AMERCO /NV/
Form 10-Q
August 03, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

[x]QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended June 30, 2016

or

[ ]TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from __________________ to __________________

| Commission File Number | Registrant, State of Incorporation, Address and Telephone Number | I.R.S. Employer Identification No. |
|---|---|---|
| 1-11255 | AMERCO<br>(Nevada Corporation)<br>5555 Kietzke Lane, Ste. 100<br>Reno, Nevada 89511<br>Telephone (775) 688-6300 | 88-0106815 |

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [x] No [ ]

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

Large accelerated filer [x]   Accelerated filer [ ]

Non-accelerated filer [ ] (Do not check if a smaller reporting company)    Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [x]

19,607,788 shares of AMERCO Common Stock, $0.25 par value, were outstanding at August 1, 2016.

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ITEM 1. Financial Statements

AMERCO AND CONSOLIDATED ENTITIES

CONDENSED CONSOLIDATED balance sheets

| | June 30, 2016 (Unaudited) | March 31, 2016 |
|---|---|---|
| | (In thousands, except share data) | |
| ASSETS | | |
| Cash and cash equivalents | $646,188 | $600,646 |
| Reinsurance recoverables and trade receivables, net | 189,317 | 175,210 |
| Inventories, net | 82,923 | 79,756 |
| Prepaid expenses | 94,540 | 134,300 |
| Investments, fixed maturities and marketable equities | 1,656,159 | 1,510,538 |
| Investments, other | 280,860 | 310,072 |
| Deferred policy acquisition costs, net | 126,830 | 136,386 |
| Other assets | 80,467 | 77,210 |
| Related party assets | 80,812 | 85,734 |
| | 3,238,096 | 3,109,852 |
| Property, plant and equipment, at cost: | | |
| Land | 603,246 | 587,347 |
| Buildings and improvements | 2,289,715 | 2,187,400 |
| Furniture and equipment | 422,404 | 399,943 |
| Rental trailers and other rental equipment | 479,071 | 462,379 |
| Rental trucks | 3,702,784 | 3,514,175 |
| | 7,497,220 | 7,151,244 |
| Less: Accumulated depreciation | (2,191,507) | (2,133,733) |
| Total property, plant and equipment | 5,305,713 | 5,017,511 |
| Total assets | $8,543,809 | $8,127,363 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | $480,116 | $502,613 |
| Notes, loans and leases payable | 2,827,052 | 2,665,396 |
| Policy benefits and losses, claims and loss expenses payable | 1,072,728 | 1,071,412 |
| Liabilities from investment contracts | 1,016,653 | 951,490 |
| Other policyholders' funds and liabilities | 8,891 | 8,650 |
| Deferred income | 31,506 | 22,784 |
| Deferred income taxes, net | 687,576 | 653,612 |
| Total liabilities | 6,124,522 | 5,875,957 |

| | | |
|---|---|---|
| Commitments and contingencies (notes 4, 8, and 9) | | |
| Stockholders' equity: | | |
| Series preferred stock, with or without par value, 50,000,000 shares authorized: | | |
| Series A preferred stock, with no par value, 6,100,000 shares authorized; | | |
| 6,100,000 shares issued and none outstanding as of June 30 and March 31, 2016 | – | – |
| Series B preferred stock, with no par value, 100,000 shares authorized; none | | |
| issued and outstanding as of June 30 and March 31, 2016 | – | – |
| Series common stock, with or without par value, 250,000,000 shares authorized: | | |
| Series A common stock of $0.25 par value, 10,000,000 shares authorized; | | |
| none issued and outstanding as of June 30 and March 31, 2016 | – | – |
| Common stock, with $0.25 par value, 250,000,000 shares authorized: | | |
| Common stock of $0.25 par value, 250,000,000 shares authorized; 41,985,700 | | |
| issued and 19,607,788 outstanding as of June 30 and March 31, 2016 | 10,497 | 10,497 |
| Additional paid-in capital | 451,773 | 451,629 |
| Accumulated other comprehensive loss | (40,125) | (60,525) |
| Retained earnings | 2,680,814 | 2,533,641 |
| Cost of common shares in treasury, net (22,377,912 shares as of June 30 and March 31, 2016) | (525,653) | (525,653) |
| Cost of preferred shares in treasury, net (6,100,000 shares as of June 30 and March 31, 2016) | (151,997) | (151,997) |
| Unearned employee stock ownership plan shares | (6,022) | (6,186) |
| Total stockholders' equity | 2,419,287 | 2,251,406 |
| Total liabilities and stockholders' equity | $8,543,809 | $8,127,363 |

