2015

ANNUAL REPORT TO SHAREHOLDERS

California Casualty Management Co.

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The Pathfinder, a bronze sculpture of a "mountain man," was commissioned by Carl G. Brown, Jr. in 1981 to symbolize the character and resourcefulness which was required of trailblazers in early American history to triumph over - as well as appreciate - life's challenges.

Just as a "pathfinder" must constantly depend on his or her skills to survive and progress in a highly competitive world, we believe the key to our success is to continually find effective ways to deliver quality service to our clients.

The signed and numbered statue by the well-known sculptor, Edward J. Fraughton, is presented annually to one California Casualty employee who exemplifies these qualities through his or her work, as well as devotion to community.

The Carl G. Brown, Jr. Award of Excellence is California Casualty's highest honor.

California Casualty Management Company (CCMC) employees responded swiftly and compassionately to help customers rebuild their lives after the worst California fire season since 2007. The Valley Fire, which devastated Middletown and surrounding areas of Lake County, killed four people and was the third most damaging fire in California history based on total structures burned. In the Valley, Butte and Tassajara fires, 16 California Casualty Group (CCG) policyholders lost their homes.

Our team's initial priority was to write additional living expense checks for our customers, many of whom were left with only the clothes on their backs. California Casualty's presence in the months after the fire continued to be strong and included collaborating with community leaders to host a barbeque to bring the entire community together for Middletown High School's postponed homecoming in November.

These fires prevented California Casualty from hitting our 2015 combined ratio goal. However, the fire losses were not large enough to trigger our catastrophe excess-of-loss reinsurance, and the impact of the California fires on CCG surplus was less than three percent. California Casualty helps people in their greatest time of need. We commend our employees for their extraordinary commitment to California Casualty's customers affected by the 2015 California fires.

CCMC FINANCIAL PERFORMANCE

CCMC net income for 2015 was $4.6 million, and revenue was $123.9 million. CCMC did not earn an incentive fee in 2015 because CCG produced a pre-tax loss.

CCMC achieved a 9.8 percent return on adjusted beginning shareholders' equity of $46.7 million. This percentage rate of return on equity is lower compared to CCMC's 10-year and 20-year historical averages of 11.0 percent and 12.5 percent, respectively. One reason for this lower than average return is CCMC's decision in 2013 to reduce its return on operating capital in order to support management's efforts to lower CCG's expense ratio. In December 2013, the CCMC Board approved a reduction in CCMC's return on operating capital to apply in 2013, 2014 and 2015. This reduction benefitted CCG's combined ratio by approximately 0.9 percentage points in 2013, 2014 and 2015.

Investment income of $4.8 million exceeded 2014 investment income of $3.8 million, due to higher realized gains on investment sales in 2015.

Total shareholder return, on an adjusted basis, of 7.9 percent was lower than the 9.8 percent return on adjusted beginning shareholders' equity due to other comprehensive income of negative $0.9 million. Components of other comprehensive income were a $2.9 million decrease in net unrealized gains on investment securities, partially offset by a favorable $2.0 million adjustment resulting from the accounting impact of higher interest rates on CCMC's non-qualified pension plan. This percentage rate of total return is lower than CCMC's 10-year and 20-year historical averages of 9.6 percent and 11.8 percent, respectively.

At December 31, 2015, the adjusted book value of CCMC common stock was $44.15, up slightly from $44.13 at December 31, 2014. There was very little movement in CCMC's stock price given that all of CCMC's net income and comprehensive income, totaling $3.7 million, was paid out in dividends at $3.50 per share. Our preliminary dividend target for 2016 is payment of $3.75 per share. Such dividends are not guaranteed.

On a Generally Accepted Accounting Principles (GAAP) basis, CCMC had shareholders' equity of $9.1 million and a book value per share of $8.65 at December 31, 2015, compared to shareholders' equity at December 31, 2014, of negative $5.2 million and a book value per share of negative $4.93. The decision in February 2015 to freeze CCMC's defined benefit pension plan effective December 31, 2015, resulted in a pension re-measurement as of February 28, 2015, that increased CCMC GAAP shareholders equity by approximately $15.8 million. Notes 9 and 11 of CCMC's financial statements explain how cumulative charges, resulting from recognition of the funded status of employee benefit plans in the balance sheet as required by pension accounting standards implemented at December 31, 2007, are removed to generate CCMC's adjusted book value of $44.15.

CCMC maintains a strong liquidity position, with $47.9 million in cash and marketable securities at December 31, 2015, down from $57.6 million at December 31, 2014. Factors contributing to the decline in cash and marketable securities in 2015 were a $13.0 million qualified defined benefit pension plan contribution and $3.7 million in dividend payments to shareholders, partially offset by net income of $4.6 million and $2.4 million from all other corporate activity.

CCMC made similar pension contributions of $13.0 million in both 2013 and 2014, for a total of $39.0 million over the past three years. The qualified defined benefit pension plan, which ceased accruing additional benefits as of year-end, was 86.9% funded at December 31, 2015, with $185.8 million in assets compared to $213.9 million in liabilities. Since this plan is now frozen, all employees will participate in CCMC's defined contribution plan going forward.

CCG OPERATING AND FINANCIAL PERFORMANCE

Our primary profitability goal for 2015 was to improve CCG's personal lines combined ratio from 109.8% in 2014 to 108.8% in 2015. We were on track to achieve this improvement prior to the California wildfires. CCG's final combined ratio for 2015 was 111.9%, with 3.0 percentage points of this result attributable to the wildfires.

Reaching for two positives in this disappointing result, we know that:

1) we delivered for teachers, law enforcement officers and firefighters impacted by the California fires in their greatest time of need, and
2) our core underwriting results improved in 2015.

Our strategy going forward is to match improved underwriting with more competitive pricing in many of our markets to generate profitable growth.

CCG's personal lines incurred loss ratio rose from 66.1 percent in 2014 to 68.2 percent in 2015. Excluding the California wildfires, our loss ratio improved. In particular, we were pleased to post a 2015 non-California homeowners loss ratio of 57.5 percent, reflecting improvement due to a series of underwriting changes implemented over the past two years. This strong result in an underperforming segment of our book of business reflects hard work and collaboration by employees across many departments, particularly Home Office Underwriting, Underwriting Operations and Sales.

Direct written premium grew from $336.7 million in 2014 to $341.3 million in 2015. Much of our premium growth was due to an initiative to transition customers to more adequate coverage limits, as well as continued work with our partner, QPC, to identify and correct sources of premium leakage.

Customers in force declined in 2015 from 169,681 to 166,248, and customer retention declined from 91.1 percent to 90.6 percent. It is notable, however, that retention stabilized at 90.6 percent for the last five months of the year. This stabilization coincided with the completion of a second phase of homeowners underwriting changes.

Customer Service satisfaction at 99.6 percent was more than a half point better than plan, and Claims satisfaction at 96.1 percent was more than a full point better than plan. CCMC expenses were $2.6 million favorable to plan.

CCG's net income was negatively impacted by the long-expected expiration of its 15 year quota share reinsurance agreement with Fireman's Fund on December 31, 2014. When viewed in total, the agreement with Fireman's Fund greatly benefitted CCG's operating results during the period 2000 – 2014.

CCG net income was negative $37.8 million in 2015 compared to negative $8.7 million in 2014. Of this $37.8 million net loss, $14.3 million was due to the quota share agreement expiration and $8.5 million was due to the California fires. CCG surplus decreased by $34.8 million, dropping from $319.1 million at December 31, 2014, to $284.3 million at December 31, 2015.

CCG's personal lines loss adjustment expense ratio improved from 16.4 percent in 2014 to 15.9 percent in 2015. CCG's personal lines underwriting expense ratio deteriorated from 27.3 percent in 2014 to 27.8 percent in 2015.

CCG's 2015 operating cash flow ratio was 113.2 percent, while its underwriting cash flow ratio was 108.1 percent. In comparison, CCG's 2014 operating and underwriting cash flow ratios were 97.4 percent and 91.0 percent, respectively. This substantial improvement in cash flow for 2015 is also an anomaly relating to the expiration of the quota share reinsurance agreement with Fireman's Fund.

CCG is well capitalized. Our preliminary projection for CCG's 2015 Best's Capital Adequacy Ratio (BCAR) is that it will be approximately 255 percent. The expiration of the quota share reinsurance agreement with Fireman's Fund accounts for approximately 115 points of the decline in CCG's BCAR from 391 to 255, with the remainder due to CCG's operating loss, including the California wildfires.

