2017

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.

A series of major catastrophes impacted our customers in 2017. The largest hail storm ever to hit Denver struck in May, causing extensive damage to California Casualty customers' homes and automobiles. Hurricanes slammed into Texas and Florida in the late summer. In October, the deadliest and most destructive wildfire in California history ravaged the hills of the Northern California wine region and an entire Santa Rosa suburban neighborhood. Two months later, in December, another major fire consumed a massive area extending from Ventura to Santa Barbara, scarring the landscape so that torrential rains would lead to tragic death and destruction in the coastal community of Montecito.

Our hearts go out to those who are mourning loved ones and to those who lost so much in 2017. We commend the first responders who rushed toward danger to save lives, defend fire lines and lead evacuations from critical situations.

In a tumultuous year, our employees shined bright. We helped people recover and start to regain their normal lives. We provided support with the highest levels of care, service, compassion and understanding, raising California Casualty's customer retention to its highest level in years and supporting growth of premium, policies-in-force and customers-in-force. And with an eye to the future, we teamed up across departments to develop important components of a new policy management system that will transform and modernize our system capabilities.

CCMC FINANCIAL PERFORMANCE

Due to the impact of tax reform and a related $9.2 million write-down of deferred tax assets, CCMC net income for 2017 was negative $3.8 million. Pre-tax income of $6.4 million was higher compared to prior years, driven by $4.8 million in realized gains on the sale of securities. Investment income of $5.8 million in 2017, which was $4.4 million favorable to plan, was higher than investment income of $1.6 million in 2016.

CCMC's 2017 revenue of $118.0 million was slightly lower than 2016 revenue of $119.3 million. CCMC did not earn an incentive fee in 2017 because CCG produced a pre-tax loss.

With the impact of the deferred tax asset write-down, CCMC's return on adjusted beginning shareholders' equity of $44.9 million was negative 8.4 percent. This percentage rate of return on equity is significantly lower compared to CCMC's 10-year and 20-year historical averages of 7.6 percent and 10.9 percent, respectively. Absent the deferred tax asset write-down, CCMC's return on adjusted beginning shareholders' equity would have been lower than historical averages due to CCMC's decision in 2017 to reduce its return on operating capital for a fifth straight year in order to support management's efforts to lower CCG's expense ratio. This reduction benefitted CCG's combined ratio by approximately 0.9 percentage points in 2013, 2014, 2015, 2016 and 2017.

Total shareholder return, on an adjusted basis, of 5.6 percent was significantly higher than the negative 8.4 percent return on adjusted beginning shareholders' equity due to tax charges discussed above. Given that nearly all of the deferred tax assets were related to the pension plan, these charges were eliminated for adjusted shareholders' equity. This percentage rate of adjusted total return is lower than CCMC's 10-year and 20-year historical averages of 8.0 percent and 11.0 percent, respectively.

At December 31, 2017, the adjusted book value of CCMC common stock was $41.52, down $1.63 from $43.15 at December 31, 2016. CCMC paid $4.2 million in dividends in 2017, or $4.00 per share. This decreased adjusted book value by $4.00. Also contributing to the reduction were changes in net unrealized gains on

investment securities of $1.2 million. CCMC pre-tax income of $6.4 million partially offset these elements.

On a Generally Accepted Accounting Principles (GAAP) basis, CCMC had shareholders' equity of negative $9.1 million and a book value per share of negative $8.79 at December 31, 2017, compared to shareholders' equity at December 31, 2016, of $5.9 million and a book value per share of $5.71. 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 $41.52. Note 8 explains how the impact of tax reform required a write-down of deferred tax assets, negatively affecting GAAP shareholders' equity by approximately $9.2 million.

CCMC maintains a strong liquidity position, with $33.3 million in cash and marketable securities at December 31, 2017, down from $46.1 million at December 31, 2016. CCMC's investment in Guidewire (which is recoverable starting in 2019, when the capitalized asset begins to depreciate), pension income, reduced CCMC markup and dividend payments of $4.2 million were the primary drivers of the decline in cash and marketable securities.

CCMC did not make a contribution to the qualified defined benefit pension plan in 2017 or 2016. In 2013, 2014 and 2015, CCMC made contributions totaling $39.0 million to the qualified defined benefit pension plan. This plan, which ceased accruing additional benefits as of December 31, 2015, was 89.0 percent funded at December 31, 2017 (relative to 88.6 percent at December 31, 2016), with $206.8 million in assets compared to $232.4 million in liabilities. Since this plan is now frozen, all employees participate in CCMC's service-based contribution plan.

CCG OPERATING AND FINANCIAL PERFORMANCE

Our primary profitability goal for 2017 was to improve CCG's personal lines combined ratio from 108.2 percent in 2016 to 106.5 percent in 2017. Our CCG personal lines combined ratio was 114.5 percent in 2017.

The California wildfires destroyed the homes of 31 California Casualty policyholders, and temporarily forced many others from their homes, resulting in estimated losses of $32 million. The Denver hail storm, with $6 million in incurred losses, is our largest 2017 disaster outside of California. No other single 2017 catastrophe resulted in losses to California Casualty greater than $2 million. In an average year, we would expect approximately $9 million in total catastrophe losses. For 2017, our total catastrophe losses were approximately $47 million.

If 2017 catastrophe losses had been typical at approximately $9 million, California Casualty would have posted a 105.3 percent combined ratio. Core profitability improvement in 2017 points to successful execution of our strategic plan.

CCG's personal lines incurred loss ratio deteriorated from 67.2 percent in 2016 to 73.1 percent in 2017, although 2017 included 9.2 percentage points of catastrophe losses in excess of our average annual loss.

