VALIDUS HOLDINGS LTD
Form 8-K
February 13, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K
CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Date of Report (Date of earliest event reported): February 13, 2008

VALIDUS HOLDINGS, LTD.
(Exact name of registrant as specified in its charter)

Bermuda	**001-33606**	**98-0501001**
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

19 Par-La-Ville Road, Hamilton, HM 11 Bermuda
(Address of principal executive offices)
Registrant s telephone number, including area code: (441) 278-9000
Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 7.01 Regulation FD Disclosure.

On February 13, 2008, Validus Holdings, Ltd. will make an investor presentation. A copy of this presentation is attached to this Current Report on Form 8-K as Exhibit 99.1 and is incorporated herein by reference.

The information in this Current Report on Form 8-K, including the information set forth in Exhibit 99.1, shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act), or incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits. The following exhibits are filed herewith:

Exhibit No.	Description
99.1	Investor Presentation dated February, 2008

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 hereunto duly authorized.

Date: February 13, 2008

VALIDUS HOLDINGS, LTD.
(Registrant)

By: /s/ Joseph E. (Jeff) Consolino
Name: Joseph E. (Jeff) Consolino
Title: Executive Vice President & Chief Financial Officer

margin: 0; text-align: center">**UNICO AMERICAN CORPORATION**

INDEX TO FORM 10-Q

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

·failure to meet minimum capital and surplus requirements; ·vulnerability to significant catastrophic property loss; ·a change in accounting standards issued by the Financial Accounting Standards Board; ·ability to adjust claims accurately; ·insufficiency of loss and loss adjustment expense reserves to cover future losses; ·changes in federal or state tax laws; ·ability to realize deferred tax assets; ·ability to accurately underwrite risks and charge adequate premium; ·ability to obtain reinsurance or collect from reinsurers and or losses in excess of reinsurance limits; ·extensive regulation and legislative changes; ·reliance on subsidiaries to satisfy obligations; ·downgrade in financial strength rating by A.M. Best; ·changes in interest rates; ·investments subject to credit, prepayment and other risks; ·geographic concentration; ·reliance on independent insurance agents and brokers; ·insufficient reserve for doubtful accounts; ·litigation; ·enforceability of exclusions and limitations in policies; ·reliance on information technology systems; ·ability to prevent or detect acts of fraud with disclosure controls and procedures; ·change in general economic conditions; ·dependence on key personnel; ·ability to attract, develop and retain employees and maintain appropriate staffing levels; ·insolvency, financial difficulties, or default in performance of obligations by parties with significant contracts or relationships; ·ability to effectively compete; ·maximization of long-term value and no focus on short-term earnings expectations; ·control by a small number of shareholders; ·failure to maintain effective system of internal controls; and ·difficulty in effecting a change of control or sale of any subsidiaries.

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

PART 1 - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

UNICO AMERICAN CORPORATION

AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

March 31 December 31 2018 2017 (Unaudited) ASSETS Investments Available-for-sale: Fixed maturities, at fair value (amortized cost: $65,628,151 at March 31, 2018, and $58,153,120 at December 31, 2017) $64,191,414 $57,849,454 Held-to-maturity: Fixed maturities, at amortized cost (fair value: $23,848,000 at March 31, 2018, and $28,098,000 at December 31, 2017) 23,848,000 28,098,000 Short-term investments, at fair value 6,011,792 10,440,496 Total Investments 94,051,206 96,387,950 Cash and restricted cash 262,608 774,226 Accrued investment income 377,008 490,579 Receivables, net 5,585,244 6,005,764 Reinsurance recoverable: Paid losses and loss adjustment expenses 539,589 126,682 Unpaid losses and loss adjustment expenses, 11,570,306 8,393,550 Deferred policy acquisition costs 3,938,616 4,162,771 Property and equipment, net 9,912,406 10,014,869 Deferred income taxes 4,232,231 3,380,806 Other assets 521,098 561,561 Total Assets $130,990,312 $130,298,758 LIABILITIES AND STOCKHOLDERS' EQUITY LIABILITIES Unpaid losses and loss adjustment expenses $53,914,003 $49,076,991 Unearned premiums 18,054,341 18,768,264 Advance premium and premium deposits 309,187 207,808 Accrued expenses and other liabilities 1,869,821 2,300,358 Total Liabilities $74,147,352 $70,353,421 Commitments and contingencies STOCKHOLDERS' EQUITY Common stock, no par value – authorized 10,000,000 shares; 5,307,133,shares issued and outstanding at March 31, 2018, and December 31, 2017 $3,772,872 $3,772,872 Accumulated other comprehensive loss (1,135,022) (239,896) Retained earnings 54,205,110 56,412,361 Total Stockholders’ Equity $56,842,960 $59,945,337 Total Liabilities and Stockholders' Equity $130,990,312 $130,298,758