2016 STRATEGY FOR GROWTH AND PROFITABILITY

The primary components of our strategy – to match improved underwriting with more competitive pricing in many of our markets to generate profitable growth – are:

- Underwriting: Maintain home gains and implement auto improvements
- Pricing: Improve competitiveness in select markets and expand multivariate rating capability
- Operational Effectiveness: Introduce process changes and technology to enhance customer experience and control expenses
- Relationships: Build on our main source of competitive advantage
- Regional focus: Win customers by tailoring our approach

Underwriting

Improved underwriting benefits the vast majority of our group customers and prospects by enabling more competitive pricing. Home underwriting changes introduced in 2013 – 2014 have improved our book of business. As 2016 begins, we will introduce auto underwriting changes. The loss ratio impact of these auto changes will be smaller, but the auto changes can be implemented much more quickly and will impact premium that is three times larger than our homeowners premium.

We will continue to conduct regular underwriting audits for auto and home to ensure adherence to the new underwriting rules, and we will continue to review and improve upon those rules.

Pricing

Underwriting improvements will enable us to file more competitive pricing in 2016 – 2017 in states where California Casualty's pricing is above market level. We project the overall impact of these price changes to be a reduction of 1.4 percent and 1.2 percent on our auto and home book, respectively. While the overall countrywide price change is small, some states may benefit from reductions in the 6% - 10% range.

When we file changes, we will introduce multivariate rating components and finer pricing granularity. Increased competitiveness and pricing sophistication will yield better close ratios, customer retention and new business production.

Operational Effectiveness

In 2016, we will begin to benefit from reduced acquisition cost per sale due to more competitive pricing. In addition, we will focus on process and technology projects to enhance customer experience and control expenses. Some of these projects will be completed in 2016, and others will extend into 2017.

We aim to go live in 2017 with a new front-end system for homeowners, Quote Portal Home. Quote Portal Auto was a big technology "win" for California Casualty and provides a stable foundation for future development. Quote Portal Home will make the sales process more seamless for customers who want a both an auto quote and a home quote via the Internet, and it will improve the quoting process for our internal representatives.

We also plan to improve the customer experience for online policy documents, auto proof-of-insurance cards and payments. This work will include process improvement and website/mobile enhancements.

Relationships

California Casualty's relationships are a source of competitive advantage. In 2016, we will pilot new partnering ideas with NEA to deepen our relationship with local education association leaders in areas where we feel we have an opportunity to grow. We will also adjust Field Marketing Manager priorities so they can spend more time cultivating relationships, developing advocates and testimonials, and identifying opportunities to support the state and local events that are so important to our groups and their members.

Regional Focus

We will begin to tailor our approach in 2016 to seven different regions of the country:

- California
- Northwest
- Southwest
- Midwest
- Great Lakes
- East
- Southeast

We will dedicate resources to understanding regional differences, and we will train our service center and field representatives on these differences. In some regions we will focus on writing new business, and in others we will focus on retaining existing customers. Our messaging and social media activities will vary by region, and our brand energizers may also vary by region. The great work by our Market Committee to review market factors and data on a state-by-state basis will help us match our tactics to a region's unique circumstances.

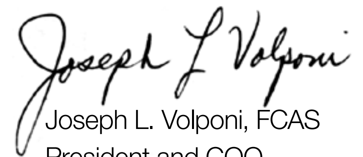
CONTINUING TO PROTECT AMERICAN HEROES

With a strategy focused on sustained underwriting improvement and more competitive pricing across many of our markets, we expect to generate not only premium growth but also customer growth during our 2016 – 2019 forecast period. We have several years remaining on our current contracts with NEA's Member Benefits Corporation and the California Teachers Association. Program participation is very important to these groups, and we look forward to expanding participation and serving more NEA and CTA K-12 educators and education support professionals.

Growth in our larger public safety and higher education segments has been strong over the past two years, primarily because many of these groups are based in California where our recent results have been excellent. If we execute on our strategy, we will grow in these segments nationwide. It is also our intent to start to expand in the nurse segment again, after choosing to slow down in 2014 and 2015 to make sure we could underwrite and price this segment properly.

We look forward to teaming up with our group and association partners to grow participation among their members. We are privileged to serve those who serve our communities. We Protect American Heroes.

Carl B. (Beau) Brown, CPCU
Chairman and CEO



Joseph L. Volponi, FCAS
President and COO

Independent Auditor's Report

To the Board of Directors of California Casualty Management Company,

We have audited the accompanying financial statements of California Casualty Management Company, which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of income and comprehensive income, of shareholders' equity (deficit) and of cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of California Casualty Management Company as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

April 8, 2016

	2015	2014
Assets		
Current assets		
Cash and cash equivalents	$ 12,206	$ 8,139
Investment securities	35,665	49,456
Receivables	2,844	2,000
Income taxes recoverable	2	54
Deferred income taxes, net	1,552	-
Prepaid expenses and other	4,134	5,284
Total current assets	56,403	64,933
Property and equipment, net	33,945	36,974
Deferred income taxes, net	22,416	33,027
Other noncurrent assets	554	670
Total assets	$ 113,318	$ 135,604
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	$ 2,312	$ 2,241
Employee compensation	11,013	10,801
Accrued benefit liability	3,357	3,351
Taxes payable	362	419
Deferred income taxes, net	-	47
Other current liabilities	4,267	4,017
Total current liabilities	21,311	20,876
Capital lease obligations	4,983	8,219
Accrued benefit liability	75,749	109,029
Noncurrent employee compensation	1,079	1,131
Deferred gain on sale of real estate	581	993
Other noncurrent liabilities	509	564
Total liabilities	104,212	140,812
Commitments (Note 7)		
Shareholders' Equity (Deficit)		
Capital stock - no par value	15,250	15,217
Common stock with put right (Note 3)	15,193	15,185
Accumulated other comprehensive loss	(43,194)	(56,815)
Retained earnings	21,857	21,205
Total shareholders' equity (deficit)	9,106	(5,208)
Total liabilities and shareholders' equity (deficit)	$ 113,318	$ 135,604

The accompanying notes are an integral part of these financial statements.

Years Ended December 31, 2015 and 2014
(dollars in thousands)

	2015	2014
Revenue		
Management fee	$ 122,698	$ 117,472
Other	1,249	1,245
Total revenue	123,947	118,717
Operating expenses		
Personnel	79,859	76,674
Acquisition and professional services	19,275	18,398
Facility and equipment	11,685	10,203
Communications	7,476	7,765
Other	3,010	2,852
Total operating expenses	121,305	115,892
Operating income	2,642	2,825
Investment income (includes reclassification of $2,507 and $1,715, net of tax of $1,291 and $883, for 2015 and 2014, respectively from other comprehensive income for net gain on investments)	4,833	3,821
Interest expense	(679)	(914)
Income before provision for income taxes	6,796	5,732
Provision for income taxes	2,228	1,892
Net income	4,568	3,840
Other comprehensive income (loss), net of tax		
Unrealized gain/(loss) on investments (net of tax of ($195) and $739 for 2015 and 2014, respectively)	(377)	1,435
Less: Reclassification adjustment for net gain included in net income (net of tax of ($1,291) and ($883) for 2015 and 2014, respectively)	(2,507)	(1,715)
Change in employee retirement benefit plans (net of deferred taxes of $8,502 and ($15,751) for 2015 and 2014, respectively) (Note 11)	16,505	(30,575)
Other comprehensive income (loss)	13,621	(30,855)
Comprehensive income (loss)	$ 18,189	$ (27,015)

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)

YEARS ENDED DECEMBER 31, 2015 AND 2014

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AND SHARE AMOUNTS)

	Capital Stock	Common Stock with Put Right	Accumulated Other Comprehensive Income/(Loss)	Retained Earnings	Total
Balances at December 31, 2013	14,352	$ 16,875	$ (25,960)	$ 20,007	$ 25,274
Net income				3,840	3,840
Change in carrying value of common stock with put right (Note 3)		(1,690)		1,690	-
Capital stock retired (21,426 shares)	(194)			(852)	(1,046)
Dividends paid to shareholders ($3.25 per share)				(3,480)	(3,480)
Stock issued in long-term executive incentive plan (13,241 shares)	649				649
Stock issued in executive stock plan (8,353 shares)	410				410
Change in unrealized gain on investments, net of deferred tax of ($144)			(280)		(280)
Change in employee retirement benefit plans, net of deferred tax of ($15,751) (Note 11)			(30,575)		(30,575)
Balances at December 31, 2014	15,217	15,185	(56,815)	21,205	(5,208)
Net income				4,568	4,568
Change in carrying value of common stock with put right (Note 3)		8		(8)	-
Capital stock retired (25,580 shares)	(908)			(166)	(1,074)
Dividends paid to shareholders ($3.50 per share)				(3,742)	(3,742)
Stock issued in long-term executive incentive plan (16,291 shares)	719				719
Stock issued in executive stock plan (5,029 shares)	222				222
Change in unrealized gain on investments, net of deferred tax of ($1,486)			(2,884)		(2,884)
Change in employee retirement benefit plans, net of deferred tax of $8,502 (Note 11)			16,505		16,505
Balances at December 31, 2015	$ 15,250	$ 15,193	$ (43,194)	$ 21,857	$ 9,106

The accompanying notes are an integral part of these financial statements.