We are especially pleased that, despite auto physical damage catastrophe losses of $3.35 million from the Denver hail storm, Hurricane Harvey and Hurricane Irma, California Casualty's automobile loss ratio, on a direct basis, improved by approximately 3.5 percentage points in 2017. CCG's 2017 California automobile loss ratio improved by 4.8 percentage points, and CCG's non-California automobile loss ratio improved by 2.0

points. One driver of this improvement is our 2017 collision subrogation recovery result at twelve months, which jumped to an all-time high.

Direct written premium grew from $348.6 million in 2016 to $360.8 million in 2017. Customers-in-force grew for the first time since 2004, by 98 from 164,579 to 164,677. Direct written premium has increased for the past six years and, with consistently outstanding cross-selling results, policies-in-force have increased in nine of the past ten years.

Total customer retention in 2017 improved by a full percentage point relative to 2016, from 91.2 percent to 92.2 percent, and was favorable to our year-end plan of 91.7 percent by a half-point. Customer Service satisfaction at 99.6 percent and Claims satisfaction at 95.6 percent were both more than a half-point better than plan.

CCG produced a net loss of $34.6 million in 2017 compared to a net loss of $11.0 million in 2016. CCG surplus decreased by $31.4 million, dropping from $273.0 million at December 31, 2016, to $241.6 million at December 31, 2017.

CCG's 2017 total expense ratio is 42.2 percent, compared to 41.3 percent for 2016. Loss Adjustment Expense (LAE) jumped by 1.4 points, from 14.4 percent to 15.8 percent. Much of this increase was due to LAE non-case reserve funding for the California fires and a shift in workers' compensation non-case reserves from loss to LAE, with some impact attributable to auto adverse development on prior accident years. CCG's personal lines underwriting expense ratio, as a percent of net written premium, improved from 26.6 percent in 2016 to 26.1 percent in 2017.

CCG's 2017 operating cash flow ratio was 99.9 percent while its underwriting cash flow ratio was 96.1 percent. In comparison, CCG's 2016 operating and underwriting cash flow ratios were 99.4 percent and 95.4 percent, respectively.

In April 2017, A.M. Best Company reaffirmed CCG's rating at A- (Excellent), though with a negative outlook due to recent unprofitability. In 2017, A.M. Best Company modified their capital model, Best's Capital Adequacy Ratio (BCAR). Under this new BCAR, CCG continues to be well-capitalized due primarily to low probable maximum losses, low tail risk, conservative investment portfolio, and solid reinsurance program with reputable insurers.

If California Casualty Indemnity Exchange (CCIE) exercised its right to put 186,000 shares back to CCMC, CCG's surplus would increase by approximately $22.7 million. If CCIE should exercise that put option, CCMC would be required to purchase the shares at an 85 percent premium to adjusted book value. That would produce a corresponding decline in adjusted book value for all other shareholders of approximately 18.6 percent. Note 3 of CCMC's financial statements, "Related Party Transactions," describes the details of CCIE's investment in CCMC.

EMPLOYEES DRIVE SUCCESSFUL EXECUTION OF OUR STRATEGIC PLAN

Many California Casualty employees have helped drive the improvement in our core profitability metrics. Our strategy is to improve underwriting to boost profitability and support lower prices in many of the markets where we have been uncompetitive. A focus on more rigorous and timely underwriting is paying off greatly. We are proud of the progress that we have made in Underwriting Operations, Home Office Underwriting and all of the departments that support our underwriting goals. Achieving our underwriting goals demands the focused and coordinated attention of Sales, Service, Claims, and many other areas of the company.

Along with more rigorous and timely underwriting of new and renewal business, employees across many California Casualty departments re-focused on relationships with our customers and partners. This paid off as retention results were extraordinary and key growth metrics – customers-in-force, policies-in-force and premium – were solid. Our relationships are our main source of competitive advantage, and it is our privilege to serve people who give so much to our communities. Our WHY Statement is a tribute to those we serve: “People who commit to make a difference for our communities deserve financial protection with the highest levels of care, service, compassion, and understanding…which is why we exist.” Recent underwriting changes have meant more complicated conversations with customers and prospects. These conversations are not easy to have, but when our employees treat a customer with compassion and understanding, it makes all the difference.

GUIDEWIRE IMPLEMENTATION

Teamwork is a primary reason that we are making great progress toward implementing a Guidewire System that modernizes all of our core policy processing systems, including billing, rating, data management and reporting. This system features simple automated processing of tasks that have given us headaches in the past, like out-of-sequence endorsement processing, household situations with more than six drivers or three vehicles per policy, RVs over $99,000 and million dollar homes. Since Guidewire is continually developing and updating their systems with new functionality and technologies, we will be able to more quickly and consistently provide system enhancements and maintain a modern system into the future. We will also be able to delight our customers as Guidewire will allow us to expand and improve their online experience.

DELIVERING FOR CUSTOMERS

It was a difficult year to deliver the care, service, compassion and understanding that we pledge in our company’s WHY statement, but that’s what we did. We delivered for customers with a team effort spanning many departments. Delivering for customers in disaster areas stretches employees, particularly Claims representatives, both in the field and in the office. When a disaster strikes, our Partner Relations team members come together quickly to figure out how to best support impacted customers and first responders working around the clock on their behalf. And by making calls to check on customers in ravaged areas, Service provides customer care that differentiates California Casualty from other insurers.

All the while, we close the books each month, we keep our systems running and press forward with new technologies, we issue paychecks and answer benefit questions, we file new forms and rates, and we introduce new customers to California Casualty. To be a mid-sized insurance company that competes in all but seven states requires us to be engaged and to work as a team. Because our employees give their best for the educators and education support professionals, law enforcement officers, firefighters and nurses who serve and protect us, California Casualty continues to offer something that is very special and different in the marketplace.

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

Joseph L. Volponi, FCAS
President and COO

Report of Independent Auditors

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, 2017 and 2016, and the related statements of income (loss) and comprehensive income (loss), 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.