See notes to condensed consolidated financial statements (unaudited).

UNICO AMERICAN CORPORATION

AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

Three Months Ended March 31	2018	2017
REVENUES		
Insurance company operation:		
Net earned premium	$7,681,628	$7,920,699
Investment income	444,702	212,186
Other income	55,689	68,212
Total Insurance Company Operation	8,182,019	8,201,097
Other insurance operations:		
Gross commissions and fees	606,657	741,175
Investment income	97	49
Finance charges and fees earned	18,097	18,161
Other income	21	15
Total Revenues	8,806,891	8,960,497
EXPENSES		
Losses and loss adjustment expenses	7,801,757	8,525,181
Policy acquisition costs	1,621,505	1,497,634
Salaries and employee benefits	1,288,078	1,348,643
Commissions to agents/brokers	41,339	41,889
Other operating expenses	866,143	814,499
Total Expenses	11,618,822	12,227,846
Loss before taxes	(2,811,931)	(3,267,349)
Income tax benefit	604,680	1,120,097
Net Loss	$(2,207,251)	$(2,147,252)
PER SHARE DATA:		
Basic		
Loss Per Share	$(0.42)	$(0.40)
Weighted Average Shares	5,307,133	5,307,133
Diluted		
Loss Per Share	$(0.42)	$(0.40)
Weighted Average Shares	5,307,133	5,307,133

See notes to condensed consolidated financial statements (unaudited).

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UNICO AMERICAN CORPORATION

AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(UNAUDITED)

Three Months Ended March 31 2018 2017 Net loss $(2,207,251) $(2,147,252) Other changes in comprehensive loss: Changes in unrealized losses on securities classified as available-for-sale arising during the period (1,133,071) (8,328) Income tax benefit related to changes in unrealized losses on securities classified as available-for-sale arising during the period 237,945 2,832 Comprehensive Loss $(3,102,377) $(2,152,748)

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	
	2018	2017
Cash flows from operating activities:		
Net loss	$(2,207,251)	$(2,147,252)
Adjustments to reconcile net loss to net cash from operations:		
Depreciation and amortization	140,202	132,269
Bond amortization, net	98,269	(2,828)
Bad debt expense	128	13,352
Non-cash stock based compensation	—	5,776
Changes in assets and liabilities:		
Net receivables and accrued investment income	533,963	(292,054)
Reinsurance recoverable	(3,589,663)	(261,709)
Deferred policy acquisition costs	224,155	11,553
Other assets	34,429	375,717
Unpaid losses and loss adjustment expenses	4,837,012	2,834,262
Unearned premiums	(713,923)	22,542
Advance premium and premium deposits	101,379	169,325
Accrued expenses and other liabilities	(430,537)	(141,236)
Income taxes current/deferred	(607,446)	(1,118,132)
Net Cash Used by Operating Activities	(1,579,283)	(398,415)
Cash flows from investing activities:		
Purchase of fixed maturity investments	(8,160,736)	(100,000)
Proceeds from maturity of fixed maturity investments	4,837,436	12,238,000
Net decrease (increase) in short-term investments	4,428,704	(11,598,094)
Additions to property and equipment	(37,739)	(35,752)
Net Cash Provided by Investing Activities	1,067,665	504,154
Cash flows from financing activities:		
Net Cash Used by Financing Activities	—	—
Net increase (decrease) in cash and restricted cash	(511,618)	105,739
Cash and restricted cash at beginning of period	774,226	13,496,379
Cash and Restricted Cash at End of Period	$262,608	$13,602,118
Supplemental cash flow information		
Cash paid during the period for:		
Interest	—	—
Income taxes	—	—