Years Ended December 31, 2015 and 2014
(dollars in thousands)

	2015	2014
Cash flows from operating activities		
Net income	$ 4,568	$ 3,840
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization on property and equipment	5,637	4,957
Amortization on bonds	239	380
Gain on sale of real estate	(412)	(412)
Net gain on sale of property and equipment	(68)	(82)
Net realized gain on investment securities	(3,798)	(2,598)
Provision for deferred income taxes	2,042	1,892
Changes in		
Receivables and other assets	474	(141)
Payables, accrued expenses, and other liabilities	(7,272)	(12,582)
Net cash provided by (used in) operating activities	1,410	(4,746)
Cash flows from investing activities		
Proceeds from sale of property and equipment	144	171
Purchase of property and equipment	(2,683)	(4,019)
Proceeds from sale and maturities of investment securities	19,393	17,489
Purchase of investment securities	(6,413)	(7,731)
Net cash provided by investing activities	10,441	5,910
Cash flows from financing activities		
Payments on capital lease obligations	(2,968)	(2,771)
Capital stock retired	(1,074)	(1,046)
Dividends paid to shareholders	(3,742)	(3,480)
Cash used in financing activities	(7,784)	(7,297)
Net change in cash and cash equivalents	4,067	(6,133)
Cash and cash equivalents		
Beginning of year	8,139	14,272
End of year	$ 12,206	$ 8,139
Supplemental disclosure of cash flow information		
Cash paid during the year for income taxes	$ 201	$ 286
Supplemental schedule of noncash investing and financing activities		
Capital stock issued through employee stock plans	$ 941	$ 1,059

The accompanying notes are an integral part of these financial statements.

1. Affiliations and Segment Information

California Casualty Management Company ("CCMC") is the attorney-in-fact for the California Casualty Indemnity Exchange ("CCIE"), a reciprocal insurance exchange, and manager for CCIE's wholly owned subsidiaries. CCIE and its subsidiaries are collectively referred to as the California Casualty Group ("CCG").

CCMC operates in the insurance services segment. CCG is a personal lines insurance group headquartered in San Mateo, California, and Portland, Oregon writing automobile and homeowner insurance policies. Some directors and officers of CCMC are nonvoting members of the Boards and/or are officers of CCG.

2. Summary of Significant Accounting Policies

Basis of Presentation
The accompanying financial statements are prepared and presented in conformity with accounting principles generally accepted in the United States of America ("GAAP").

Use of Estimates
GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents
Cash equivalents are all highly liquid investments with insignificant interest rate risk which have original maturities of three months or less. CCMC's cash equivalents are stated at cost which approximates fair value and generally consist of money market funds and high quality short-term fixed income securities.

Investment Securities
CCMC classifies its marketable investment securities as available-for-sale. Accordingly, investment securities are reported at fair value. Investment securities are classified as current assets in the balance sheets as they represent funds available for current operations. Unrealized gains and losses on securities are recorded, net of tax, as a separate component of shareholders' equity (deficit) under accumulated other comprehensive income ("AOCI"). Gains and losses on investment securities that were realized and included in net income of the current period that also had been included in other comprehensive income ("OCI") as unrealized holding gains and losses in the period in which they arose are deducted through OCI in the current period as reclassification adjustments. Realized gains and losses on sales of investments are recognized on a first-in, first-out basis.

CCMC reviews its investment portfolio for reductions in fair value below cost that, in the opinion of CCMC, represent an other-than-temporary impairment ("OTTI"). Management reviews several factors to determine whether a loss is other than temporary, such as the length of time a security is in an unrealized loss position, the extent to which fair value is less than amortized cost, the impact of changing interest rates in the short and long term and the potential impact of credit–related losses.

For bonds, the amount of an OTTI related to a credit loss is recognized in investment income as a realized loss. Similarly, an impairment on a bond which CCMC has the intent, at the balance sheet date, to sell or will more likely than not be required to sell before recovery of cost, is also recognized in investment income as a realized loss. This OTTI is also reflected as a reduction in the cost basis of the bond. The amount of an unrealized loss on bonds related to other factors is recorded, net of tax, as a component of shareholders' equity (deficit) in AOCI with no change to the cost basis of the security. For stocks, an OTTI is recognized in investment income and reflected as a reduction of the cost basis of the security based on the extent and duration that fair value is below cost, in addition to issuer-specific events.

Fair Value Option

CCMC has adopted current authoritative accounting guidance which permits entities to elect to measure eligible items at fair value at specified dates. CCMC did not elect to apply the fair value option to any eligible financial assets or financial liabilities upon adoption, or during the years ended December 31, 2015 and 2014. CCMC may elect to account for selected financial assets and financial liabilities at fair value. Such an election could be made at the time an eligible financial asset, financial liability or firm commitment is recognized or when certain specified reconsideration events occur.

Disclosures About Fair Value of Financial Instruments

The fair value of investment securities classified as available-for-sale is based upon quoted market prices or fair values quoted by an independent pricing service based on sales of similar securities. Management monitors fair value by reviewing market prices during the year. The carrying amounts of cash and short-term investments are reasonable estimates of fair value.

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation and amortization. Depreciation is recognized principally using a straight-line method over the estimated useful lives of the assets (estimated lives range from three to ten years for equipment and automobiles and up to thirty nine years for property). Leasehold improvements are amortized over the useful life of the improvement or the applicable lease term, whichever is shorter. Cost of property and equipment retired or otherwise disposed of and the related accumulated depreciation and amortization are removed from the accounts, and the resulting gains or losses are included in results of operations in the period disposed.

Computer software developed or obtained for internal use is capitalized. Upon project completion, these costs are amortized over the estimated useful life of the software (estimated lives range from three to ten years) on a straight-line basis.

Revenue Recognition

Revenue from management fee and other services are recognized as earned when the underlying services are performed because such services are rendered under contracts, the price is determinable, and collectability is reasonably assured.

Other revenue is comprised of commissions earned on premiums for specialty types of insurance coverage provided to CCG's policyholders through CCMC's strategic underwriting partners. Commissions are earned at the later of the bill date or inception date of the policies.

Income Taxes
CCMC accounts for income taxes using a balance sheet approach. Under this method, the provision for income taxes is based on pretax financial statement income and includes amounts that are both currently payable and deferred. Deferred income tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax basis of assets and liabilities and their reported amounts using enacted rates.

Accounting for Unrecognized Tax Benefits
Current authoritative accounting guidance for unrecognized tax benefits requires a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. CCMC records a liability for the difference between the benefit recognized and measured pursuant to the guidance and the tax position taken or expected to be taken on CCMC's tax return. A liability is established when CCMC believes that certain tax return positions may be challenged despite CCMC's belief that the positions are fully supportable. The liability may be adjusted in light of revised assessments of a tax return position, or in the case of changing facts and circumstances, such as the outcome of a tax audit. Adjustments to the liability are recorded in the period in which the determination is made. The provision for income taxes includes the impact of initial liability recognition and any subsequent adjustments to those liabilities that are considered appropriate. Accrued interest and penalties related to unrecognized tax benefits are also recognized in the provision for income tax.

Variable Interest Entities
Current authoritative accounting guidance for the consolidation of variable interest entities ("VIEs") requires a qualitative assessment of whether an entity has the power to direct the VIE's activities and, whether the entity has the obligation to absorb losses or the right to receive benefits that could be significant to the VIE. The guidance also requires an ongoing reassessment of whether an entity is the primary beneficiary of a VIE. CCMC has evaluated its relationship with CCG to determine whether or not consolidation is required under this guidance.