Auditors' 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, 2017 and 2016, 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 9, 2018

BALANCE SHEETS

December 31, 2017 and 2016
(dollars in thousands)

	2017	2016
Assets		
Current assets		
Cash and cash equivalents	$ 7,922	$ 8,228
Investment securities	25,382	37,875
Receivables	2,298	3,684
Income taxes recoverable	5	21
Prepaid expenses and other	4,476	4,166
Total current assets	40,083	53,974
Property and equipment, net	33,801	27,575
Deferred income taxes, net	15,033	23,388
Other noncurrent assets	785	485
Total assets	$ 89,702	$ 105,422
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	$ 3,840	$ 2,628
Accrued employee compensation	13,951	13,179
Accrued benefit liability	3,317	3,413
Taxes payable	401	412
Current capital lease obligation and other	2,852	5,015
Total current liabilities	24,361	24,647
Capital lease obligations	1,471	1,516
Accrued benefit liability	71,275	71,444
Noncurrent employee compensation	1,409	1,310
Deferred gain on sale of real estate	-	172
Other noncurrent liabilities	279	401
Total liabilities	98,795	99,490
Shareholders' Equity (Deficit)		
Common stock - no par value	15,001	15,250
Common stock with put right (Note 3)	14,287	14,849
Accumulated other comprehensive loss	(59,923)	(44,211)
Retained earnings	21,542	20,044
Total shareholders' equity (deficit)	(9,093)	5,932
Total liabilities and shareholders' equity (deficit)	$ 89,702	$ 105,422

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

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

YEARS ENDED DECEMBER 31, 2017 AND 2016
(DOLLARS IN THOUSANDS)

	2017	2016
Revenue		
Management fee	$ 116,653	$ 118,017
Other	1,370	1,260
Total revenue	118,023	119,277
Operating expenses		
Personnel	73,634	71,023
Acquisition and professional services	20,465	19,828
Facility and equipment	13,398	11,459
Communications	6,779	7,367
Other	2,906	7,220
Total operating expenses	117,182	116,897
Operating income	841	2,380
Investment income (includes reclassification of $3,198 and $363, net of tax of $1,648 and $187, for 2017 and 2016, respectively from other comprehensive income for net gain on investments)	5,799	1,559
Interest expense	(262)	(466)
Income before provision for income taxes	6,378	3,473
Provision for income taxes	10,160	1,120
Net income (loss)	(3,782)	2,353
Other comprehensive income (loss), net of tax		
Unrealized net gain on investments (net of tax of $1,035 and $479 for 2017 and 2016, respectively)	2,008	929
Less: Reclassification adjustment for net gain included in net income (net of tax of ($1,648) and ($187) for 2017 and 2016, respectively)	(3,198)	(363)
Change in employee retirement benefit plans (net of deferred taxes of ($1,181) and ($816) for 2017 and 2016, respectively) (Note 11)	(5,634)	(1,583)
Other comprehensive loss	(6,824)	(1,017)
Comprehensive income (loss)	$ (10,606)	$ 1,336

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

STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)

YEARS ENDED DECEMBER 31, 2017 AND 2016

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

	Common Stock	Common Stock with Put Right	Accumulated Other Comprehensive Loss	Retained Earnings	Total
Balances at December 31, 2015	$ 15,250	$ 15,193	$ (43,194)	$ 21,857	$ 9,106
Net income				2,353	2,353
Change in carrying value of common stock with put right (Note 3)		(344)		344	-
Common stock retired (33,866 shares)	(891)			(556)	(1,447)
Dividends paid to shareholders ($3.75 per share)				(3,954)	(3,954)
Stock issued in long-term executive incentive plan (14,232 shares)	628				628
Stock issued in executive stock plan (5,947 shares)	263				263
Change in unrealized net gain on investments, net of deferred tax of $292			566		566
Change in employee retirement benefit plans, net of deferred tax of ($816) (Note 11)			(1,583)		(1,583)
Balances at December 31, 2016	15,250	14,849	(44,211)	20,044	5,932
Net loss				(3,782)	(3,782)
Change in carrying value of common stock with put right (Note 3)		(562)		562	-
Common stock retired (28,119 shares)	(1,253)			67	(1,186)
Dividends paid to shareholders ($4.00 per share)				(4,237)	(4,237)
Stock issued in long-term executive incentive plan (15,063 shares)	650				650
Stock issued in executive stock plan (8,193 shares)	354				354
Change in unrealized net gain on investments, net of deferred tax of ($613)			(1,190)		(1,190)
Change in employee retirement benefit plans, net of deferred tax of ($1,181) (Note 11)			(5,634)		(5,634)
Reclassification due to tax rate change related to employee retirement benefit plans			(9,660)	9,660	-
Reclassification due to tax rate change related to investments			772	(772)	-
Balances at December 31, 2017	$ 15,001	$ 14,287	$ (59,923)	$ 21,542	$ (9,093)

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

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2017 and 2016
(dollars in thousands)

	2017	2016
Cash flows from operating activities		
Net income (loss)	$ (3,782)	$ 2,353
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization on property and equipment	5,839	5,141
Amortization on bonds	150	215
Gain on sale of real estate	(412)	(412)
Net loss (gain) on sale and disposal of property and equipment	(60)	3,607
Net realized gain on investment securities	(4,846)	(550)
Provision for deferred income taxes	10,148	1,103
Changes in:		
Receivables and other assets	793	(823)
Payables, accrued expenses, and other liabilities	(5,585)	(2,582)
Net cash provided by operating activities	2,245	8,052
Cash flows from investing activities		
Proceeds from sale of property and equipment	98	154
Purchase of property and equipment	(9,023)	(2,531)
Proceeds from sale and maturities of investment securities	19,295	6,514
Purchase of investment securities	(3,909)	(7,530)
Net cash provided by (used in) investing activities	6,461	(3,393)
Cash flows from financing activities		
Payments on capital lease obligations	(3,589)	(3,236)
Common stock retired	(1,186)	(1,447)
Dividends paid to shareholders	(4,237)	(3,954)
Cash used in financing activities	(9,012)	(8,637)
Net change in cash and cash equivalents	(306)	(3,978)
Cash and cash equivalents		
Beginning of year	8,228	12,206
End of year	$ 7,922	$ 8,228
Supplemental disclosure of cash flow information		
Cash paid (received) during the year for income taxes	$ (6)	$ 36
Supplemental schedule of noncash investing and financing activities		
Property and equipment puchased but not yet paid for	$ 1,136	$ -
Common stock issued through employee stock plans	$ 1,004	$ 891