See notes to condensed consolidated financial statements (unaudited).

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UNICO AMERICAN CORPORATION

AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

MARCH 31, 2018

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, 2018, are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. Quarterly financial statements should be read in conjunction with the consolidated financial statements and related notes in the Company’s 2017 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 widely accepted third party vendors.

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

- Cash, restricted 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, 2018, and December 31, 2017, 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, 2018 and 2017. The Company has retired 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, 2018 and 2017:

Three Months Ended March 31	2018	2017
Basic Loss Per Share		
Net loss	$(2,207,251)	$(2,147,252)
Weighted average shares outstanding	5,307,133	5,307,133
Basic loss per share	$(0.42)	$(0.40)
Diluted Loss per Share		
Net loss	$(2,207,251)	$(2,147,252)
Weighted average shares outstanding	5,307,133	5,307,133
Diluted shares outstanding	5,307,133	5,307,133
Diluted loss per share	$(0.42)	$(0.40)

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

Recently adopted standards

In February 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-02, “Income Statement - Reporting Comprehensive Income (Topic 220), Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.” ASU 2018-02 was issued as a result of the enactment of the Tax Cuts and Jobs Act of 2017 (“TCJA”) on December 22, 2017. Accounting guidance required deferred tax items to be revalued based on the new tax laws (the most significant of which reduced the corporate tax rate to 21% percent from 34% percent) and to include the change in income from continuing operations. ASU 2018-02 is effective for annual and interim reporting periods beginning after December 15, 2018. The Company adopted ASU 2018-02 for the year ended December 31, 2017.

In May 2017, FASB issued ASU 2017-09, "Compensation - Stock Compensation (Topic 718), Scope of Modification Accounting." ASU 2017-09 provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. ASU 2017-09 became effective for the Company beginning January 1, 2018. ASU 2017-09 does not have a material impact on the Company’s consolidated financial statements and related disclosures.

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606).” The core principal of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, the transaction price for a contract is allocated among separately identifiable performance obligations and a portion of the transaction price is recognized as revenue when the associated performance obligation has been completed or transferred to the customer. The Company adopted ASU 2014-09 effective January 1, 2018. The adoption of ASU 2014-09 did not have a material impact to the consolidated statement of operations and the consolidated balance sheet.

Standards not yet adopted

In June 2016, the FASB issued 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.” ASU 2016-02 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.

NOTE 5 – ACCOUNTING FOR INCOME TAXES

TCJA, signed into law on December 22, 2017, reduced the corporate Federal income tax rate from 34% to 21%, effective for years beginning after December 31, 2017. The current income tax expense for the period ending March 31, 2018 is affected by this change in the law. As a result of the TCJA, the Company has recognized a decrease to its net deferred asset as of December 31, 2017 in the amount of $2,176,862. The Company has determined that no other changes are required to the deferred tax asset (liability) as of March 31, 2018.

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 2014 and California state income tax authorities for tax returns filed starting at taxable year 2013. There are no ongoing examinations of income tax returns by federal or state tax authorities.

As of March 31, 2018, and December 31, 2017, 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	December 31
	2018	2017
Building and leasehold improvements located in Calabasas, California	$8,379,203	$8,352,181
Furniture, fixtures, and equipment	2,730,878	2,724,775
Computer software	359,848	355,234
Accumulated depreciation and amortization	(3,345,008)	(3,204,806)
Land located in Calabasas, California	1,787,485	1,787,485
Property and equipment, net	$9,912,406	$10,014,869

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, 2018 and 2017, was $140,202 and $132,269, respectively.