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

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AMERCO AND CONSOLIDATED ENTITIES

CONDENSED CONSOLIDATED Statements of operations

| | Quarter Ended June 30, | |
|---|---|---|
| | 2016 | 2015 |
| | (Unaudited) | |
| | (In thousands, except share and per share data) | |
| Revenues: | | |
| Self-moving equipment rentals | $646,336 | $629,286 |
| Self-storage revenues | 67,722 | 57,191 |
| Self-moving and self-storage products and service sales | 77,303 | 77,258 |
| Property management fees | 6,604 | 6,111 |
| Life insurance premiums | 40,892 | 40,266 |
| Property and casualty insurance premiums | 11,255 | 10,556 |
| Net investment and interest income | 27,549 | 21,972 |
| Other revenue | 45,748 | 42,165 |
| Total revenues | 923,409 | 884,805 |
| | | |
| Costs and expenses: | | |
| Operating expenses | 385,082 | 363,169 |
| Commission expenses | 73,816 | 73,058 |
| Cost of sales | 43,362 | 41,255 |
| Benefits and losses | 47,003 | 43,391 |
| Amortization of deferred policy acquisition costs | 7,942 | 4,778 |
| Lease expense | 11,048 | 17,064 |
| Depreciation, net of (gains) losses on disposals of ($18,640) and ($45,984), respectively | 95,381 | 50,982 |
| Total costs and expenses | 663,634 | 593,697 |
| | | |
| Earnings from operations | 259,775 | 291,108 |
| Interest expense | (26,644) | (22,100) |
| Pretax earnings | 233,131 | 269,008 |
| Income tax expense | (85,958) | (97,723) |
| Earnings available to common stockholders | $147,173 | $171,285 |
| Basic and diluted earnings per common share | $7.51 | $8.74 |
| Weighted average common shares outstanding: Basic and diluted | 19,586,069 | 19,596,129 |

Related party revenues for the first quarter of fiscal 2017 and 2016, net of eliminations, were $7.8 million and $8.5 million, respectively.

Related party costs and expenses for the first quarter of fiscal 2017 and 2016, net of eliminations, were $16.4 million and $15.6 million, respectively.

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

AMERCO AND CONSOLIDATED ENTITIES

Condensed consolidatED statements of COMPREHENSIVE INCOME (loss)

| Quarter Ended June 30, 2016 | Pre-tax | Tax | Net |
|---|---|---|---|
| | (Unaudited) | | |
| | (In thousands) | | |
| Comprehensive income: | | | |
| Net earnings | $233,131 | $(85,958) | $147,173 |
| Other comprehensive income: | | | |
| Foreign currency translation | (278) | – | (278) |
| Unrealized net gain on investments | 29,828 | (10,440) | 19,388 |
| Change in fair value of cash flow hedges | 2,081 | (791) | 1,290 |
| Total comprehensive income | $264,762 | $(97,189) | $167,573 |

| Quarter Ended June 30, 2015 | Pre-tax | Tax | Net |
|---|---|---|---|
| | (Unaudited) | | |
| | (In thousands) | | |
| Comprehensive income: | | | |
| Net earnings | $269,008 | $(97,723) | $171,285 |
| Other comprehensive income: | | | |
| Foreign currency translation | 2,533 | – | 2,533 |
| Unrealized net gain on investments | 10,653 | (3,728) | 6,925 |
| Change in fair value of cash flow hedges | 3,370 | (1,281) | 2,089 |
| Total comprehensive income | $285,564 | $(102,732) | $182,832 |