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

1. Nature of Operations

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, writing nonassessable full coverage 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 materially 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, 2017 and 2016. 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 is based upon quoted market prices, where available, or fair values quoted by an independent pricing service based on sales of similar securities. 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 statement of income 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, ranging from three to ten years, of the software 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 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.

On December 22, 2017, the Tax Cuts and Jobs Act ("the 2017 Act") was signed into law by the President. The 2017 Act changes existing United States tax law and includes numerous provisions that will affect businesses. The 2017 Act reduces the U.S. corporate tax rate to 21%, includes several base broadening provisions, as well as, reform to the US international tax system.

The reduction in tax rate requires CCMC to revalue its deferred tax assets and liabilities as of December 31, 2017 to reflect the enacted tax rate of 21% which is expected to apply when the deferred tax assets and liabilities will be settled or realized. The change in net deferred tax assets due to the re-measurement is $8,036 which was recorded in the provision for income taxes for 2017. Furthermore, CCMC has evaluated and considered the impacts of the 2017 Act to the realizability of deferred tax assets and have concluded that no change as of December 31, 2017 is necessary. CCMC provision for income taxes for the period ended December 31, 2017 is based in part on a reasonable estimate of the effects on existing deferred tax balances and of certain provisions of the 2017 Act. To the extent a reasonable estimate of the impact of certain provisions was determinable CCMC recorded provisional estimates as a component of provision of income taxes. To the extent a reasonable estimate of the impact of certain provisions was not determinable, CCMC has not recorded any adjustments and continued accounting for them in accordance with ASC 740 on the basis of the tax laws in effect before enactment of the 2017 Act.

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 that is more likely than not to be sustained upon settlement 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 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 Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income
On February 14, 2018, the FASB issued a new Accounting Standards Update (ASU) 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive income. The update permits a company to reclassify the income tax effects of the 2017 Act on items within AOCI to retained earnings. The FASB refers to these amounts as "stranded tax effects." Early adoption is permitted. CCMC adopted this guidance as of December 31, 2017 and reclassified $9,660 of tax effects related to employee benefits plans and ($772) of tax effects related to unrealized net gains related investment securities from accumulated other comprehensive income to retained earnings.

Amendments to Guidance for Compensation – Retirement Benefits – Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost
In March 2017, the FASB issued new guidance that requires entities to (1) disaggregate the current service cost component from the other components of net benefit cost and present it with other current compensation costs for related employees in the income statement and (2) present the other components elsewhere in the income statement and outside of income from operations if that subtotal is presented. The ASU also requires disclosures of the income statement lines used to present the other components if these components are not presented separately in the income statement. This ASU is effective for CCMC for year ending December, 31, 2019 on a retrospective basis. The reason and nature for the change in accounting principle in the year of adoption must also be disclosed. CCMC is currently assessing the impact of adopting this new standard.

Amendments to Guidance for Measurement of Credit Losses on Financial Instruments
In June 2016, the FASB issued new guidance that amends the accounting for credit losses on most financial instruments. For financial assets measured at amortized cost such as trade receivable and any other financial assets not excluded from the scope that have the contractual right to receive cash, guidance requires the use of expected credit loss model to estimate losses expected throughout the life of the financial asset and record an allowance that, when deducted from amortized cost basis, presents the net amount expected to be collected on the financial asset. The guidance also modifies the other-than-temporary impairment model for available-for-sale debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods. This ASU is effective for the year ending December 31, 2021. Early adoption is permitted. CCMC is currently assessing the impact of adopting this new standard.

Financial Instruments – Recognition and Measurement of Financial Assets and Financial Liabilities
In January 2016, the FASB issued new guidance that amends presentation and accounting for certain financial instruments, including liabilities measured at fair value under the fair value option

and equity investments. The guidance also updates fair value presentation and disclosure requirements for financial instruments measured at amortized cost. The ASU is effective for the year ending December 31, 2019. CCMC is currently assessing the impact of adopting this new standard.

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, reflected as a single line item 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.

Amendments to Guidance for Revenue from Contracts with Customers
In May 2014, the FASB issued new guidance that outlines the principles an entity must apply to measure and recognize revenue and the related cash flows on contracts with customers. Subsequently in August 2015, the FASB issued ASU 2015-14: *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which defers the effective date of ASU 2014-09. The new revenue standard is effective for CCMC beginning January 1, 2018 either on a full retrospective approach for all periods presented in the period of adoption or a modified retrospective approach. CCMC is currently assessing the impact of adopting this new standard.

Amendment to Guidance of Balance Sheet Classification of Deferred Taxes
The Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (ASU) 2015-17, Balance Sheet Classification of Deferred Taxes. The update requires that deferred tax assets and liabilities be classified as noncurrent in a classified statement of financial position. The amendment is effective for non-public entities for fiscal year starting after December 15, 2017. Early adoption is permitted. CCMC adopted this guidance as of December 31, 2016.

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 adopted this guidance as of December 31, 2016.