For the three months ended March 31, 2018 and 2017, the Calabasas building has generated rental revenue from non-affiliated tenants in the amount of $85,906 and $57,745, respectively, which is included in “Other income” from insurance company operation in the Company’s Condensed Consolidated Statements of Operations.

For the three months ended March 31, 2018 and 2017, the Calabasas building incurred operating expenses (including depreciation) in the amount of $187,904 and $166,974, respectively, 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, 2018, 14,481 square feet of the Calabasas building was leased to non-affiliated entities. As of March 31, 2018 the Calabasas building was fully occupied.

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.

NOTE 7 – SEGMENT REPORTING

Accounting Standards Codification (“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 93% and 92% of consolidated revenues for the three months ended March 31, 2018 and 2017, respectively. The Company’s remaining operations constitute a variety of specialty insurance services, each with unique characteristics and individually insignificant to consolidated revenues.

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

Three Months Ended March 31 2018 2017 Revenues Insurance company operation $8,182,019 $8,201,097 Other insurance operations 3,042,771 3,389,455 Intersegment eliminations (1) (2,417,899) (2,630,055) Total other insurance operations 624,872 759,400 Total revenues $8,806,891 $8,960,497 Loss Before Income Taxes Insurance company operation $(1,952,614) $(3,063,919) Other insurance operations (859,317) (203,430) Total loss before income taxes $(2,811,931) $(3,267,349)

As of March 31 December 31 2018 2017 Assets Insurance company operation $118,235,474 $117,274,626 Intersegment eliminations (2) (3,223,421) (2,486,500) Total insurance company operation 115,012,053 114,788,126 Other insurance operations 15,978,259 15,510,632 Total assets $130,990,312 $130,298,758

(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, 2018, and December 31, 2017:

	Level 1	Level 2	Level 3	Total
March 31, 2018				
Financial instruments:				
Available-for-sale fixed maturities:				
U.S. treasury securities	$10,202,657	$—	$—	$10,202,657
Corporate securities	—	31,280,064	—	31,280,064
Agency mortgage backed securities	—	22,708,693	—	22,708,693
Held-to-maturity fixed securities:				
Certificates of deposit	—	23,848,000	—	23,848,000
Total fixed maturities	10,202,657	77,836,757	—	88,039,414
Cash and restricted cash	262,608	—	—	262,608
Short-term investments	6,011,792	—	—	6,011,792
Total financial instruments at fair value	$16,477,057	$77,836,757	$—	$94,313,814
December 31, 2017				
Financial instruments:				
Available-for-sale fixed maturities:				
U.S. treasury securities	$7,454,225	$—	$—	$7,454,225
Corporate securities	—	28,657,640	—	28,657,640
Agency mortgage-backed securities	—	21,737,589	—	21,737,589
Held-to-maturity fixed securities:				
Certificates of deposit	—	28,098,000	—	28,098,000
Total fixed maturities	7,454,225	78,493,229	—	85,947,454
Cash and restricted cash	774,226	—	—	774,226
Short-term investments	10,440,496	—	—	10,440,496
Total financial instruments at fair value	$18,668,947	$78,493,229	$—	$97,162,176

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, 2018 and 2017.