Management's assessment included consideration of CCG's equity (surplus), which is more than adequate to finance its ongoing operations, as well as the governance and organizational structure of both CCMC and CCG. CCMC's Board of Directors and CCG's Advisory Board have no overlapping authorities or responsibilities. Management concluded that CCG's Advisory Board holds and exercises the power to direct the activities that most significantly impact the economic performance of CCG, therefore CCMC is not the primary beneficiary and consolidation is not required.

CCMC has no loss exposure as a result of its relationship with CCG (Note 1, Note 3).

Recent Accounting Standards
Amendments to Guidance for Recognition of Leases for Lessees

On February 25, 2016, the FASB issued a new Accounting Standard, *Leases* (ASC 842). According to the new standard, lessees will need to recognize all leases (other than short-term leases) on the balance sheet, by recording a right-of-use asset and lease liability, equal to the present value of lease payments. The expense recognition and amortization of the leased assets will vary depending on the classification of the lease as either operating lease or finance lease. For operating leases, the standard requires recognizing a lease expense on a straight-line basis, with interest expense on the lease and amortization of the leased asset included in the amount reported

in the income statement. For finance leases, interest expense and a straight-line amortization expense are required to be reflected separately in the income statement, with the total expense declining throughout the lease term. The standard adds new disclosure requirements regarding the nature and terms of the leases. For non-public companies, the standard is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. CCMC is currently assessing the impact of this guidance on its financial statements.

Amendment to Guidance for Fair Value Measurement Disclosures

The Financial Accounting Standards Board ("FASB") recently issued Accounting Standards Update (ASU) 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). Impacting reporting entities that measure an investment's fair value using the net asset value per share (or an equivalent) practical expedient, the amendments in ASU No. 2015-07 eliminated the requirement to classify the investment within the fair value hierarchy. In addition, the requirement to make specific disclosures for all investments eligible to be assessed at fair value using the net asset value per share has been removed. Instead, such disclosures are restricted only to investments that the entity has decided to measure using the net asset value per share. The amendments will be effective for non-public entities for fiscal years starting after December 15, 2016. Early adoption is permitted. CCMC is currently assessing the impact of this guidance on its financial statements.

3. Related Party Transactions

Management Fee and Reimbursements

CCMC is the attorney-in-fact for CCIE and manager for CCIE's wholly owned subsidiaries under various management agreements. CCMC is paid a fee consisting of expenses incurred on behalf of CCG plus a markup not to exceed 25% of expenses. In establishing the markup, CCMC's management considers several factors, including CCG's financial strength, operating results and the competitiveness of CCG's insurance products. CCG's 2015 premium and equity (surplus) are approximately $341,300 and $284,300, respectively. An annual incentive fee of up to 10% of CCG's calendar year pre-tax income, calculated after giving effect to such incentive fee, may also be paid to CCMC. No incentive fee was earned by CCMC in 2015 and 2014. CCMC reimburses CCG for the annual savings in state income taxes that are attributable to managing CCG's operations, or charges CCG for any adjustments to true-up prior years.

The management fee earned and state income tax (savings) adjustments for the years ended December 31 are as follows:

	2015	2014
Expenses incurred	$ 121,965	$ 116,795
Markup taken	733	683
Incentive fee	-	-
State income tax (savings) adjustments	-	(6)
Net management fee	$ 122,698	$ 117,472
Maximum markup allowed (25% of expenses incurred)	$ 30,491	$ 29,199
Markup taken	(733)	(683)
Markup allowed but not taken	$ 29,758	$ 28,516

Other Transactions

In accordance with the management agreements, generally all expenses incurred by CCMC that relate to the management of CCG shall be paid by CCMC and reimbursed through the management fee. Exceptions include the following, which shall be paid by CCG or if paid by CCMC, reimbursed separately from the management fee: losses, allocated claims expense, governmental charges, premium taxes, federal and all other taxes of CCG, reinsurance, CCG Directors' expenses and specific expenses authorized by the Advisory Board of CCIE. CCMC billed CCG $609 and $728 for expenses incurred under this provision in 2015 and 2014, respectively. These transactions are shown as a reduction of CCMC expense, rather than revenue.

At December 31, 2015 and 2014, CCMC had a receivable due from CCG of $2,545 and $1,544, respectively. Related party balances are settled monthly.

CCIE Investment in CCMC

In 2004, CCIE purchased 186,000 shares of CCMC common stock from existing shareholders (158,722 Series A and 27,278 Series B) at a price of $99.09 per share. CCIE's interest in CCMC is 17.7% and 17.6% at December 31, 2015 and 2014. In accordance with the acquisition agreement, CCIE has the right to put the shares back to CCMC at a purchase price equal to the CCMC adjusted book value per share (Note 9) at the time the put right is exercised, multiplied by the same book value multiple used in the original purchase, 1.85. If CCIE exercises its put right on the 186,000 shares, at its 17.7% ownership level as of December 31, 2015, the resulting adjusted book value to the remaining shareholders will be reduced by approximately 18%. At December 31, 2015 and 2014, the carrying value of the common stock with put rights was $15,193 and $15,185, respectively, and is reported as a separate component of shareholders' equity (deficit). There is a corresponding reduction to retained earnings and, therefore, no net impact to total shareholders' equity (deficit). CCMC paid dividends to CCIE of $651 and $605 in 2015 and 2014, respectively.

4. Investment Securities

Current authoritative accounting guidance on fair value measurements applies to all financial assets and liabilities accounted for at fair value on a recurring basis, and establishes a fair value hierarchy that prioritizes inputs to valuation techniques used to measure fair value.

The guidance clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability. Fair value measurements assume the asset or liability is exchanged in an orderly manner; the exchange is in the principal market for that asset or liability (or in the most advantageous market when no principal market exists); and the market participants are independent, knowledgeable, able and willing to transact an exchange. Considerable judgment may be required in interpreting market data used to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value.

Fair Value Hierarchy
CCMC has categorized its financial instruments into a fair value hierarchy of three levels, as follows:

Level 1 When available, CCMC uses unadjusted, quoted prices in active markets for identical instruments at the measurement date. An active market is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 includes active exchange-traded equity and certain U.S. Treasury securities.

Level 2 When quoted market prices are unobservable, CCMC uses quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and inputs other than quoted prices that are derived principally from or corroborated by observable market data by correlation or other means. These quotes come from independent pricing vendors and may be based on recently reported trading activity and other relevant information including benchmark yields, market interest rate curves, referenced credit spreads and estimated prepayment rates where applicable. Level 2 includes certain corporate, municipal and asset backed bonds.

Level 3 Inputs that are unobservable in the market. These unobservable inputs reflect CCMC's own subjective estimates of assumptions that market participants would use in pricing the instrument.

Assets and Liabilities Measured at Fair Value on a Recurring Basis
The following table presents available-for-sale investments measured at fair value on a recurring basis classified by the fair value hierarchy:

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Bonds				
U.S. Government	$ 2,685	$ 954	$ -	$ 3,639
Municipal agencies		7,852		7,852
Asset backed		2,724		2,724
Industrial and miscellaneous		7,541		7,541
Total bonds	2,685	19,071	-	21,756
Stocks				
Large cap	8,909			8,909
Mid cap	3,114			3,114
Small cap	1,886			1,886
Total stocks	13,909	-	-	13,909
	$ 16,594	$ 19,071	$ -	$ 35,665

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
Bonds				
U.S. Government	$ 797	$ 1,991	$ -	$ 2,788
Municipal agencies		9,325		9,325
Asset backed		3,366		3,366
Industrial and miscellaneous		13,428		13,428
Total stocks	797	28,110	-	28,907
Stocks				
Large cap	14,273			14,273
Mid cap	4,157			4,157
Small cap	2,119			2,119
Total stocks	20,549	-	-	20,549
	$ 21,346	$ 28,110	$ -	$ 49,456

CCMC currently has no material financial liabilities that would require classification.