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 2017 premium and surplus are approximately $360,800 and $241,600, 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 2017 and 2016. 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 adjustments for the years ended December 31 are as follows:

	2017	2016
Expenses incurred	$ 116,042	$ 117,292
Markup taken	611	725
Incentive fee	-	-
State income tax adjustments	-	-
Net management fee	$ 116,653	$ 118,017
Maximum markup allowed (25% of expenses incurred)	$ 29,011	$ 29,323
Markup taken	(611)	(725)
Markup allowed but not taken	$ 28,400	$ 28,598

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 $633 and $618 for expenses incurred under this provision in 2017 and 2016, respectively. These transactions are shown as a reduction of CCMC expense, rather than revenue.

At December 31, 2017 and 2016, CCMC had a receivable due from CCG of $2,034 and $3,289, 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 18.0% and 17.9% at December 31, 2017 and 2016, respectively. 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 were to exercise its put right on the 186,000 shares, at its ownership level as of December 31, 2017 and 2016, the resulting adjusted book value to the remaining shareholders will be reduced by approximately 18.6% and 18.5%, respectively. At December 31, 2017 and 2016, the carrying value of the common stock with put rights was $14,287 and $14,849, 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 $744 and $698 in 2017 and 2016, respectively.

4. Investment Securities

Current authoritative accounting guidance applies to all assets and liabilities measured at fair value on a recurring or nonrecurring 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. 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 in active markets are not available, 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 Valuations are derived principally from 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.

Certain assets held by the Defined Benefit Pension Plan (Note 11) are measured at Net Asset Value.

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, 2017			
	Level 1	Level 2	Level 3	Total
Bonds				
U.S. Government	$ 795	$ 503	$ -	$ 1,298
Municipal agencies	-	5,818	-	5,818
Asset backed	-	2,571	-	2,571
Industrial and miscellaneous	-	5,341	-	5,341
Total bonds	795	14,233	-	15,028
Stocks				
Large cap	7,469	-	-	7,469
Mid cap	1,967	-	-	1,967
Small cap	918	-	-	918
Total stocks	10,354	-	-	10,354
	$ 11,149	$ 14,233	$ -	$ 25,382

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Bonds				
U.S. Government	$ 2,998	$ 957	$ -	$ 3,955
Municipal agencies	-	8,821	-	8,821
Asset backed	-	2,993	-	2,993
Industrial and miscellaneous	-	6,186	-	6,186
Total bonds	2,998	18,957	-	21,955
Stocks				
Large cap	10,325	-	-	10,325
Mid cap	3,723	-	-	3,723
Small cap	1,872	-	-	1,872
Total stocks	15,920	-	-	15,920
	$ 18,918	$ 18,957	$ -	$ 37,875

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

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

	December 31, 2017			
	Cost	Unrealized Gains	Unrealized Losses	Market Value
Bonds				
U.S. Government	$ 1,306	$ -	$ (8)	$ 1,298
Municipal agencies	5,726	131	(39)	5,818
Asset backed	2,637	7	(73)	2,571
Industrial and miscellaneous	5,274	77	(10)	5,341
Total bonds	14,943	215	(130)	15,028
Stocks				
Large cap	3,081	4,392	(4)	7,469
Mid cap	897	1,070	-	1,967
Small cap	527	392	(1)	918
Total stocks	4,505	5,854	(5)	10,354
	$ 19,448	$ 6,069	$ (135)	$ 25,382

	December 31, 2016			
	Cost	Unrealized Gains	Unrealized Losses	Market Value
Bonds				
U.S. Government	$ 3,953	$ 7	$ (5)	$ 3,955
Municipal agencies	8,804	132	(115)	8,821
Asset backed	3,048	32	(87)	2,993
Industrial and miscellaneous	6,098	104	(16)	6,186
Total bonds	21,903	275	(223)	21,955
Stocks				
Large cap	5,022	5,327	(24)	10,325
Mid cap	2,006	1,727	(10)	3,723
Small cap	1,207	689	(24)	1,872
Total stocks	8,235	7,743	(58)	15,920
	$ 30,138	$ 8,018	$ (281)	$ 37,875

The amortized cost and market value of bonds at contractual maturities at December 31, 2017 are as follows:

	Amortized Cost	Market Value
Less than one year	$ 2,278	$ 2,279
One to five years	6,162	6,230
Five to ten years	3,781	3,860
Over ten years	2,722	2,659
Total bonds	$ 14,943	$ 15,028

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

Proceeds from sales of stocks during 2017 and 2016 were $9,071 and $1,357, respectively. Proceeds from sales and maturities of bonds during 2017 and 2016 were $10,224 and $5,157, 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, 2017			
	Gains	Losses	OTTI	Net
Bonds				
U.S. Government	$ -	$ (6)	$ -	$ (6)
Municipal agencies	21	(11)	-	10
Asset backed	18	-	-	18
Industrial and miscellaneous	9	(7)	-	2
Total bonds	48	(24)	-	24
Stocks				
Large cap	3,631	(7)	(20)	3,604
Mid cap	996	(22)	(1)	973
Small cap	318	(27)	(46)	245
Total stocks	4,945	(56)	(67)	4,822
	$ 4,993	$ (80)	$ (67)	$ 4,846

	December 31, 2016			
	Gains	Losses	OTTI	Net
Bonds				
U.S. Government	$ 11	$ -	$ -	$ 11
Municipal agencies	19	-	-	19
Asset backed	-	-	-	-
Industrial and miscellaneous	14	(36)	-	(22)
Total bonds	44	(36)	-	8
Stocks				
Large cap	557	-	(67)	490
Mid cap	135	-	(37)	98
Small cap	52	(7)	(91)	(46)
Total stocks	744	(7)	(195)	542
	$ 788	$ (43)	$ (195)	$ 550

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

	December 31, 2017			
	Less than 12 months		12 months or greater	
	Unrealized Losses	Market Value	Unrealized Losses	Market Value
Bonds				
U.S. Government	$ 4	$ 999	$ 4	$ 296
Municipal agencies	-	-	39	1,668
Asset backed	6	799	67	1,397
Industrial and miscellaneous	9	2,269	1	500
Total bonds	19	4,067	111	3,861
Stocks				
Large cap	3	56	1	67
Mid cap	-	-	-	-
Small cap	1	11	-	-
Total stocks	4	67	1	67
	$ 23	$ 4,134	$ 112	$ 3,928