NOTE 9 – INVESTMENTS

A summary of investment income, net of investment expenses, is as follows:

Three Months Ended March 31	2018	2017
Fixed maturities	$462,167	$178,433
Short-term investments	7,947	33,802
Gross investment income	470,114	212,235
Less investment expenses	(25,315)	—
Net investment income	$444,799	$212,235

The amortized cost and estimated fair values of investments in fixed maturities by category are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
March 31, 2018				
Available-for-sale fixed maturities:				
U.S. treasury securities	$10,364,634	$1,532	$(163,509)	$10,202,657
Corporate securities	32,020,488	9,167	(749,591)	31,280,064
Agency mortgage-backed securities	23,243,029	3,197	(537,533)	22,708,693
Held-to-maturity fixed securities:				
Certificates of deposits	23,848,000	—	—	23,848,000
Total fixed maturities	$89,476,151	$13,896	$(1,450,633)	$88,039,414

Amortized
Cost Gross
Unrealized

Gains Gross
Unrealized Losses Estimated
Fair
Value December 31, 2017 Available-for-sale fixed maturities: U.S. treasury securities $7,517,901 $21 $(63,697) $7,454,225 Corporate securities 28,745,223 43,204 (130,787) 28,657,640 Agency mortgage-backed securities 21,889,996 — (152,407) 21,737,589 Held-to-maturity fixed securities: Certificates of deposits 28,098,000 — — 28,098,000 Total fixed maturities $86,251,120 $43,225 $(346,891) $85,947,454

A summary of the unrealized gains (losses) on investments in fixed maturities carried at fair value and the applicable deferred federal income taxes are shown below:

March 31 December 31 2018 2017 Gross unrealized gains on fixed maturities $13,896 $43,225 Gross unrealized losses on fixed maturities (1,450,633) (346,891) Net unrealized losses on fixed maturities (1,436,737) (303,666) Deferred federal tax benefit 301,715 63,770 Net unrealized losses, net of deferred income taxes $(1,135,022) $(239,896)

A summary of estimated fair value, gross unrealized losses, and number of securities in a gross unrealized loss position by the length of time in which the securities have continually been in that position is shown below:

Less than 12 Months 12 Months or Longer

Estimated Fair Value

Gross Unrealized Losses

Number of Securities

Estimated Fair Value

Gross Unrealized Losses

Number of Securities

	Less than 12 Months			12 Months or Longer		
	Estimated Fair Value	Gross Unrealized Losses	Number of Securities	Estimated Fair Value	Gross Unrealized Losses	Number of Securities
March 31, 2018						
U.S. treasury securities	$9,218,906	$(163,509)	7	$—	$—	—
Corporate securities	29,825,023	(749,591)	40	—	—	—
Agency mortgage-backed securities	20,766,633	(537,533)	17	—	—	—
Total	$59,810,562	$(1,450,633)	64	$—	$—	—
December 31, 2017						
U.S. treasury securities	$7,454,204	$(63,697)	6	$—	$—	—
Corporate securities	20,335,512	(130,787)	26	—	—	—
Agency mortgage-backed securities	21,737,589	(152,407)	17	—	—	—
Total	$49,527,305	$(346,891)	49	$—	$—	—

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 as of March 31, 2018, and December 31, 2017, were determined to be temporary.

Although the Company does not intend to sell its fixed maturity investments prior to maturity, the Company may sell investment securities from time to time in response to cash flow requirements, economic and/or market conditions. The Company did not sell any fixed maturities investments and there were no realized investment gains or losses during the three months ended March 31, 2018 and 2017. The unrealized gains or losses from fixed maturities are reported as "Accumulated other comprehensive income or loss," which is a separate component of stockholders' equity, net of any deferred tax effect.

The Company's investment in certificates of deposit included $23,448,000 and $27,698,000 of brokered certificates of deposit as of March 31, 2018, and December 31, 2017, respectively. Brokered certificates of deposit provide the safety and security of a certificate of deposit combined with the convenience gained by one-stop shopping for rates at various institutions. This allows the Company to spread its investments across multiple institutions so that all of its certificate of deposit investments are insured by the Federal Deposit Insurance Corporation ("FDIC"). Brokered certificates of deposit are purchased through UnionBanc Investment Services, LLC, a registered broker-dealer, investment advisor, member of FINRA/SIPC, and a subsidiary of Union Bank, N.A. Brokered certificates of deposit are a direct obligation of the issuing depository institution, are bank products of the issuing depository institution, are held in the name of Union Bank as Custodian for the benefit of the Company, and are FDIC insured within permissible limits. All the Company's brokered certificates of deposit are within the FDIC insured permissible limits.