The cost and market values of investment securities are as follows:

	December 31, 2015			
	Cost	Unrealized Gains	Unrealized Losses	Market Value
Bonds				
U.S. Government	$ 3,655	$ 5	$ (21)	$ 3,639
Municipal agencies	7,570	282	-	7,852
Asset backed	2,730	49	(55)	2,724
Industrial and miscellaneous	7,456	132	(47)	7,541
Total bonds	21,411	468	(123)	21,756
Stocks				
Large cap	4,211	4,764	(66)	8,909
Mid cap	1,823	1,370	(79)	3,114
Small cap	1,341	634	(89)	1,886
Total stocks	7,375	6,768	(234)	13,909
	$ 28,786	$ 7,236	$ (357)	$ 35,665

	December 31, 2014			
	Cost	Unrealized Gains	Unrealized Losses	Market Value
Bonds				
U.S. Government	$ 2,776	$ 14	$ (2)	$ 2,788
Municipal agencies	9,019	306	-	9,325
Asset backed	3,320	106	(60)	3,366
Industrial and miscellaneous	13,285	202	(59)	13,428
Total bonds	28,400	628	(121)	28,907
Stocks				
Large cap	6,350	7,944	(21)	14,273
Mid cap	2,155	2,006	(4)	4,157
Small cap	1,302	824	(7)	2,119
Total stocks	9,807	10,774	(32)	20,549
	$ 38,207	$ 11,402	$ (153)	$ 49,456

The amortized cost and market value of bonds at contractual maturities at December 31, 2015 are as follows:

	Amortized Cost	Market Value
Less than one year	$ 1,505	$ 1,510
One to five years	11,784	11,941
Five to ten years	5,545	5,742
Over ten years	2,577	2,563
Total bonds	$ 21,411	$ 21,756

Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations.

Proceeds from sales of stocks during 2015 and 2014 were $7,014 and $5,841, respectively. Proceeds from sales and maturities of bonds during 2015 and 2014 were $12,379 and $11,648, respectively. Gross realized gains and losses pertaining to investment securities sold and realized losses recognized for declines in the fair value of stocks which were determined to be OTTI were as follows:

	December 31, 2015			
	Gains	Losses	OTTI	Net
Bonds				
U.S. Government	$ 31	$ (1)	$ -	$ 30
Municipal agencies	25			25
Asset backed	27			27
Industrial and miscellaneous	23	(21)		2
Total bonds	106	(22)	-	84
Stocks				
Large cap	2,665	(2)	(10)	2,653
Mid cap	965	(2)	(81)	882
Small cap	288	(18)	(91)	179
Total stocks	3,918	(22)	(182)	3,714
	$ 4,024	$ (44)	$ (182)	$ 3,798

	December 31, 2014			
	Gains	Losses	OTTI	Net
Bonds				
U.S. Government	$ 6	$ (18)	$ -	$ (12)
Municipal agencies	64			64
Asset backed	41	(30)		11
Industrial and miscellaneous	31	(3)		28
Total bonds	142	(51)	-	91
Stocks				
Large cap	1,991	(12)	(64)	1,915
Mid cap	490	(16)	(57)	417
Small cap	274	(30)	(69)	175
Total stocks	2,755	(58)	(190)	2,507
	$ 2,897	$ (109)	$ (190)	$ 2,598

Unrealized losses and related market value of investment securities are as follows:

	December 31, 2015			
	Less than 12 months		12 months or greater	
	Unrealized Losses	Market Value	Unrealized Losses	Market Value
Bonds				
U.S. Government	$ 21	$ 2,884	$ -	$ -
Municipal agencies				
Asset backed	3	611	52	819
Industrial and miscellaneous	36	3,230	11	502
Total bonds	60	6,725	63	1,321
Stocks				
Large cap	66	505		
Mid cap	79	192		
Small cap	86	312	3	31
Total stocks	231	1,009	3	31
	$ 291	$ 7,734	$ 66	$ 1,352

	December 31, 2014			
	Less than 12 months		12 months or greater	
	Unrealized Losses	Market Value	Unrealized Losses	Market Value
Bonds				
U.S. Government	$ -	$ 297	$ 2	$ 476
Municipal agencies	-	-	-	-
Asset backed	-	-	60	910
Industrial and miscellaneous	18	4,379	41	1,500
Total bonds	18	4,676	103	2,886
Stocks				
Large cap	21	348	-	-
Mid cap	3	158	1	73
Small cap	7	181	-	3
Total stocks	31	687	1	76
	$ 49	$ 5,363	$ 104	$ 2,962

The number of securities in an unrealized loss position at December 31, 2015 and 2014 were 72 and 37, respectively.

CCMC believes the unrealized losses are temporary in nature and has not recorded a realized investment loss in its results of operations related to these securities. Given the size of its investment portfolio and anticipated future earnings, CCMC has the ability and intent to hold these securities until the fair value recovers the unrealized loss. Additionally CCMC did not incur a material credit loss and does not have the intent to sell these bonds in an unrealized loss position.

The components of investment income for the years ended December 31 are as follows:

	2015	2014
Interest and dividends	$ 741	$ 972
Net realized gains	3,798	2,598
Gain on sale of real estate	412	412
Investment expense	(118)	(161)
Investment income	$ 4,833	$ 3,821

5. Property and Equipment

A summary of property and equipment at December 31 is as follows:

	2015	2014
Home office building held under capital lease	$ 32,407	$ 32,407
Capitalized software	36,249	35,075
EDP equipment	9,139	10,325
Building	14,120	14,120
Office equipment	6,930	8,520
Leasehold improvements	3,125	3,257
Building improvements	2,422	2,708
Automobiles	1,576	1,695
Equipment held under capital lease	999	999
Land	1,400	1,400
Land improvements	159	159
	108,526	110,665
Less: Accumulated amortization under capital leases	(28,406)	(26,337)
Less: Accumulated amortization on capitalized software	(22,408)	(20,898)
Less: Other accumulated depreciation and amortization	(23,767)	(26,456)
Property and equipment, net	$ 33,945	$ 36,974
Depreciation and amortization expense on property and equipment	$ 5,637	$ 4,957

6. Credit Arrangement

The home office complex lease amendment (Note 7) requires CCMC to post a letter of credit which may be used by the landlord to compensate for any loss due to CCMC's failure to fulfill its monetary obligations under the amended lease. A bank has an irrevocable $304 letter of credit in favor of Hines REIT Properties, L.P.

A bank holds two standby letters of credit, totaling $110, which are held to secure future monetary obligations under expired large deductible workers' compensation insurance policies.

7. Lease Commitments

CCMC has various lease agreements for office buildings, equipment and software. Certain leases have renewal options and certain office buildings and equipment have purchase options.

In 1998, CCMC entered into a sale-leaseback agreement for its home office building and the related land located in San Mateo, California. The leaseback has been accounted for as a capital lease for the building and an operating lease for the land. CCMC recognized a gain of $8,308 from the sale, which was deferred and is being amortized to income over the lease term using the straight-line method. In 2005, the home office lease was amended pursuant to the landlord's sale of the property. The amendment did not change the classification of the lease. Interest expense recorded in 2015 and 2014 for capital lease obligations was $679 and $876, respectively.

The home office lease amendment included an incentive payment of $949 paid to CCMC in January 2006, which is recognized on a straight-line basis over the remaining term of the lease, which ends May 31, 2018.

The total future minimum sublease rentals under noncancelable subleases on capital leases was $353 and $230 at December 31, 2015 and December 31, 2014, respectively.

Rent expense under operating and capital leases was $7,731 and $7,355 in 2015 and 2014, respectively. Future minimum lease payments, net of sublease rental income, under capital leases and operating leases at December 31 are as follows:

	Capital Leases	Operating Leases
2016	$ 3,702	$ 1,677
2017	3,702	1,682
2018	1,542	1,413
2019	-	1,109
2020		444
Thereafter		
Net minimum lease payments under capital leases	$ 8,946	$ 6,325
Less: Amount representing interest	(727)	
Present value of net minimum lease payments	$ 8,219	
Current	$ 3,236	
Noncurrent	4,983	
Present value of net minimum lease payments	$ 8,219	

8. Income Taxes

A reconciliation of CCMC's effective income tax rate for each year is as follows:

	2015		2014	
	Amount	Percentage	Amount	Percentage
U.S. federal tax (statutory tax rate)	$ 2,311	34.0 %	$ 1,949	34.0 %
Tax-exempt income	(112)	(1.7)	(138)	(2.4)
All other items	29	0.5	81	1.4
Provision for income taxes (effective tax rate)	$ 2,228	32.8 %	$ 1,892	33.0 %

The significant components of the provision for income taxes for years ended December 31 are summarized below:

	2015	2014
Current benefit	$ 228	$ -
Deferred provision		
Current	24	322
Noncurrent	1,976	1,570
Total deferred provision	2,000	1,892
Provision for income taxes	$ 2,228	$ 1,892

The provision for income taxes was increased by $6 of accrued interest and penalties related to unrecognized tax benefits for the year ended December 31, 2015.