	December 31, 2016			
	Less than 12 months		12 months or greater	
	Unrealized Losses	Market Value	Unrealized Losses	Market Value
Bonds				
U.S. Government	$ 5	$ 1,295	$ -	$ -
Municipal agencies	115	3,577	-	-
Asset backed	27	1,228	60	771
Industrial and miscellaneous	15	2,297	1	249
Total bonds	162	8,397	61	1,020
Stocks				
Large cap	14	157	10	174
Mid cap	9	162	1	7
Small cap	21	99	3	24
Total stocks	44	418	14	205
	$ 206	$ 8,815	$ 75	$ 1,225

The number of securities in an unrealized loss position at December 31, 2017 and 2016 were 35 and 61, respectively.

CCMC believes the unrealized losses are temporary in nature and has not recorded a realized investment loss in its statement of income 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:

	2017	2016
Interest and dividends	$ 641	$ 702
Net realized gains	4,846	550
Gain on sale of real estate	412	412
Investment expense	(100)	(105)
Investment income	$ 5,799	$ 1,559

5. **Property and Equipment**

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

	2017	2016
Cost:		
Home office building held under capital lease	$ 32,407	$ 32,407
Capitalized software	35,008	34,409
Work in progress	7,869	98
EDP equipment	10,474	9,213
Building	14,120	14,120
Office equipment	7,023	7,018
Leasehold improvements	3,222	3,125
Building improvements	2,487	2,422
Automobiles	1,386	1,415
Equipment held under capital lease	2,945	999
Land	1,400	1,400
Land improvements	244	159
	118,585	106,785
Less: Accumulated amortization under capital leases	(32,548)	(30,476)
Less: Accumulated amortization on capitalized software	(26,842)	(24,275)
Less: Other accumulated depreciation and amortization	(25,394)	(24,459)
Property and equipment, net	$ 33,801	$ 27,575
Depreciation and amortization expense on property and equipment	$ 5,839	$ 5,141

In 2016, CCMC recognized an impairment loss on software being developed for internal use in the amount of $3,680. This was due to a decision to discontinue certain software development projects with the intent to replace them with a purchased software system. The impairment loss was recognized in the statement of income under other operating expenses.

In 2017, CCMC commenced implementation of the underwriting and billing software for CCG. Software development costs of $7,616 have been capitalized and added to Work in Progress account until implementation is completed, which is expected during the year ending December 31, 2019.

6. **Credit Arrangement**

The home office complex lease amendment (Note 7) requires CCMC to secure 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. This letter of credit expires on August 11, 2018.

On September 28, 2017 CCMC has entered into a lease agreement for a new home office to commence June 1, 2018. The lease requires CCMC to secure 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 lease. A bank has an irrevocable $249 letter of credit in favor of BCSP Crossroads Property LLC.

A bank holds two standby letters of credit, totaling $109, 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 2017 and 2016 for capital lease obligations was $262 and $466, 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.

In 2017, CCMC entered into an operating lease agreement for a new home office to commence June 1, 2018. The term of the lease is 7 years and 10 months, with one option to extend the lease for a period of 5 years. The rent is abated during the first 10 months of the lease term.

In 2017, CCMC entered into a capital lease agreement with IBM Credit LLC for equipment. The term of the lease is 5 years, with a purchase option of one dollar at the end of the lease term.

The total future minimum sublease rentals under noncancelable subleases on capital leases was $183 and $611 at December 31, 2017 and December 31, 2016, respectively.

Rent expense under operating and capital leases was $8,859 and $8,023 in 2017 and 2016, 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
2018	$ 1,986	$ 1,249
2019	444	2,333
2020	444	2,243
2021	444	2,201
2022	296	2,262
Thereafter		6,130
Net minimum lease payments under capital leases	3,614	$ 16,418
Less: Amount representing interest	(273)	
Present value of net minimum lease payments	$ 3,341	
Current	$ 1,870	
Noncurrent	1,471	
Present value of net minimum lease payments	$ 3,341	

8. Income Taxes

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

	2017		2016	
	Amount	Percentage	Amount	Percentage
U.S. federal tax (statutory tax rate)	$ 2,168	34.0 %	$ 1,181	34.0 %
Tax-exempt income	(85)	(1.3)	(105)	(3.0)
Tax rate change	8,037	126.0	-	0.0
All other items	40	0.6	44	1.3
Provision for income taxes (effective tax rate)	$ 10,160	159.3 %	$ 1,120	32.3 %

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

	2017	2016
Current expense (benefit)	$ (1)	$ 4
Deferred provision, noncurrent	10,161	1,116
Provision for income taxes	$ 10,160	$ 1,120

The provision for income taxes was increased by $3 of accrued interest and penalties related to unrecognized tax benefits for the year ended December 31, 2017.

Income taxes recoverable recorded on the balance sheets as of December 31, 2017 is reported net of a $39 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 2017.

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

	2017	2016
Deferred tax assets		
Employee benefits	$ 16,772	$ 27,111
Deferred gain on sale of real estate	36	198
Workers' compensation expense	-	10
Building capital lease	137	697
Rent expense	41	82
Net operating loss	872	1,488
Fed Charitable Contributions carryforward	63	-
AMT credit carryforward	215	215
Realized book losses on OTTI securities	58	230
All other	67	135
Total deferred income tax assets	18,261	30,166
Deferred tax Liabilities		
Unrealized appreciation on investments	(1,247)	(2,631)
Depreciation	(1,904)	(3,539)
Prepaid expenses	(77)	(575)
Internally developed computer software	-	(33)
Total deferred income tax liabilities	(3,228)	(6,778)
Net deferred income tax assets	15,033	23,388

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, 2017 and 2016.