The following securities from four different banks represent statutory deposits that are assigned to and held by the California State Treasurer and the Insurance Commissioner of the State of Nevada. These deposits are required for writing certain lines of business in California and for admission to transact insurance business in the state of Nevada.

	March 31	December 31
	2018	2017
Certificates of deposit	$400,000	$400,000
Short-term investments	200,000	200,000
Total state held deposits	$600,000	$600,000

All the Company's brokered and non-brokered certificates of deposit are within the FDIC insured permissible limits. Due to nature of the Company's business, certain bank accounts may exceed FDIC insured permissible limits.

Short-term investments have an initial maturity of one year or less and consist of the following:

	March 31	December 31
	2018	2017
Custodial trust	$946,383	$6,275,648
U.S. treasury bills	—	1,148,395
Certificates of deposit	200,000	200,000
Commercial paper	—	499,383
Bank money market accounts	4,863,646	2,315,307
Bank savings account	1,763	1,763
Total short-term investments	$6,011,792	$10,440,496

NOTE 10 – CASH AND RESTRICTED CASH

The following table provides a reconciliation of cash and restricted cash reported within the Condensed Consolidated Balance Sheets to the amounts shown in the Condensed Consolidated Statements of Cash Flows:

	March 31	December 31
	2018	2017
Cash	$262,608	$774,226
Restricted cash	—	—
Cash and restricted cash	$262,608	$774,226

The restricted cash was represented by two cash deposits placed by Crusader with the Los Angeles Superior Court in lieu of appeal bonds. In December 2015, a judgment was finalized on a Crusader policy liability claim. Crusader appealed the judgment. As a part of the appeal, Crusader deposited $7,924,178 in cash with the Los Angeles Superior Court on December 28, 2015, in lieu of an appeal bond. This cash deposit was required to appeal the judgment. In March 2016, an additional judgment for plaintiff's attorney fees and costs on this Crusader policy liability claim was finalized. Crusader appealed this additional judgment. That additional appeal required an additional $5,449,615 cash deposit, which was made on March 21, 2016, in lieu of an appeal bond. In September 2017, the two judgments were settled between the parties thereto for a total of $7,000,000 which was paid from the two deposits, and the remaining funds on deposit with the Los Angeles Superior Court for the two appeals in the amount of $6,373,793 were returned to Crusader and were invested in fixed maturities and short-term investments.

NOTE 11 – UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

The following table provides an analysis of Crusader's loss and loss adjustment expense reserves, including a reconciliation of the beginning and ending balance sheet liability for the periods indicated:

	Three Months Ended March 31	
	2018	2017
Reserve for unpaid losses and loss adjustment expenses at January 1 – gross of reinsurance	$49,076,991	$47,055,787
Less reinsurance recoverable on unpaid losses and loss adjustment expenses	8,393,550	9,520,970
Reserve for unpaid losses and loss adjustment expenses at January 1 – net of reinsurance	40,683,441	37,534,817
Incurred losses and loss adjustment expenses:		
Provision for insured events of current year	6,009,138	6,497,566
Development of insured events of prior years	1,792,619	2,027,615
Total incurred losses and loss adjustment expenses	7,801,757	8,525,181
Loss and loss adjustment expense payments:		
Attributable to insured events of the current year	1,388,589	1,035,179
Attributable to insured events of prior years	4,752,912	5,020,402
Total payments	6,141,501	6,055,581
Reserve for unpaid losses and loss adjustment expenses at March 31 – net of reinsurance	42,343,697	40,004,417
Reinsurance recoverable on unpaid losses and loss adjustment expenses	11,570,306	9,885,632
Reserve for unpaid losses and loss adjustment expenses at March 31 – gross of reinsurance	$53,914,003	$49,890,049

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 $6,009,138 provision for insured events of current year for the three months ended March 31, 2018, was $488,428 lower than the $6,497,566 provision for insured events of current year for the three months ended March 31, 2017, due primarily to lower frequency and severity of short-tail property claims during the three months ended March 31, 2018.