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

AMERCO AND CONSOLIDATED ENTITIES

Condensed consolidatED statements of cash flows

| | Quarter Ended June 30, | |
|---|---|---|
| | 2016 | 2015 |
| | (Unaudited) | |
| | (In thousands) | |
| Cash flows from operating activities: | | |
| Net earnings | $147,173 | $171,285 |
| Adjustments to reconcile net earnings to cash provided by operations: | | |
| Depreciation | 114,021 | 96,966 |
| Amortization of deferred policy acquisition costs | 7,942 | 4,778 |
| Amortization of debt issuance costs | 961 | 743 |
| Interest credited to policyholders | 5,059 | 5,484 |
| Change in allowance for losses on trade receivables | 21 | (61) |
| Change in allowance for inventory reserves | 1,221 | (248) |
| Net gain on sale of real and personal property | (18,640) | (45,984) |
| Net gain on sale of investments | (2,406) | (1,453) |
| Deferred income taxes | 22,733 | 18,866 |
| Net change in other operating assets and liabilities: | | |
| Reinsurance recoverables and trade receivables | (14,138) | (19,349) |
| Inventories | (4,391) | (140) |
| Prepaid expenses | 39,828 | 56,624 |
| Capitalization of deferred policy acquisition costs | (7,252) | (7,137) |
| Other assets | (3,392) | 9,368 |
| Related party assets | 4,084 | 5,666 |
| Accounts payable and accrued expenses | 57,099 | 53,997 |
| Policy benefits and losses, claims and loss expenses payable | 1,373 | 11,669 |
| Other policyholders' funds and liabilities | 242 | 4,700 |
| Deferred income | 8,727 | 8,342 |
| Related party liabilities | 781 | 1,438 |
| Net cash provided by operating activities | 361,046 | 375,554 |
| | | |
| Cash flow from investing activities: | | |
| Purchase of: | | |
| Property, plant and equipment | (437,287) | (452,572) |
| Short term investments | (277,038) | (73,517) |
| Fixed maturity investments | (166,648) | (47,072) |
| Equity securities | – | (967) |
| Preferred stock | – | (2) |
| Real estate | (3,495) | (23) |
| Mortgage loans | (62,572) | (82,839) |
| Proceeds from sales and paydowns of: | | |
| Property, plant and equipment | 147,196 | 194,133 |

| | | |
|---|---|---|
| Short term investments | 279,341 | 88,332 |
| Fixed maturity investments | 55,946 | 30,340 |
| Equity securities | – | 799 |
| Preferred stock | 2,000 | – |
| Real estate | 831 | – |
| Mortgage loans | 94,015 | 14,306 |
| Net cash used by investing activities | (367,711) | (329,082) |
| | | |
| Cash flow from financing activities: | | |
| Borrowings from credit facilities | 103,338 | 88,206 |
| Principal repayments on credit facilities | (48,326) | (82,797) |
| Debt issuance costs | (223) | – |
| Capital lease payments | (37,405) | (33,974) |
| Employee Stock Ownership Plan | (1,393) | (1,388) |
| Securitization deposits | 93 | – |
| Common stock dividends paid | (19,586) | – |
| Investment contract deposits | 74,157 | 33,768 |
| Investment contract withdrawals | (14,051) | (13,215) |
| Net cash provided (used) by financing activities | 56,604 | (9,400) |
| | | |
| Effects of exchange rate on cash | (4,397) | (3,360) |
| | | |
| Increase in cash and cash equivalents | 45,542 | 33,712 |
| Cash and cash equivalents at the beginning of period | 600,646 | 441,850 |
| Cash and cash equivalents at the end of period | $646,188 | $475,562 |

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

AMERCO and consolidated entities

notes to condensed consolidatED financial statements

1.Basis of Presentation

AMERCO, a Nevada corporation ("AMERCO"), has a first fiscal quarter that ends on the 30th of June for each year that is referenced. Our insurance company subsidiaries have a first quarter that ends on the 31st of March for each year that is referenced. They have been consolidated on that basis. Our insurance companies' financial reporting processes conform to calendar year reporting as required by state insurance departments. Management believes that consolidating their calendar year into our fiscal year financial statements does not materially affect the presentation of financial position or results of operations. We disclose any material events, if any, occurring during the intervening period. Consequently, all references to our insurance subsidiaries' years 2016 and 2015 correspond to fiscal 2017 and 2016 for AMERCO.

Accounts denominated in non-U.S. currencies have been translated into U.S. dollars. Certain amounts reported in previous years have been reclassified to conform to the current presentation.

The condensed consolidated balance sheet as of June 30, 2016 and the related condensed consolidated statements of operations, comprehensive income (loss) and cash flows for the first quarter of fiscal 2017 and 2016 are unaudited.

In our opinion, all adjustments necessary for the fair presentation of such condensed consolidated financial statements have been included. Such adjustments consist only of normal recurring items. Interim results are not necessarily indicative of results for a full year. The information in this Quarterly Report on Form 10-Q ("Quarterly Report") should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2016.

Intercompany accounts and transactions have been eliminated.

