair Value	Average Yield
December 31, 2017	$40,494,000	$40,488,592	$40,492,752	0.9 %
December 31, 2018	21,520,000	21,520,078	21,519,673	1.1 %
December 31, 2019	5,980,000	5,980,000	5,980,000	1.1 %
December 31, 2021	598,000	598,000	598,000	1.7 %
Total	$68,592,000	$68,586,670	$68,590,425	1.0 %

Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalties.

The weighted average maturity of the Company's fixed maturity investments was 1.2 years as of March 31, 2017, and 1.3 years as of March 31, 2016. Due to the current interest rate environment, management believes it is prudent to purchase fixed maturity investments with maturities of 5 years or less and with minimal credit risk.

At March 31, 2017, the Company had one fixed maturity investment with an unrealized loss of $1,118 for a continuous period of less than 12 months and one fixed maturity investment with an unrealized loss of $406 for a continuous period of more than 12 months. At December 31, 2016, the Company had no fixed maturity investments with gross unrealized losses for a continuous period of less than 12 months and three U.S. treasury securities with gross unrealized losses for a continuous period of more than 12 months.

The Company closely monitors its investments. If an unrealized loss is determined to be other-than-temporary, it is written off as a realized loss through the Condensed Consolidated Statements of Operations. The Company's methodology of assessing other-than-temporary impairments is based on security-specific analysis as of the balance sheet date and considers various factors including the length of time to maturity and the extent to which the fair value has been less than the cost, the financial condition and the near-term prospects of the issuer, and whether the debtor is current on its contractually obligated interest and principal payments. The unrealized losses on the U.S. treasury securities in unrealized loss positions as of March 31, 2017, and December 31, 2016, were determined to be temporary.

Although the Company does not have an intent to sell its fixed maturity investments, the Company may sell investment securities from time to time in response to economic and market conditions. During the three months ended March 31, 2017, the Company did not sell any fixed maturity investments. There were no realized investment gains or losses during the three months ended March 31, 2017. During the three months ended March 31, 2016, the Company sold three certificates of deposit. These securities had amortized cost of $746,000. The Company realized an investment loss of $1,278 on the sale. The unrealized gains or losses from fixed maturities are reported as "Accumulated other comprehensive income," which is a separate component of stockholders' equity, net of any deferred tax effect.

Other income included in Insurance Company Revenues and Other Insurance Operations decreased $4,369 (6%) to $68,227 for the three months ended March 31, 2017, compared to $72,596 for the three months ended March 31, 2016.

Gross commissions and fees increased $83,930 (13%) to $741,175 for the three months ended March 31, 2017, compared to gross commissions and fees of $657,245 for the three months ended March 31, 2016.

The changes in gross commission and fee income for the three months ended March 31, 2017, as compared to the three months ended March 31, 2016, are as follows:

	Three Months Ended March 31		
	2017	2016	Increase (Decrease)
Policy fee income	$407,336	$409,989	$(2,653)
Health insurance program	311,211	217,812	93,399
Membership and fee income	18,252	20,625	(2,373)
Daily automobile rental insurance program:			
Contingent commission	4,376	8,819	(4,443)
Total	$741,175	$657,245	$(83,930)

Unifax Insurance Systems, Inc. ("Unifax") sells and services insurance policies for Crusader. The commissions paid by Crusader to Unifax are eliminated as intercompany transactions and are not reflected as income in the condensed consolidated financial statements. Unifax also receives non-refundable policy fee income that is directly related to the Crusader policies it sells. For financial statement reporting purposes, policy fees are earned ratably over the life of the related insurance policy. The unearned portion of the policy fee is recorded as a liability on the Condensed Consolidated Balance Sheets under "Accrued expenses and other liabilities." The earned portion of the policy fee charged to the policyholder by Unifax is recognized as income in the condensed consolidated financial statements. Policy fee income decreased $2,653 (less than 1%) in the three months ended March 31, 2017, compared to the three months ended March 31, 2016.