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, 2017 and 2016.

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 2014. 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 common stock issued and outstanding at December 31 are as follows:

	2017	2016
Shares issued and outstanding		
Series A	790,184	791,184
Series B	244,427	248,290
Total shares issued and outstanding	1,034,611	1,039,474
Book value per share	$ (8.79)	$ 5.71

	2017	2016
Common stock issued and outstanding		
Series A	$ 3,825	$ 3,829
Series B	11,176	11,421
Total common stock	$ 15,001	$ 15,250

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:

	2017	2016
Total shareholders' equity (deficit)	$ (9,093)	$ 5,932
AOCI balance related to pension plan	52,051	38,925
Adjusted shareholders' equity	$ 42,958	$ 44,857
Total shares issued and outstanding	1,034,611	1,039,474
Adjusted book value per share	$ 41.52	$ 43.15

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)

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.

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. Stock is issued prior to March 15th each year. 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 $1,402 and $1,303 in 2017 and 2016, respectively. CCMC assumes no forfeitures during the payout period when determining compensation expense over the performance period. During 2017 and 2016 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 15,063 and 14,232 in 2017 and 2016, respectively.

The accrued liability for the LTEIP is comprised of $1,302 in current employee compensation liability and $1,409 in noncurrent employee compensation liability on the balance sheet at December 31, 2017. The accrued liability for the LTEIP is comprised of $1,073 in current employee compensation liability and $1,310 in noncurrent employee compensation liability on the balance sheet at December 31, 2016.

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.

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. Stock is issued prior to March 15th each year. 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 $512 in 2017 and 2016. Under the ESP, 150,000 shares of Series B common stocks have been reserved for issuance. Total shares issued under the ESP were 8,193 and 5,947 in 2017 and 2016, respectively. The accrued liability for the ESP was $511 and $512 at December 31, 2017 and 2016, 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 $1,513 and $1,441 for the years ended December 31, 2017 and 2016, 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. The expense for the defined contribution portion of the SIPs was $2,843 and $2,900 in 2017 and 2016, 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.

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

Pension Plan Benefits

	2017	2016
Change in benefit obligation		
Benefit obligation at beginning of year	$ 216,620	$ 213,872
Service cost	-	-
Interest cost	7,079	7,169
Benefits paid	(8,928)	(8,302)
Actuarial loss	17,658	3,881
Benefit obligation at end of year	232,429	216,620
Change in plan assets		
Fair value of plan assets at beginning of year	191,886	185,816
Actual return on plan assets	23,890	14,372
Employer contribution	-	-
Benefits paid	(8,928)	(8,302)
Fair value of plan assets at end of year	206,848	191,886
Funded status at end of year	$ (25,581)	$ (24,734)
Amounts recognized in the balance sheets consist of		
Noncurrent liabilities	$ (25,581)	$ (24,734)
Net amount recognized	$ (25,581)	$ (24,734)
Amounts recognized in accumulated other comprehensive loss (pretax) consist of:		
Net loss	$ 65,841	$ 58,977
Accumulated other comprehensive loss	$ 65,841	$ 58,977
Information for pension plans with an accumulated benefit obligation in excess of plan assets		
Projected benefit obligation	$ 232,429	$ 216,620
Accumulated benefit obligation	$ 232,429	$ 216,620
Fair value of plan assets	$ 206,848	$ 191,886

	2017	2016
Components of net periodic benefit cost (income) and other amounts recognized in other comprehensive loss		
Net periodic benefit cost		
Service cost	$ -	$ -
Interest cost	7,079	7,169
Expected return on assets	(14,406)	(13,994)
Amortization of net actuarial loss	1,310	1,185
Total pension income included in Personnel expense on the Income Statements	$ (6,017)	$ (5,640)
Other changes in plan assets and benefit obligations recognized in other comprehensive loss (pretax)		
Net loss	$ 8,174	$ 3,503
Amortization of net actuarial loss	(1,310)	(1,185)
Total recognized in other comprehensive loss	6,864	2,318
Total recognized in net periodic benefit cost (income) and other comprehensive loss	$ 847	$ (3,322)

The estimated net actuarial loss that will be amortized from accumulated other comprehensive loss into net periodic benefit cost (income) over the next fiscal year is $1,938.

	2017	2016
Weighted-average assumptions used to determine benefit obligation at December 31		
Discount rate	3.44 %	3.90 %
Rate of compensation increase	N/A	N/A
Cost of living	N/A	N/A
Weighted-average assumptions used to determine net periodic benefit cost		
Discount rate - projected benefit obligation	3.90 %	4.08 %
Discount rate - interest cost	3.34 %	3.41 %
Rate of compensation increase	N/A	N/A
Expected return on plan assets	7.50 %	7.50 %
Cost of living	N/A	N/A

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, CCMC changed the approach to measuring service and interest costs as part of Pension Plan. CCMC elected to measure expense by applying the specific spot rates along that yield curve to the plans' liability cash flows. The new approach provides a more precise measurement of service and interest costs by aligning the timing of the plan's liability cash flows to the corresponding spot rates on the yield curve. This change does not affect the measurement of CCMC's plan obligations nor the funded status of the plan.

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

	2017		2016		2017
	Fair Value	Allocation	Fair Value	Allocation	Target Allocation
Asset category					
Equity funds					
Domestic					
Large cap	19,359	9%	$ 35,109	18%	10%
Small/mid-cap	-	0%	10,378	5%	
International	29,481	14%	16,774	9%	15%
Total equity funds	48,840	23%	62,261	32%	25%
Fixed income					
US Government Agencies	22,143	11%	17,913	9%	10%
Fixed income funds					
Domestic					
Long duration bond fund	101,342	49%	78,424	41%	
Intermediate duration bond fund	2,457	1%	1,969	1%	
High-yield	5,596	3%	4,832	3%	
International					
Emerging markets debt	3,772	2%	3,123	1%	
Total fixed income funds	113,167	55%	88,348	46%	55%
Real Estate fund	21,330	10%	22,355	12%	10%
Cash and accrued income	1,368	1%	1,009	1%	0%
	$ 206,848	100%	$ 191,886	100%	100%

US Government agencies are in Level 1 of the fair value hierarchy; See Note 4 for a description of Levels in the fair value hierarchy.