Description of Legal Entities

AMERCO is the holding company for:

U-Haul International, Inc. ("U-Haul"),

Amerco Real Estate Company ("Real Estate"),

Repwest Insurance Company ("Repwest"), and

Oxford Life Insurance Company ("Oxford").

Unless the context otherwise requires, the terms "Company," "we," "us" or "our" refer to AMERCO and all of its legal subsidiaries.

Description of Operating Segments

AMERCO has three reportable segments. They are Moving and Storage, Property and Casualty Insurance and Life Insurance.

The Moving and Storage operating segment ("Moving and Storage") includes AMERCO, U-Haul, and Real Estate and the wholly-owned subsidiaries of U-Haul and Real Estate. Operations consist of the rental of trucks and trailers, sales of moving supplies, sales of towing accessories, sales of propane, and the rental of fixed and portable moving and storage units to the "do-it-yourself" mover and management of self-storage properties owned by others. Operations are conducted under the registered trade name U-Haul® throughout the United States and Canada.

AMERCO and consolidated entities

notes to condensed consolidatED financial statements (Continued)

The Property and Casualty Insurance operating segment ("Property and Casualty Insurance") includes Repwest and its wholly-owned subsidiaries and ARCOA Risk Retention Group ("ARCOA"). Property and Casualty Insurance provides loss adjusting and claims handling for U-Haul through regional offices across North America. Property and Casualty Insurance also underwrites components of the Safemove, Safetow, Safemove Plus, Safestor and Safestor Mobile protection packages to U-Haul customers. The business plan for Property and Casualty Insurance includes offering property and casualty products in other U-Haul related programs. ARCOA is a group captive insurer owned by us and our wholly-owned subsidiaries whose purpose is to provide insurance products related to the moving and storage business.

The Life Insurance operating segment ("Life Insurance") includes Oxford and its wholly-owned subsidiaries. Life Insurance provides life and health insurance products primarily to the senior market through the direct writing and reinsuring of life insurance, Medicare supplement and annuity policies.

2. Earnings per Share

Our earnings per share is calculated by dividing our earnings available to common stockholders by the weighted average common shares outstanding, basic and diluted.

The weighted average common shares outstanding exclude post-1992 shares of the employee stock ownership plan that have not been committed to be released. The unreleased shares, net of shares committed to be released, were 21,548 and 10,851 as of June 30, 2016 and June 30, 2015, respectively.

3. Investments

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

We deposit bonds with insurance regulatory authorities to meet statutory requirements. The adjusted cost of bonds on deposit with insurance regulatory authorities was $17.4 million and $17.3 million at June 30, 2016 and March 31, 2016, respectively.

Available-for-Sale Investments

Available-for-sale investments at June 30, 2016 were as follows:

| Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses More than 12 Months | Gross Unrealized Losses Less than 12 Months | Estimated Market Value |
|---|---|---|---|---|
| (Unaudited) | | | | |
| (In thousands) | | | | |
| $98,134 | $6,159 | $– | $(50) | $104,243 |

| | | | | | |
|---|---|---|---|---|---|
| U.S. treasury securities and government obligations | | | | | |
| U.S. government agency mortgage-backed securities | 30,884 | 1,741 | (5) | – | 32,620 |
| Obligations of states and political subdivisions | 165,322 | 14,339 | (32) | (16) | 179,613 |
| Corporate securities | 1,232,287 | 45,160 | (7,890) | (16,275) | 1,253,282 |
| Mortgage-backed securities | 42,850 | 855 | – | (7) | 43,698 |
| Redeemable preferred stocks | 15,977 | 530 | – | (191) | 16,316 |
| Common stocks | 17,732 | 8,700 | (10) | (35) | 26,387 |
| | $1,603,186 | $77,484 | $(7,937) | $(16,574) | $1,656,159 |

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amerco and consolidated subsidiaries

notes to condensed consolidated financial statements – (continued)

Available-for-sale investments at March 31, 2016 were as follows:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses More than 12 Months | Gross Unrealized Losses Less than 12 Months | Estimated Market Value |
|---|---|---|---|---|---|
| | (In thousands) | | | | |
| U.S. treasury securities and government obligations | $85,861 | $3,791 | $– | $(193) | $89,459 |
| U.S. government agency mortgage-backed securities | 21,845 | 1,596 | (6) | (39) | 23,396 |
| Obligations of states and political subdivisions | 166,725 | 10,660 | (81) | (414) | 176,890 |
| Corporate securities | 1,143,125 | 26,861 | (8,013) | (28,181) | 1,133,792 |
| Mortgage-backed securities | 42,991 | 475 | – | (62) | 43,404 |
| Redeemable preferred stocks | 17,977 | 556 | – | (105) | 18,428 |
| Common stocks | 17,732 | 7,822 | (10) | (375) | 25,169 |
| | $1,496,256 | $51,761 | $(8,110) | $(29,369) | $1,510,538 |

The available-for-sale tables include gross unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position.