American Insurance Brokers, Inc. (“AIB”), a wholly owned subsidiary of the Company, markets health insurance in California through non-affiliated insurance companies for individuals and groups. For these services, AIB receives commission based on the premiums that it writes. Commission income increased $93,399 (43%) in the three months ended March 31, 2017, compared to the three months ended March 31, 2016. The increase in commission income reported in the three months ended March 31, 2017, when compared to the prior year period, is primarily a result of a cumulative commission correction of $68,971 by the non-affiliated insurance carriers.

The Company's wholly owned subsidiary Insurance Club, Inc., dba AAQHC An Administrator (“AAQHC”), is a third party administrator for contracted insurance companies and is a membership association that provides various consumer benefits to its members, including participation in group health care insurance policies that AAQHC negotiates for the association. For these services, AAQHC receives membership and fee income from its members. Membership and fee income decreased $2,373 (12%) for the three months ended March 31, 2017, compared to the three months ended March 31, 2016. This decrease is primarily a result of a decrease in the number of individual members offset by an increase in the number of group members.

The daily automobile rental insurance program was produced by Bedford Insurance Services, Inc. (“Bedford”), a wholly owned subsidiary of the Company. Bedford received commission income from non-affiliated insurance companies based on written premium and continues to receive contingent commission on previous business written. The Company no longer actively markets this program.

Finance fees earned consist of late fees, returned check fees and payment processing fees. These fees earned by the Company’s wholly owned premium finance subsidiary, American Acceptance Corporation (“AAC”), increased $1,552 (9%) to $18,161 for the three months ended March 31, 2017, compared to $16,609 in fees earned during the three months ended March 31, 2016. The increase in fees earned during the three months ended March 31, 2017, compared to three months ended March 31, 2016, is primarily a result of more late fees earned during the period compared to the prior year period. AAC issued 743 loans and had 2,196 loans outstanding during the three months ended March 31, 2017, compared to 805 loans issued and 2,416 loans outstanding during the three months ended March 31, 2016. AAC provides premium financing only for Crusader policies produced by Unifax in California. AAC reduced the interest rate charged on premiums financed to 0% beginning July 20, 2010, and, therefore, did not earn any finance charges during the three months ended March 31, 2017 and 2016. This reduction in the interest rate charged was initiated in an effort to increase the sales of existing renewal and new business written by Unifax for Crusader. Due to the low interest rate environment, the cost of money to provide this incentive is not material. The Company monitors the cost of providing this incentive and depending on the cost/benefit determination, can continue to offer it or withdraw it at any time.

Losses and loss adjustment expenses were 108% of net earned premium for the three months ended March 31, 2017, compared to 67% of net earned premium for the three months ended March 31, 2016.

Loss ratio is calculated by dividing losses and loss adjustment expenses by net earned premium. Losses and loss adjustment expenses and loss ratios are as follows:

	Three Months Ended March 31				
	2017	2017 Loss Ratio	2016	2016 Loss Ratio	Increase
Net earned premium	$7,920,699		$7,572,415		$348,284
Losses and loss adjustment expenses:					
Provision for insured events of current year	6,497,566	82 %	4,723,668	62 %	1,773,898
Development of insured events of prior years	2,027,615	26 %	361,826	5 %	1,665,789
Total losses and loss adjustment expenses	$8,525,181	108 %	$5,085,494	67 %	$3,439,687

Some lines of insurance are commonly referred to as "long-tail" lines because of the extended time required before claims are ultimately settled. Lines of insurance in which claims are settled relatively quickly are called "short-tail" lines. It is generally more difficult to estimate loss reserves for long-tail lines because of the long period of time that elapses between the occurrence of a claim and its final disposition and the difficulty of estimating the settlement value of the claim. Crusader’s short-tail lines consist of its property coverages, and its long-tail lines consist of its liability coverages. However, Crusader’s long-tail liability claims tend to be settled relatively quicker than other long-tail lines not underwritten by Crusader, such as workers’ compensation, professional liability, umbrella liability, and medical malpractice. Since trends develop over longer periods of time on long-tail lines of business, the Company generally gives credibility to those trends more slowly than for short-tail or less volatile lines of business.