Equity, Fixed Income funds, and Real Estate fund investments are measured at Net Asset Value (NAV) of the units held by the Plan at year-end. The NAV, as provided by the trustee of the fund is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund less its liabilities. This practical expedient is not used when it is determined to be probable that the fund will sell the investment for an amount different than the reported NAV. Were the Plan to initiate a full redemption of the Real Estate fund, the issuer reserves the right to require sixty-five business days' notification in order to ensure that securities liquidation will be carried out in an ordinary business manner.

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.

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

No contributions were made in 2016 and 2017. CCMC does not expect to contribute to the Pension Plan for 2018.

Expected Future Benefit Payments

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

	Pension Benefits
2018	$ 9,539
2019	10,098
2020	10,664
2021	11,127
2022	11,568
Years 2023–2027	62,875
	$ 115,871

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.

The Excess Plan was frozen effective December 31, 2015. Effective January 1, 2016, CCMC 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. CCMC accrued $190 and $170 for the contribution to the plan in 2017 and 2016, respectively.

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

SERP and Excess Benefits

	2017	2016
Change in benefit obligation		
Benefit obligation at beginning of year	$ 49,953	$ 51,050
Service cost	-	-
Interest cost	1,501	1,555
Benefits paid	(3,374)	(3,324)
Actuarial loss	570	672
Benefit obligation at end of year	48,650	49,953
Change in plan assets		
Employer contributions	3,374	3,324
Benefits paid	(3,374)	(3,324)
Fair value of plan assets at end of year	-	-
Funded status at end of year	$ (48,650)	$ (49,953)
Amounts recognized in the balance sheets consist of		
Current liabilities	$ (3,317)	$ (3,413)
Noncurrent liabilities	(45,333)	(46,540)
Net amount recognized	$ (48,650)	$ (49,953)
Amounts recognized in accumulated other comprehensive loss (pretax) consist of		
Net actuarial loss	$ 17,161	$ 17,211
Accumulated other comprehensive loss	$ 17,161	$ 17,211
Information for pension plans with an accumulated benefit obligation in excess of plan assets		
Projected benefit obligation	$ 48,650	$ 49,953
Accumulated benefit obligation	$ 48,650	$ 49,953

	2017	2016
Components of net periodic benefit cost and other amounts recognized in other comprehensive income		
Net periodic benefit cost		
Service cost	$ -	$ -
Interest cost	1,501	1,555
Amortization of net actuarial loss	619	591
Net periodic benefit cost, included in Personnel expense on the Income Statements	2,120	2,146
Other changes in plan assets and benefit obligations recognized in other comprehensive income (pretax)		
Net loss	570	672
Amortization of net actuarial loss	(619)	(591)
Total recognized in other comprehensive income (loss)	(49)	81
Total recognized in net periodic benefit cost and other comprehensive income	$ 2,071	$ 2,227

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 $638.

	2017	2016
Actuarial Assumptions		
Weighted-average assumptions used to determine benefit obligation at December 31		
Discount rate	3.30 %	3.71 %
Rate of compensation increase	N/A	N/A
Cost of living	N/A	N/A
Weighted-average assumptions used to determine net periodic benefit cost		
Discount rate - projected benefit obligation	3.71 %	3.87 %
Discount rate - interest cost	3.10 %	3.13 %
Rate of compensation increase	N/A	N/A
Cost of living	N/A	N/A

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, CCMC changed our approach to measuring service and interest costs as part of SERP and Excess plans expense. CCMC elected to measure service and interest costs by applying the specific spot rates along that yield curve to the plans' liability cash flows. The new approach provides a more precise measurement of service and interest costs by aligning the timing of the plan's liability cash flows to the corresponding spot rates on the yield curve. This change does not affect the measurement of the plan obligations nor the funded status of the plan.

Cash Flows

Contributions

Since the plan is unfunded, no contributions are made. However, 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
2018	$ 3,317
2019	3,321
2020	3,338
2021	3,296
2022	3,257
Years 2023–2027	15,492
	$ 32,021

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 $65,577 and $50,283 at December 31, 2017 and 2016, respectively.

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

	Pension Plan[(1)]	SERP & Excess Plans[(2)]	Total
AOCI balances, at December 31, 2015	$ 37,395	$ 11,305	$ 48,700
2016 activity			
Pension accounting charges	1,530	-	1,530
SERP & Excess Plans	-	53	53
Total 2016 activity	1,530	53	1,583
AOCI balances, at December 31, 2016	38,925	11,358	50,283
2017 activity			
Pension accounting charges	5,593	-	5,593
SERP & Excess Plans	-	41	41
Deferred tax rate change from 34% to 21%	7,533	2,127	9,660
Total 2017 activity	13,126	2,168	15,294
AOCI balances, at December 31, 2017	$ 52,051	$ 13,526	$ 65,577

(1) These after-tax GAAP pension plan accounting charges in are utilized in the adjusted book value calculation (Note 9).

(2) 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.

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, 2017 and 2016 that exceeded the balance insured by the FDIC in the amount of $7,179 and $7,641, 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 9, 2018, which is the date that the financial statements were available to be issued.

2017

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Chairman of the Board
Chief Executive Officer

Joseph L. Volponi, FCAS
Director
President
Chief Operating Officer

Kenneth G. Berry
Director

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

Write: EQ Shareowner Services
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Contact CCMC on other shareholder issues:

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We look forward to seeing you there!

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