We sold available-for-sale securities with a fair value of $56.9 million during the first quarter of fiscal 2017. The gross realized gains on these sales totaled $1.1 million. The gross realized losses on these sales totaled $0.6 million.

The unrealized losses of more than twelve months in the available-for-sale tables are considered temporary declines. We track each investment with an unrealized loss and evaluate them on an individual basis for other-than-temporary impairments including obtaining corroborating opinions from third party sources, performing trend analysis and reviewing management’s future plans. Certain of these investments may have declines determined by management to be other-than-temporary and we recognize these write-downs, if any, through earnings. There were no write downs in the first quarter of fiscal 2017 or 2016.

The investment portfolio primarily consists of corporate securities and U.S. government securities. We believe we monitor our investments as appropriate. Our methodology of assessing other-than-temporary impairments is based on security-specific analysis as of the balance sheet date and considers various factors including the length of time to maturity, the extent to which the fair value has been less than the cost, the financial condition and the near-term prospects of the issuer, and whether the debtor is current on its contractually obligated interest and principal payments. Nothing has come to management’s attention that would lead to the belief that each issuer would not have the ability to meet the remaining contractual obligations of the security, including payment at maturity. We have the ability and intent not to sell our fixed maturity and common stock investments for a period of time sufficient to allow us to recover our costs.

The portion of other-than-temporary impairment related to a credit loss is recognized in earnings. The significant inputs utilized in the evaluation of mortgage backed securities credit losses include ratings, delinquency rates, and prepayment activity. The significant inputs utilized in the evaluation of asset backed securities credit losses include the time frame for principal recovery and the subordination and value of the underlying collateral.

There were no credit losses recognized in earnings for which a portion of an other-than-temporary impairment was recognized in accumulated other comprehensive income (loss) for the first quarter of fiscal 2017.

amerco and consolidated subsidiaries

notes to condensed consolidated financial statements – (continued)

The adjusted cost and estimated market value of available-for-sale investments by contractual maturity, were as follows:

| | June 30, 2016 | | March 31, 2016 | |
|---|---|---|---|---|
| | Amortized Cost | Estimated Market Value | Amortized Cost | Estimated Market Value |
| | (Unaudited) | | | |
| | (In thousands) | | | |
| Due in one year or less | $31,772 | $32,158 | $48,679 | $49,146 |
| Due after one year through five years | 298,190 | 307,633 | 250,576 | 256,597 |
| Due after five years through ten years | 628,082 | 644,932 | 557,984 | 557,961 |
| Due after ten years | 568,583 | 585,035 | 560,317 | 559,833 |
| | 1,526,627 | 1,569,758 | 1,417,556 | 1,423,537 |
| | | | | |
| Mortgage backed securities | 42,850 | 43,698 | 42,991 | 43,404 |
| Redeemable preferred stocks | 15,977 | 16,316 | 17,977 | 18,428 |
| Equity securities | 17,732 | 26,387 | 17,732 | 25,169 |
| | $1,603,186 | $1,656,159 | $1,496,256 | $1,510,538 |

4. Borrowings

Long-Term Debt

Long-term debt was as follows:

| | 2017 Rate (a) | Maturities | June 30, 2016 | March 31, 2016 |
|---|---|---|---|---|
| | | | (Unaudited) | |
| | | | (In thousands) | |
| Real estate loan (amortizing term) | 6.93% | 2023 | $202,500 | $205,000 |
| Senior mortgages | 2.46% - 5.50% | 2016 - 2038 | 1,116,682 | 1,121,897 |
| Working capital loan (revolving credit) | - | 2018 | – | – |
| Fleet loans (amortizing term) | 1.95% - 4.76% | 2017 - 2023 | 218,076 | 218,998 |
| Fleet loan (securitization) | 4.90% | 2017 | 60,139 | 62,838 |
| Fleet loans (revolving credit) | 1.60% - 2.30% | 2018 - 2021 | 410,000 | 347,000 |
| Capital leases (rental equipment) | 2.12% - 7.92% | 2016 - 2023 | 778,731 | 672,825 |
| Other obligations | 3.00% - 8.00% | 2016 - 2045 | 63,547 | 60,200 |
| Less: Debt issuance costs | | | (22,623) | (23,362) |
| Total notes, loans and leases payable | | | $2,827,052 | $2,665,396 |

(a) Interest rate as of June 30, 2016, including the effect of applicable hedging instruments.