The $1,773,898 increase in the provision for insured events of current year for the three months ended March 31, 2017, compared to the provision for insured events of current year for the three months ended March 31, 2016, was due primarily to an aberrational increase in the frequency and severity of accident year 2017 short-tail property claims.

The $1,665,789 increase in the development of insured events of prior years for the three months ended March 31, 2017, compared to the three months ended March 31, 2016, was primarily due to higher than expected long-tail liability claims in accident years 2013, 2014, and 2016.

While it is difficult to estimate adequacy of loss and loss adjustment expense reserves, historically, the Company was able to establish sufficient loss and loss adjustment expense reserves to mitigate adverse prior accident year developments.

The following table breaks out adverse (favorable) development from total losses and loss adjustment expenses quarterly since March 31, 2014:

	Provision for Insured Events of Current Year	Adverse (Favorable) Development of Insured Events of Prior Years	Total Losses and Loss Adjustment Expenses
Three Months Ended:			
March 31, 2017	$6,497,566	$2,027,615	$8,525,181
December 31, 2016	5,731,198	(886,671)	4,844,527
September 30, 2016	6,792,115	1,245,985	8,038,100
June 30, 2016	5,603,427	(744,670)	4,858,757
March 31, 2016	4,723,668	361,826	5,085,494
December 31, 2015	5,125,146	164,230	5,289,376
September 30, 2015	5,195,943	(849,426)	4,346,517
June 30, 2015	5,280,840	(647,324)	4,633,516
March 31, 2015	6,005,699	(1,111,792)	4,893,907
December 31, 2014	4,473,359	(552,836)	3,920,523
September 30, 2014	4,686,287	(529,807)	4,156,480
June 30, 2014	4,455,943	(808,178)	3,647,765
March 31, 2014	4,310,293	(1,417,943)	2,892,350

The variability of the Crusader’s losses and loss adjustment expenses for the periods presented is primarily due to the small and diverse population of the Crusader’s policyholders and claims, which may result in greater fluctuations in claim frequency and/or severity. In addition, Crusader’s reinsurance retention, which is relatively high in relationship to its net earned premium, can result in increased loss ratio volatility when large losses are incurred in a relatively short period of time. Nevertheless, management believes that its reinsurance retention is reasonable given the amount of Crusader’s surplus and its goal to minimize ceded premium.

The preparation of the Company's consolidated financial statements requires estimation of certain liabilities, most significantly the liability for unpaid losses and loss adjustment expenses. Management makes its best estimate of the liability for these unpaid claims costs as of the end of each fiscal quarter. Due to the inherent uncertainties in estimating the Company's unpaid claims costs, actual loss and loss adjustment expense payments are expected to vary, perhaps significantly, from any estimate made prior to the settling of all claims. Variability is inherent in establishing loss and loss adjustment expense reserves, especially for a small insurer like Crusader. For any given line of insurance, accident year, or other group of claims, there is a continuum of possible loss and loss adjustment expense reserve estimates, each having its own unique degree of propriety or reasonableness. Due to the complexity and nature of the insurance claims process, there are potentially an infinite number of reasonably likely scenarios. Management draws on its collective experience to judgmentally determine its best estimate. In addition to applying a variety of standard actuarial methods to the data, an extensive series of diagnostic tests are applied to the resultant loss and loss adjustment expense reserve estimates to determine management's best estimate of the unpaid claims liability. Among the statistics reviewed for each accident year are: loss and loss adjustment expense development patterns; frequencies; severities; and ratios of loss to premium, loss adjustment expense to premium, and loss adjustment expense to loss.