Income taxes recoverable recorded on the balance sheets as of December 31, 2015 is reported net of a $33 liability for interest and penalties related to unrecognized tax benefits. CCMC does not expect any material changes in the liability for unrecognized tax benefits in 2015.

The significant components of the net deferred tax assets (liabilities) recorded on the balance sheets at December 31 are as follows:

	2015	2014
Current		
Employee benefits	$ 2,708	$ 2,757
Unrealized appreciation on investments	(2,339)	(3,826)
Workers' compensation expense	10	10
Deferred gain on sale of real estate	140	140
Building capital lease	1,100	1,009
Prepaid expenses	(537)	(667)
Realized book losses on OTTI securities	213	273
All other	257	257
Total current net deferred tax liabilities	1,552	(47)
Noncurrent		
Employee benefits	25,783	32,744
Deferred gain on sale of real estate	198	338
Building capital lease	(6)	391
Depreciation	(4,112)	(4,533)
Rent expense	99	61
Net Operating Loss	817	4,276
AMT Credit Carryforward	215	
Internally developed computer software	(644)	(342)
All other	66	92
Total noncurrent net deferred tax assets	22,416	33,027
Net deferred tax assets	$ 23,968	$ 32,980

Realization of these assets is primarily dependent upon generating sufficient future taxable income to utilize these assets. CCMC will establish a valuation allowance if it is more likely than not that these items will either expire before CCMC is able to realize their benefits, or that future deductibility is uncertain. There was no valuation allowance required at December 31, 2015 and 2014. All deferred tax assets and liabilities are applicable to federal income taxes.

CCMC adjusts its tax liabilities when our judgment changes as a result of the evaluation of new information not previously available. Due to the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from our current estimate of the tax liabilities. These differences will be reflected as increases or decreases to income tax expense in the period in which they are determined. CCMC has no material uncertain tax positions at December 31, 2015 and 2014.

CCMC files income tax returns in the United States federal jurisdiction (Internal Revenue Service, or IRS) and various state jurisdictions. In the normal course of business, CCMC is subject to examination by taxing authorities from any of these jurisdictions. With few exceptions, CCMC is no longer subject to income tax examinations for years before 2013. CCMC is not currently under a federal income tax audit by the IRS.

9. Shareholders' Equity (Deficit)

CCMC has authorized 1,800,000 and 1,000,000 shares of Series A and Series B common stock, respectively. Shares issued and outstanding, book value per share, and capital stock at December 31 are as follows:

	2015	2014
Shares issued and outstanding		
Series A	807,445	814,139
Series B	245,716	243,282
Total shares issued and outstanding	1,053,161	1,057,421
Book value per share	$ 8.65	$ (4.93)

	2015	2014
Capital stock		
Series A	$ 3,908	$ 3,941
Series B	11,342	11,276
Total capital stock	$ 15,250	$ 15,217

CCMC expects to recover employee retirement benefit plan funding shortfalls over time as pension expense is recognized in accordance with GAAP and reimbursed by CCG through the management fee. (Note 3)

Adjusted book value per share is calculated as follows: total shareholders' equity (deficit) as determined under GAAP, plus the shareholder equity charges resulting from pension accounting (Note 11), divided by total outstanding shares of common stock. The calculation is as follows:

	2015	2014
Total shareholders' equity (deficit)	$ 9,106	$ (5,208)
Cumulative charges under pension accounting	37,395	51,877
Adjusted shareholders' equity	$ 46,501	$ 46,669
Total shares issued and outstanding	1,053,161	1,057,421
Adjusted book value per share	44.15	44.13

The rights, privileges and restrictions of Series A and B are identical except holders of Series A shares have exclusive voting rights and power to vote upon election of Directors or upon any other matters. CCIE's put right is discussed in Note 3.

10. Stock-Based Compensation Plans

CCMC has two stock-based compensation plans: the Long Term Executive Incentive Plan ("LTEIP") and the Executive Stock Plan ("ESP"). The key provisions of each plan are described below. Both written plan documents are subject to review and approval by the California Department of Insurance, which requires, among other things, that CCMC annually report on all transactions made under the plans. Under both plans, if a plan participant's employment terminates because of death, disability, or retirement, CCMC has the right to repurchase that participant's shares at the most recently computed adjusted book value at the expiration of ten years after the termination of employment. If a plan participant's employment terminates for any other reason, CCMC has the right to repurchase that participant's shares for a period of 60 days after termination of employment. With the exception of ESP shares subject to a five-year holding period, plan participants have the right at any time to cause CCMC to repurchase all or any portion of their shares at adjusted book value by providing written notice to CCMC. Generally, to be eligible to receive an award under either plan, a participant must be a CCMC employee at the end of a plan performance period. However, under both plans, participants or their successors receive a prorated award if the participant dies, becomes disabled or retires during a performance period. The fair value of the restricted shares of common stock issued under both plans is considered equal to adjusted book value, as described in Note 9.

Key Provisions of LTEIP

The LTEIP provides key executives, all of whom are members of CCMC's Operating Committee, with incentive awards consisting of common stock and/or cash compensation, based on the attainment of specific annual profitability and other measures over a three-year performance period. A new three-year performance period commences on January 1st of each year. In order for participants to be eligible for an award, CCMC must meet its threshold performance measures. The LTEIP requires that participants elect to receive at least 50% of their earned LTEIP award in shares of common stock, with the remainder paid in cash. The number of shares of common stock to be issued to each plan participant is based on the adjusted book value as of December 31 of the year prior to the date the stock is issued. Stock is issued prior to March 15th each year.

Awards are paid annually and are based on the preceding three-year performance period. Shares of stock are issued immediately following the award, so there are no shares awarded but un-issued. Compensation expense under the LTEIP is measured during the performance period based on a best estimate of performance against the goals. Compensation expense under the LTEIP was $1,159 and $1,125 in 2015 and 2014, respectively. CCMC assumes no forfeitures during the payout period when determining compensation expense over the performance period. During 2015 and 2014 there were no forfeitures of earned awards. Under the LTEIP, 300,000 shares of Series B common stock have been reserved for issuance. Total shares issued under the LTEIP were 16,291 and 13,241 in 2015 and 2014, respectively.

The accrued liability for the LTEIP is comprised of $1,212 in current employee compensation liability and $1,079 in noncurrent employee compensation liability on the balance sheet at December 31, 2015. The current and noncurrent liability balances were $1,137 and $1,131, respectively, at December 31, 2014.

Key Provisions of ESP
The ESP provides all officers on the executive payroll with common stock and/or cash compensation based on the attainment of specific profitability and other measures over a one-year performance period, with a new performance period commencing on January 1st of each year. In order for participants to be eligible for an award, CCMC must meet its threshold performance measures. The ESP requires that participants elect to receive at least 60% of their earned ESP awards in shares of common stock, with the remainder paid in cash. The number of shares of common stock to be issued to each plan participant is based on the adjusted book value as of December 31 of the year prior to the date the stock is issued. Stock is issued prior to March 15th each year.

Awards are made annually, and are based on the preceding one-year performance period. Shares of stock are issued immediately following the award, so there are no shares awarded but un-issued. Participants are required to hold all shares of common stock issued under the ESP for a minimum of five years from the date of issuance before exercising repurchase rights.

Compensation expense under the ESP was $413 and $320 in 2015 and 2014, respectively. Under the ESP, 150,000 shares of Series B common stocks have been reserved for issuance. Total shares issued under the ESP were 5,029 and 8,353 in 2015 and 2014, respectively. The accrued liability for the ESP was $415 and $321 at December 31, 2015 and 2014, respectively. These balances are included in current employee compensation liability on the balance sheets.

11. Employee Retirement Benefit Plans

CCMC provides defined contribution plans as well as both funded and unfunded noncontributory defined benefit pension plans. Substantially all of its employees participate in one or more of these plans. The funded plans are subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"). All plans are described below.

Savings Investment Plans (the "SIPs")
CCMC sponsors a plan for hourly employees and a plan for salaried employees. The SIPs are qualified under section 401(k) of the Internal Revenue Code (the "Code"). Participating employees may elect to contribute a percentage of their annual compensation to the applicable SIP, limited to a maximum annual dollar amount as provided by the Code. These employees are eligible to receive a matching contribution from CCMC. Those matching contributions were $1,475 and $1,427 for the years ended December 31, 2015 and 2014, respectively.