Real Estate Backed Loans

Real Estate Loan

Amerco Real Estate Company and certain of its subsidiaries and U-Haul Company of Florida are borrowers under a Real Estate Loan. As of June 30, 2016, the outstanding balance on the Real Estate Loan was $202.5 million. The Real Estate Loan requires monthly principal and interest payments, with the unpaid loan balance and accrued and unpaid interest due at maturity. The Real Estate Loan is secured by various properties owned by the borrowers. The final maturity of the term loan is April 2023.

The interest rate, per the provisions of the amended loan agreement, is the applicable London Inter-Bank Offer Rate ("LIBOR") plus the applicable margin. At June 30, 2016, the applicable LIBOR was 0.45% and the applicable margin was 1.50%, the sum of which was 1.95%. The rate on the Real Estate Loan is hedged with an interest rate swap fixing the rate at 6.93% based on current margin. The interest rate swap expires in August 2018, after which date the remaining balance will incur interest at a rate of LIBOR plus a margin of 1.50%. The default provisions of the Real Estate Loan include non-payment of principal or interest and other standard reporting and change-in-control covenants. There are limited restrictions regarding our use of the funds.

Senior Mortgages

Various subsidiaries of Amerco Real Estate Company and U-Haul International, Inc. are borrowers under certain senior mortgages. These senior mortgage loan balances as of June 30, 2016 were in the aggregate amount of $1,116.7 million and mature between 2016 and 2038. The senior mortgages require monthly principal and interest payments with the unpaid loan balance and accrued and unpaid interest due at maturity. The senior mortgages are secured by certain properties owned by the borrowers. The fixed interest rates, per the provisions of the senior mortgages, range between 4.20% and 5.50%. Certain senior mortgages have an anticipated repayment date and a maturity date. If these senior mortgages are not repaid by the anticipated repayment date the interest rate on these mortgages would increase from the current fixed rate. We are using the anticipated repayment date for our maturity schedule. Additionally, $135.1 million of these loans have variable interest rates comprised of applicable LIBOR base rates between 0.45% and 0.46% plus margins between 2.00% and 2.50%, the sum of which was between 2.46% and 2.95%. Amerco Real Estate Company and U-Haul International, Inc. have provided limited guarantees of the senior mortgages. The default provisions of the senior mortgages include non-payment of principal or interest and other standard reporting and change-in-control covenants. There are limited restrictions regarding our use of the funds.

Working Capital Loans

Amerco Real Estate Company is a borrower under an asset backed working capital loan. The maximum amount that can be drawn at any one time is $50.0 million. At June 30, 2016 the full $50.0 million was available to be drawn. This loan is secured by certain properties owned by the borrower. This loan agreement provides for revolving loans, subject to the terms of the loan agreement. The final maturity of this loan is September 2018. This loan requires monthly interest payments with the unpaid loan balance and accrued and unpaid interest due at maturity. AMERCO is the guarantor of this loan. The default provisions of the loan include non-payment of principal or interest and other standard reporting and change-in-control covenants. The interest rate is the applicable LIBOR plus a margin of 1.25%.

Fleet Loans

Rental Truck Amortizing Loans

U-Haul International, Inc. and several of its subsidiaries are borrowers under amortizing term loans. The balance of the loans as of June 30, 2016 was $218.1 million with the final maturities between July 2017 and May 2023.

The Amortizing Loans require monthly principal and interest payments, with the unpaid loan balance and accrued and unpaid interest due at maturity. These loans were used to purchase new trucks. The interest rates, per the provision of the Loan Agreements, are the applicable LIBOR plus the applicable margins. At June 30, 2016, the applicable LIBOR was between 0.44% and 0.46% and applicable margins were between 1.72% and 2.50%. The interest rates are hedged with interest rate swaps fixing the rates between 2.82% and 4.76% based on current margins. Additionally, $143.6

million of these loans are carried at fixed rates ranging between 1.95% and 3.94%.

AMERCO and, in some cases, U-Haul International, Inc. are guarantors of these loans. The default provisions of these loans include non-payment of principal or interest and other standard reporting and change-in-control covenants.