When there is clear evidence that the actual claims costs emerged are different than expected for any prior accident year, the claims cost estimates for that year are revised accordingly. If the claims costs that emerge are less favorable than initially anticipated, generally, the Company increases its loss and loss adjustment expense reserves immediately. However, if the claims costs that emerge are more favorable than initially anticipated, generally, the Company reduces its loss and loss adjustment expense reserves over time while it continues to assess the validity of the observed trends based on the subsequent emerged claim costs.

The establishment of loss and loss adjustment expense reserves is a detailed process as there are many factors that can ultimately affect the final settlement of a claim. Estimates are based on a variety of industry data and on the Company's current and historical accident year claims data, including but not limited to reported claim counts, open claim counts, closed claim counts, closed claim counts with payments, paid losses, paid loss adjustment expenses, case loss reserves, case loss adjustment expense reserves, earned premiums and policy exposures, salvage and subrogation, and unallocated loss adjustment expenses paid. Many other factors, including changes in reinsurance, changes in pricing, changes in policy forms and coverage, changes in underwriting and risk selection, legislative changes, results of litigation and inflation are also taken into account.

At the end of each fiscal quarter, the Company's loss and loss adjustment expense reserves for each accident year (i.e., for all claims incurred within each year) are re-evaluated independently by the Company's president, the Company's chief financial officer, and by an independent consulting actuary. Generally accepted actuarial methods, including the widely used Bornhuetter-Ferguson and loss development methods, are employed to estimate ultimate claims costs. An actuarial central estimate of the ultimate claims costs and IBNR reserves is ultimately determined by management and tested for reasonableness by the independent consulting actuary.

Policy acquisition costs consist of commissions, premium taxes, inspection fees, and certain other underwriting costs that are directly related to and vary with the successful production of Crusader insurance policies. These costs include both Crusader expenses and the allocated expenses of other Unico subsidiaries. Crusader's reinsurers pay Crusader a ceding commission, which is primarily a reimbursement of the acquisition cost related to the ceded premium. No ceding commission is received on facultative or catastrophe ceded premium. Policy acquisition costs, net of ceding commission, are deferred and amortized as the related premiums are earned. The Company annually reevaluates its acquisition costs to determine that costs related to successful policy acquisition are capitalized and deferred. These costs were approximately 19% and 22% of net earned premium for the three months ended March 31, 2017 and 2016, respectively. Policy acquisition costs decreased in the three months ended March 31, 2017, as compared to the prior year period, due primarily to a decrease in bonus commission payments to brokers and agents in 2017 related to the 2016 results.

Policy acquisition costs and the ratio to net earned premium are as follows:

	Three Months Ended March 31		
	2017	2016	Decrease
Policy acquisition costs	$1,497,634	$1,699,660	$202,026
Ratio to net earned premium (GAAP ratio)	19 %	22 %	

Salaries and employee benefits decreased $32,941 (2%) to $1,348,643 for the three months ended March 31, 2017, compared to $1,381,584 for the three months ended March 31, 2016.

Salaries and employee benefits incurred and charged to operating expenses are as follows:

	Three Months Ended March 31		
	2017	2016	Increase (Decrease)

Total salaries and employee benefits incurred	$1,997,271	$2,030,921	$(33,650)
Less: charged to losses and loss adjustment expenses	(323,018)	(288,114)	(34,904)
Less: capitalized to policy acquisition costs	(325,610)	(361,223)	35,613
Net amount charged to operating expenses	$1,348,643	$1,381,584	$(32,941)

Commissions to agents/brokers increased $1,470 (4%) to $41,889 for the three months ended March 31, 2017, compared to $40,419 for the three months ended March 31, 2016.

Other operating expenses increased $221,952 (37%) to $814,499 for the three months ended March 31, 2017, compared to $592,547 for the three months ended March 31, 2016. The increase in other operating expenses for the three months ended March 31, 2017, compared to the three months ended March 31, 2016, is related primarily to fees associated with the on-going California Department of Insurance financial examination of Crusader.