Effective January 1, 2004, the SIPs were amended to add a new defined contribution feature. Employees hired, or employees rehired following a break in service of 12 months or more, on or after January 1, 2004 receive an annual service-based CCMC contribution of 3% to 7% of annual compensation depending on length of service. CCMC contributed $600 and $560 to the defined contribution portion of the SIPs in 2015 and 2014, respectively.

Matching contributions and service-based contributions are vested to the employee on the following schedule:

	Vested Percentage
Years of service	
Less than two	0 %
Two	25 %
Three	50 %
Four	75 %
Five	100 %

Defined Benefit Pension Plan (the "Pension Plan")

The Pension Plan is qualified under Section 401(a) of the Code. The Pension Plan was amended in 2003 to exclude employees hired on or after January 1, 2004. Employees rehired on or after January 1, 2004, following a break in service of 12 months or more, are also excluded. Generally, benefits are based on length of service and the average of the highest earnings for five consecutive calendar years, or sixty months, whichever is greater. A participant is 100% vested after completion of five years of service.

Effective December 31, 2015, the Board of Directors adopted an amendment instituting a "hard freeze" of the Pension Plan so that no further benefits will accrue under the plan. As a result of this amendment, the benefit obligation was reduced by $22,676. All Pension Plan participants were enrolled in the Service-Based Contribution feature of the Savings Investment Plans (the "SIP") effective January 1, 2016. As noted earlier, the SIP is an alternative retirement benefit vehicle for employees who do not participate in the Pension Plan.

Given the Pension Plan's freeze to future benefits accruals as of December 31, 2015, the amortization period for actuarial gains and losses will be updated from amortizing over the average future working lifetime of participants to amortizing over the average life expectancy of participants effective January 1, 2016.

Pension Plan Benefits

	2015	2014
Change in benefit obligation		
Benefit obligation at beginning of year	$ 240,194	$ 186,829
Service cost	3,163	3,257
Interest cost	8,088	8,750
Benefits paid	(7,862)	(7,453)
Plan amendment	(22,676)	-
Actuarial loss (gain)	(7,035)	48,811
Benefit obligation at end of year	213,872	240,194
Change in plan assets		
Fair value of plan assets at beginning of year	182,926	158,462
Actual return on plan assets	(2,248)	18,917
Employer contribution	13,000	13,000
Benefits paid	(7,862)	(7,453)
Fair value of plan assets at end of year	185,816	182,926
Funded status at end of year	$ (28,056)	$ (57,268)
Amounts recognized in the balance sheets consist of		
Noncurrent liabilities	$ (28,056)	$ (57,268)
Net amount recognized	$ (28,056)	$ (57,268)
Amounts recognized in accumulated other comprehensive loss (pretax) consist of:		
Prior service cost	$ -	$ 69
Net actuarial loss	56,659	76,701
Accumulated other comprehensive loss	$ 56,659	$ 76,770
Information for pension plans with an accumulated benefit obligation in excess of plan assets		
Projected benefit obligation	$ 213,872	$ 240,194
Accumulated benefit obligation	$ 213,872	$ 216,118
Fair value of plan assets	$ 185,816	$ 182,925

	2015	2014
Components of net periodic benefit cost and other amounts recognized in other comprehensive loss		
Net periodic benefit cost		
Service cost	$ 3,163	$ 3,256
Interest cost	8,088	8,750
Expected return on assets	(13,914)	(12,060)
Amortizations		
Prior service cost	1	6
Actuarial loss	6,493	3,976
Net periodic benefit cost	$ 3,831	$ 3,928
Curtailment	68	$ -
Total pension expense included in Personnel expense on the Income Statements	$ 3,899	$ 3,928
Other changes in plan assets and benefit obligations recognized in other comprehensive loss (pretax)		
Net loss	$ 9,127	$ 41,953
Amortization of prior service cost	(1)	(6)
Plan amendment	(22,676)	-
Curtailment	(68)	-
Amortization of net actuarial loss	(6,493)	(3,976)
Total recognized in other comprehensive income/(loss)	(20,111)	37,971
Total recognized in net periodic benefit cost and other comprehensive income (loss)	$ (16,212)	$ 41,899

The estimated net actuarial loss that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year is $1,154.

	2015	2014
Weighted-average assumptions used to determine benefit obligation at December 31		
Discount rate	4.08 %	3.80 %
Rate of compensation increase	N/A	4.00 %
Cost of living	3.50 %	3.50 %
Weighted-average assumptions used to determine net periodic benefit cost		
Discount rate	3.55 %	4.70 %
Rate of compensation increase	4.00 %	4.00 %
Expected return on plan assets	7.75 %	7.75 %
Cost of living	3.50 %	3.50 %

CCMC selects its discount rate by using the expected cash flows of future benefit payments applied against the full yield curve provided by the Citigroup Pension Liability Index.

As of January 1, 2016, we changed our approach to measuring service and interest costs as part of Pension Plan expense. For 2015, we measured service and interest costs utilizing a single weighted-average discount rate derived from the yield curve used to measure the plan obligations. For 2016, we elected to measure service and interest costs by applying the specific spot rates along that yield curve to the plans' liability cash flows. This change results in a reduction of the discount rate from 4.08% to 3.40% that is used to determine the interest cost component of expense for 2016 for the Pension Plan. We believe the new approach provides a more precise measurement of service and interest costs by aligning the timing of the plans' liability cash flows to the corresponding spot rates on the yield curve. This change does not affect the measurement of our plan obligations nor the funded status of our plans.

Pension Plan Assets
Fair value, asset allocations and target allocations at December 31 are as follows:

	2015		2014		2015
	Fair Value	**Allocation**	**Fair Value**	**Allocation**	**Target Allocation**
Asset category					
Equity funds					
Domestic					
Large cap	$ 33,355	18%	$ 44,992	25%	17 %
Small/mid-cap	10,142	5%	12,144	7%	5 %
International	24,022	13%	23,766	13%	13 %
Total equity funds	67,519	36%	80,902	44%	35 %
Fixed income funds					
Domestic					
Long duration bond fund	89,072	48%	75,378	41%	50 %
High-yield	4,738	3%	7,507	4%	3 %
International					
Emerging markets debt	3,213	1%	5,671	3%	2 %
Total fixed income funds	97,023	52%	88,556	48%	55 %
Real Estate fund	20,242	11%	12,526	7%	10 %
Cash and accrued income	1,032	1%	942	1%	0 %
	$ 185,816	100%	$ 182,926	100%	100 %

Equity and Fixed Income fund investments are in Level 1 of the fair value hierarchy; Real Estate fund investments are in Level 2 of the fair value hierarchy. See Note 4 for a description of Levels in the fair value hierarchy.

Investment Policies, Strategies and Target Asset Allocations
The CCMC Board of Directors has delegated authority for setting, monitoring, and adjusting the investment policy with respect to investment funds of the Pension Plan to the Pension Plan

Committee ("Committee"). The Committee selects and retains investment managers who are responsible for managing the Pension Plan assets in accordance with the objectives and guidelines set forth in the Pension Plan's Investment Policy Statement ("IPS"). Investment managers are expected to comply with all laws, regulations, and standards of ethical conduct; their performance is continually monitored by the Committee for progress toward the attainment of the Pension Plan's long-term investment goals and adherence to the IPS guidelines.

Investment guidelines and the Pension Plan's asset allocation targets are based upon long-term perspectives, so that interim fluctuations in investment markets should be viewed with appropriate perspective. Consistent with the desire for adequate asset diversification, the IPS is based upon the expectation that the volatility (the standard deviation of returns) of the total Pension Plan assets will be similar to that of the investment market.

The target asset allocation is designed to provide an optimal asset mix for the portfolio, which emphasizes diversification and maximizes return for relative risk. The IPS also sets guidelines to minimize investment risk by disallowing certain transactions or investments in certain securities. Transactions that would jeopardize the tax-exempt status of the Pension Plan are not allowed. Performance objectives are set by the IPS for each asset category listed above, and are reviewed at least annually by the Committee to determine if the established objectives are appropriate.

The expected return on Pension Plan assets is an assumption primarily determined by the investment strategy adopted to meet the objectives of the Pension Plan. This assumption is developed from investment manager capital market projections which include future returns by asset category, expected volatility of returns and correlation among asset classes. Consideration is also given to the expenses of active management. Judgment is applied to the quantitative measures derived from the capital market projections to arrive at the selected return on Pension Plan assets assumption. A change in the asset allocation could significantly impact the expected rate of return on plan assets.

Cash Flows

Contributions

CCMC contributed $13,000 to the Pension Plan in 2015 and 2014. CCMC does not expect to contribute to the Pension Plan for 2016.