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notes to condensed consolidated financial statements – (continued)

Rental Truck Securitizations

2010 U-Haul S Fleet and its subsidiaries (collectively, “2010 USF”) issued a $155.0 million asset-backed note (“2010 Box Truck Note”). 2010 USF is a bankruptcy-remote special purpose entity wholly-owned by U-Haul International, Inc. The net proceeds from the securitized transaction were used to finance new box truck purchases. U.S. Bank, NA acts as the trustee for this securitization.

The 2010 Box Truck Note has a fixed interest rate of 4.90% with an expected final maturity of October 2017. At June 30, 2016, the outstanding balance was $60.1 million. The note is secured by the box trucks purchased and the corresponding operating cash flows associated with their operation.

The 2010 Box Truck Note is subject to certain covenants with respect to liens, additional indebtedness of the special purpose entity, the disposition of assets and other customary covenants of bankruptcy-remote special purpose entities. The default provisions of this note include non-payment of principal or interest and other standard reporting and change-in-control covenants.

Rental Truck Revolvers

Various subsidiaries of U-Haul International, Inc. entered into a revolving fleet loan for $75 million, which can be increased to a maximum of $225 million. In June 2016, the loan commitment was increased to $150 million. The loan matures in September 2018. The interest rate, per the provision of the Loan Agreement, is the applicable LIBOR plus the applicable margin. At June 30, 2016, the applicable LIBOR was 0.45% and the margin was reduced to 1.15% in April 2016, the sum of which was 1.60%. Only interest is paid during the first four years of the loan with principal due monthly over the last nine months. As of June 30, 2016, the outstanding balance was $127.0 million.

Various subsidiaries of U-Haul International, Inc. entered into a revolving fleet loan for $100 million, which can be increased to a maximum of $215 million. This loan matures March 2020. The interest rate, per the provision of the Loan Agreement, is the applicable LIBOR plus the applicable margin. At June 30, 2016, the applicable LIBOR was 0.46% and the margin was 1.15%, the sum of which was 1.61%. Only interest is paid on the loan until the last nine months when principal is due monthly. As of June 30, 2016, the outstanding balance was $88.0 million.

Various subsidiaries of U-Haul International, Inc. entered into a revolving fleet loan for $70 million. The loan matures in May 2019. This agreement contains an option to extend the maturity through January 2020. At June 30, 2016, the applicable LIBOR was 0.45% and the margin was 1.85%, the sum of which was 2.30%. Only interest is paid during the first five years of the loan with principal due upon maturity. As of June 30, 2016, the outstanding balance was $70.0 million.

Various subsidiaries of U-Haul International, Inc. entered into a revolving fleet loan for $125 million. The loan matures in November 2021. The interest rate, per the provision of the Loan Agreement, is the applicable LIBOR plus the applicable margin. At June 30, 2016, the applicable LIBOR was 0.46% and the margin was 1.15%, the sum of which was 1.61%. Only interest is paid during the first five years of the loan with principal due monthly over the last nine months. As of June 30, 2016, the outstanding balance was $125.0 million.

Capital Leases

We regularly enter into capital leases for new equipment with the terms of the leases between five and seven years. During the first quarter of fiscal 2017, we entered into $143.5 million of new capital leases. At June 30, 2016, the balance of our capital leases was $778.7 million. The net book value of the corresponding capitalized assets was $1,065.1 million at June 30, 2016.

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notes to condensed consolidated financial statements – (continued)

Other Obligations

In February 2011, the Company and U.S. Bank, NA (the "Trustee") entered into the U-Haul Investors Club® Indenture. The Company and the Trustee entered into this indenture to provide for the issuance of notes by us directly to investors over our proprietary website, uhaulinvestorsclub.com ("U-Notes"). The U-Notes® are secured by various types of collateral including rental equipment and real estate. U-Notes are issued in smaller series that vary as to principal amount, interest rate and maturity. U-Notes are obligations of the Company and secured by the associated collateral; they are not guaranteed by any of the Company's affiliates or subsidiaries.

At June 30, 2016, the aggregate outstanding principal balance of the U-Notes issued was $68.8 million of which $5.3 million is held by our insurance subsidiaries and eliminated in consolidation. Interest rates range between 3.00% and 8.00% and maturity dates range between 2016 and 2045.