Income tax benefit increased $1,049,058 (1,477%) to $1,120,097 (34% of pre-tax loss) for the three months ended March 31, 2017, from an income tax benefit of $71,039 (26% of pre-tax loss) for the three months ended March 31, 2016. The increase in income tax benefit during the three months ended March 31, 2017, when compared to three months ended March 31, 2016, was primarily due to an increase of $2,997,323 in pre-tax loss of $3,267,349 for the three months ended March 31, 2017, compared to pre-tax loss of $270,026 for the three months ended March 31, 2016. The calculated tax rate for the three months ended March 31, 2017, consisted of federal tax benefit rate of 34% and a state income tax benefit rate of 0.5%. The calculated tax rate for the three months ended March 31, 2016, was comprised of a calculated federal tax benefit rate of approximately 32% while the calculated state tax expense rate was approximately 6%.

Forward Looking Statements

Certain statements contained herein, including the sections entitled “Business,” “Legal Proceedings” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” that are not historical facts are forward looking. These statements, which may be identified by forward looking words or phrases such as “anticipate,” “appear,” “believe,” “estimate,” “expect,” “intend,” “may,” “plan,” “should,” and “would” involve risks and uncertainties, many of whicl beyond the control of the Company. Such risks and uncertainties could cause actual results to differ materially from these forward looking statements. Factors which could cause actual results to differ materially include: underwriting or marketing actions not being effective; rate increases for coverages not being sufficient; premium rate adequacy relating to competition or regulation; actual versus estimated claim experience; the outcome of rate change filings with regulatory authorities; acceptance by insureds of rate changes; adequacy of rate changes; changes in Crusader’s A.M. Best rating; regulatory changes or developments; the outcome of regulatory proceedings; unforeseen calamities; general market conditions; and the Company’s ability to introduce new profitable products.

ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company’s Consolidated Balance Sheets include a substantial amount of invested assets whose fair values are subject to various market risk exposures including interest rate risk and equity price risk.

The Company’s invested assets consist of the following:

	March 31 2017	December 31 2016	Increase (Decrease)
Fixed maturity bonds (at amortized value)	$14,094,670	$19,091,842	$(4,987,172)
Short-term cash investments (at cost)	21,802,697	10,204,603	11,598,094
Certificates of deposit with original maturity over 1 year (at cost)	54,142,000	61,280,000	(7,138,000)
Total invested assets	$90,039,367	$90,576,445	$(537,078)

There have been no material changes in the composition of the Company’s invested assets or market risk exposures since the end of the preceding fiscal year end.

ITEM 4 – CONTROLS AND PROCEDURES

An evaluation was carried out by the Company's management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of March 31, 2017, as defined in Rule 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective.

During the period covered by this report, there has been no change in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or 15d-15 under the Securities Exchange Act of 1934 that has materially affected or is reasonably likely to materially affect the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1A – RISK FACTORS

There were no material changes from risk factors as previously disclosed in the Company’s Form 10-K for the year ended December 31, 2016, in response to Item 1A to Part I of Form 10-K.

ITEM 6 – EXHIBITS

31.1 Certificate of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certificate of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101	The following information from the Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2017, formatted in XBRL (Extensible Business Reporting Language) and furnished electronically herewith: (i) the Condensed Consolidated Balance Sheets; (ii) the Condensed Consolidated Statements of Operations; (iii) the Condensed Consolidated Statements of Comprehensive Loss; (iv) the Condensed Consolidated Statements of Cash Flows; and (v) the Condensed Notes to Unaudited Condensed Consolidated Financial Statements.*

*XBRL information is furnished and deemed not filed as part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act and otherwise is not subject to liability under these sections.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UNICO AMERICAN CORPORATION

Date: May 15, 2017 By: /s/ CARY L. CHELDIN

Cary L. Cheldin

Chairman of the Board, President and Chief

Executive Officer (Principal Executive Officer)

Date: May 15, 2017 By: /s/ MICHAEL BUDNITSKY

Michael Budnitsky

Treasurer, Chief Financial Officer (Principal

Accounting and Principal Financial Officer)