The $1,792,619 development of insured events of prior years for the three months ended March 31, 2018, was $234,996 lower than the $2,027,615 for the three months ended March 31, 2017, due primarily to lower incurred losses and loss adjustment expenses on long-tail liability claims for 2013, 2014, and 2015 accident years during the three months ended March 31, 2018. The $1,792,619 development of insured events of prior years during the three months ended March 31, 2018, was due primarily to strengthening of 2017 and 2016 accident years loss and loss adjustment expense reserves.

NOTE 12 – CONTINGENCIES

The Company, by virtue of the nature of the business conducted by it, becomes involved in numerous legal proceedings as either plaintiff or defendant. From time to time, the Company is required to resort to legal proceedings against vendors providing services to the Company or against customers or their agents to enforce collection of premiums, commissions, or fees. These routine items of litigation do not materially affect the Company and are handled on a routine basis by the Company through its counsel.

The Company establishes reserves for lawsuits, regulatory actions, and other contingencies for which the Company is able to estimate its potential exposure and believes a loss is probable. For loss contingencies believed to be reasonably possible, the Company discloses the nature of the loss contingency, an estimate of the possible loss, a range of loss, or a statement that such an estimate cannot be made.

Likewise, the Company is sometimes named as a cross-defendant in litigation, which is principally directed against an insured who was issued a policy of insurance directly or indirectly through the Company. Incidental actions related to disputes concerning the issuance or non-issuance of individual policies are sometimes brought by customers or others. These items are also handled on a routine basis by counsel, and they do not generally affect the operations of the Company. Management is confident that the ultimate outcome of pending litigation should not have an adverse effect on the Company's consolidated results of operations or financial position. The Company vigorously defends itself unless a reasonable settlement appears appropriate.

One of the Company’s agents, which was appointed in 2008 to assist the Company in implementing its Trucking Program, failed to pay the net premium and policy fees due Unifax, the exclusive general agent for Crusader. The agent was initially late in paying its February 2009 production that was due to Unifax on April 15, 2009. In May 2009, as a result of the agent's failure to timely pay its balance due to Unifax, the Company terminated its agency agreement and assumed ownership and control of that agent's policy expirations written with the Company. The Company subsequently commenced legal proceedings against the agent corporation, its three principals (who personally guaranteed the agent's obligations) and another individual for the recovery of the balance due and any related recovery costs incurred. All related recovery costs have been expensed as incurred. The agent corporation and two of its principals filed bankruptcy. The corporation was adjudicated bankrupt. The Company obtained judgments, non-dischargeable in bankruptcy, for the full amount due from the two principals who filed bankruptcy. The other principal stipulated to a judgment of $1,200,000. The claim against the fourth individual was resolved. The Company collected $0 during the three months ended March 31, 2018 and 2017. As of March 31, 2018, and December 31, 2017, the agent's balance due to Unifax was $1,181,272. As of March 31, 2018, and December 31, 2017, the Company's bad debt reserve associated with this matter was $1,181,272, which represents 100% of the balance due to Unifax. Although the receivable is fully reserved for financial reporting purposes at March 31, 2018, the Company continues to pursue collection of the judgments from the three principals.

ITEM 2 – MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

Unico American Corporation, referred to herein as the "Company" or "Unico," is an insurance holding company that underwrites property and casualty insurance through its insurance company subsidiary, Crusader Insurance Company ("Crusader"); provides property, casualty, health and life insurance through its agency subsidiaries, Unifax Insurance Systems, Inc. ("Unifax") and American Insurance Brokers, Inc. ("AIB"); provides insurance premium financing through its subsidiary American Acceptance Company ("AAC"); and provides membership association services through its subsidiary Insurance Club, Inc., dba AAQHC, an Administrator ("AAQHC").