Expected Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension Benefits
2016	$ 9,215
2017	9,832
2018	10,347
2019	10,879
2020	11,266
Years 2021–2025	60,975
	$ 112,514

Supplemental Executive Retirement Plan and Excess Plan (the "SERP and Excess Plans")
The SERP and Excess Plans cover employees with earnings and/or benefits which exceed the limitations set out in the Pension Plan and/or the Code. Benefits are based on formulas similar to those of the Pension Plan.

Consistent with the amendment adopted by the Board of Directors for the Pension Plan, the Excess Plan was frozen effective December 31, 2015. Effective January 1, 2016, the Board adopted a new Service-Based Contribution Excess Benefit Plan (the "SBC Excess Plan") to cover earnings and/or benefits that exceed the limits imposed by the Code for the Service-Based Contribution feature of the Savings Investment Plans (the "SIP"). Benefits for the new SBC Excess Plan are based on the formula used for the SIP.

Given the SERP & Excess Plans' freeze to future benefits accruals as of December 31, 2015, the amortization period for actuarial gains and losses will be updated from amortizing over the average future working lifetime of participants to amortizing over the average life expectancy of participants effective January 1, 2016.

SERP and Excess Benefits

	2015	2014
Change in benefit obligation		
Benefit obligation at beginning of year	$ 55,112	$ 46,664
Service cost	191	245
Interest cost	1,865	2,007
Benefits paid	(3,323)	(3,323)
Plan amendment	(1,292)	-
Actuarial loss (gain)	(1,503)	9,519
Benefit obligation at end of year	51,050	55,112
Change in plan assets		
Employer contributions	3,323	3,323
Benefits paid	(3,323)	(3,323)
Fair value of plan assets at end of year	-	-
Funded status at end of year	$ (51,050)	$ (55,112)
Amounts recognized in the balance sheets consist of		
Current liabilities	$ (3,357)	$ (3,351)
Noncurrent liabilities	(47,693)	(51,761)
Net amount recognized	$ (51,050)	$ (55,112)
Amounts recognized in accumulated other comprehensive loss (pretax) consist of		
Net actuarial loss	$ 17,130	$ 22,027
Accumulated other comprehensive loss	$ 17,130	$ 22,027
Information for pension plans with an accumulated benefit obligation in excess of plan assets		
Projected benefit obligation	$ 51,050	$ 55,112
Accumulated benefit obligation	$ 51,050	$ 53,280

	2015	2014
Components of net periodic benefit cost and other amounts recognized in other comprehensive loss		
Net periodic benefit cost		
Service cost	$ 191	$ 245
Interest cost	1,865	2,007
Amortization of net actuarial loss	2,102	1,164
Net periodic benefit cost, included in Personnel expense on the Income Statements	4,158	3,416
Other changes in plan assets and benefit obligations recognized in other comprehensive loss (pretax)		
Net loss (gain)	(1,503)	9,519
Plan amendement	(1,292)	
Amortization of net actuarial loss	(2,102)	(1,164)
Total recognized in other comprehensive income (loss)	(4,897)	8,355
Total recognized in net periodic benefit cost and other comprehensive income/(loss)	$ (739)	$ 11,771

The estimated net actuarial loss that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year is $578.

	2015	2014
Actuarial Assumptions		
Weighted-average assumptions used to determine benefit obligation at December 31		
Discount rate	3.87 %	3.60 %
Rate of compensation increase	N/A	variable
Cost of living	N/A	3.50 %
Weighted-average assumptions used to determine net periodic benefit cost		
Discount rate	3.40 %	4.35 %
Rate of compensation increase	variable	variable
Cost of living	3.50 %	3.50 %

CCMC selects its discount rate by using the expected cash flows of future benefit payments applied against the full yield curve provided by the Citigroup Pension Liability Index.

As of January 1, 2016, we changed our approach to measuring service and interest costs as part of SERP and Excess plans expense. For 2015, we measured service and interest costs utilizing a single weighted-average discount rate derived from the yield curve used to measure the plan obligations. For 2016, we elected to measure service and interest costs by applying the specific spot rates along that yield curve to the plans' liability cash flows. This change results in a reduction of discount rate from 3.87% to 3.14% that is used to determine the interest cost component of expense for SERP and Excess plans. We believe the new approach provides a more precise measurement of service and interest costs by aligning the timing of the plans' liability cash flows to

the corresponding spot rates on the yield curve. This change does not affect the measurement of our plan obligations nor the funded status of our plans.

Cash Flows

Contributions
Since the plan is unfunded, no contributions are made. However, under current GAAP, benefit payments are treated as contributions.

Expected Future Benefit Payments
The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	SERP and Excess Benefits
2016	$ 3,357
2017	3,337
2018	3,316
2019	3,352
2020	3,345
Years 2021–2025	16,414
	$ 33,121

Accumulated Other Comprehensive Income ("AOCI")
The AOCI amounts related to employee retirement benefit plans recognized in the balance sheets, on an after-tax basis, were $48,700 and $65,205 at December 31, 2015 and 2014, respectively.

The following table summarizes the after-tax AOCI on employee retirement benefit plans:

	Pension Plan	SERP & Excess Plans	SERP & Excess Plans[1]	Total
AOCI balances, at December 31, 2013	$ 25,607	$ 971	$ 8,052	$ 34,630
2014 activity				
Pension accounting charges	25,061	238		25,299
SERP & Excess Plans[1]			5,276	5,276
Total 2014 activity	25,061	238	5,276	30,575
AOCI balances, at December 31, 2014	50,668	1,209	13,328	65,205
2015 activity				
Pension accounting charges	(13,273)			(13,273)
SERP & Excess Plans[1]		(1,209)	(2,023)	(3,232)
Total 2015 activity	(13,273)	(1,209)	(2,023)	(16,505)
AOCI balances, at December 31, 2015	$ 37,395	$ -	$ 11,305	$ 48,700

(1) These SERP and Excess Plan adjustments are excluded from the adjusted book value calculation (Note 9). They represent the cumulative difference between the accumulated benefit obligation and accrued benefit liability in the balance sheets.

The following table summarizes the after-tax cumulative GAAP pension accounting charges (credits) utilized in the adjusted book value calculation (Note 9):

Cumulative charges, at December 31, 2013	$ 26,578
Pension accounting charges in 2014	25,299
Cumulative charges, at December 31, 2014	51,877
Pension accounting credits in 2015	(14,482)
Cumulative charges, at December 31, 2015	$ 37,395

12. Concentration of Credit Risk

CCMC's financial instruments exposed to concentration of credit risk consist of cash equivalents. CCMC maintains its cash accounts primarily with banks. Cash balances are insured by the Federal Deposit Insurance Company ("FDIC") up to $250 per depositor. CCMC had cash on deposit with four banks at December 31, 2015 and 2014 that exceeded the balance insured by the FDIC in the amount of $11,345 and $5,393, respectively. CCMC has not experienced any losses related to these balances, and management believes its credit risk to be minimal.

13. Subsequent Events

CCMC has evaluated subsequent events through April 8, 2016, which is the date that the financial statements were available to be issued.

2015

Carl B. (Beau) Brown, CPCU
Director
Chairman of the Board
Chief Executive Officer

Joseph L. Volponi, FCAS
Director
President
Chief Operating Officer

Kenneth G. Berry
Director

Thomas R. Brown, CLU
Director
Chairman-Emeritus

Peter Goldberg
Director
Vice Chairman-Emeritus

Marston Nauman
Director
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James M. Sevey, CPCU
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James R. Kauffman, Esq.
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Claims

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Agency Services
Customer Service and
Underwriting Operations

Theodore M. McCormick
Senior Vice President
Chief Marketing Officer

Joseph C. Muenzen, CPCU
Senior Vice President
Underwriting and Product
Development

Transfer Agent/Shareholder Services:

Wells Fargo Bank Minnesota, N.A.
Shareowner Services
P.O. Box 64854
St. Paul, MN 55164-0854

Contact Wells Fargo Bank for CCMC shareholder services, including address changes, dividend issues, and share balance information:

Write: Wells Fargo Bank Minnesota, N.A.
Shareowner Services
P.O. Box 64854
St. Paul, MN 55164-0854

Call: 1(800) 468-9716

Contact CCMC on other shareholder issues:

Call: James R. Englese
1(800) 288-7765 ext. 4539

California Casualty Management Co.
1900 Alameda de las Pulgas
San Mateo, CA 94403-1298

(650) 574-4000

www.calcas.com