Oxford is a member of the Federal Home Loan Bank ("FHLB") and as such the FHLB has made a deposit with Oxford. As of March 31, 2016, the FHLB made two deposits that totaled $48.4 million. The first deposit is for $30.0 million to which Oxford pays a fixed interest rate of 0.57% due on the maturity date of September 30, 2016. The other deposit is for $18.4 million with a variable rate of 0.48%, which is calculated daily based upon a spread of the overnight FED funds benchmark and is payable monthly. This deposit does not have a scheduled maturity date. The balance of the deposits is included within the balance of Liabilities from investment contracts on the consolidated balance sheet.

Annual Maturities of Notes, Loans and Leases Payable

The annual maturities of long-term debt, including capital leases, as of June 30, 2016 for the next five years and thereafter are as follows:

| | Year Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 | Thereafter |
| | (Unaudited) | | | | | |
| | (In thousands) | | | | | |
| Notes, loans and leases payable, secured | $412,924 | $399,936 | $364,383 | $379,501 | $218,793 | $1,051,515 |

Interest on Borrowings

Interest Expense

Components of interest expense include the following:

| | Quarter Ended | |
|---|---|---|
| | June 30, | |
| | 2016 | 2015 |
| | (Unaudited) | |
| | (In thousands) | |
| Interest expense | $24,303 | $18,542 |
| Capitalized interest | (1,313) | (551) |
| Amortization of transaction costs | 843 | 743 |
| Interest expense resulting from derivatives | 2,811 | 3,366 |
| Total interest expense | $26,644 | $22,100 |

Interest paid in cash, including payments related to derivative contracts, amounted to $27.2 million and $22.0 million for the first quarter of fiscal 2017 and 2016, respectively.

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notes to condensed consolidated financial statements – (continued)

Interest Rates

Interest rates and Company borrowings were as follows:

| | Revolving Credit Activity Quarter Ended June 30, 2016 | 2015 |
|---|---|---|
| | (Unaudited) (In thousands, except interest rates) | |
| Weighted average interest rate during the quarter | 1.73% | 1.65% |
| Interest rate at year end | 1.72% | 1.65% |
| Maximum amount outstanding during the quarter | $410,000 | $191,000 |
| Average amount outstanding during the quarter | $369,637 | $180,714 |
| Facility fees | $41 | $94 |

5. Derivatives

We manage exposure to changes in market interest rates. Our use of derivative instruments is limited to highly effective interest rate swaps to hedge the risk of changes in cash flows (future interest payments) attributable to changes in LIBOR swap rates, the designated benchmark interest rate being hedged on certain of our LIBOR indexed variable rate debt and a variable rate operating lease. The interest rate swaps effectively fix our interest payments on certain LIBOR indexed variable rate debt. We monitor our positions and the credit ratings of our counterparties and do not currently anticipate non-performance by the counterparties. Interest rate swap agreements are not entered into for trading purposes.

| Original variable rate debt and lease amount (Unaudited) (In millions) | | Agreement Date | Effective Date | Expiration Date | Designated cash flow hedge date |
|---|---|---|---|---|---|
| $ 300.0 | | 8/16/2006 | 8/18/2006 | 8/10/2018 | 8/4/2006 |
| 14.7 | (a) | 7/6/2010 | 8/15/2010 | 7/15/2017 | 7/6/2010 |
| 25.0 | (a) | 4/26/2011 | 6/1/2011 | 6/1/2018 | 6/1/2011 |
| 50.0 | (a) | 7/29/2011 | 8/15/2011 | 8/15/2018 | 7/29/2011 |
| 20.0 | (a) | 8/3/2011 | 9/12/2011 | 9/10/2018 | 8/3/2011 |
| 15.1 | (b) | 3/27/2012 | 3/28/2012 | 3/28/2019 | 3/26/2012 |
| 25.0 | | 4/13/2012 | 4/16/2012 | 4/1/2019 | 4/12/2012 |
| 44.3 | | 1/11/2013 | 1/15/2013 | 12/15/2019 | 1/11/2013 |

(a) forward swap

(b) operating lease

As of June 30, 2016, the total notional amount of our variable interest rate swaps on debt and an operating lease was $277.1 million and $9.0 million, respectively

The derivative fair values located in Accounts payable and accrued expenses in the balance sheets were as follows:

| | Net Liability Derivative Fair Value as of | |
|---|---|---|
| | June 30, 2016 | March 31, 2016 |
| | (Unaudited) | |
| | (In thousands) | |
| Interest rate contracts designated as hedging instruments | $ 12,766 | $ 14,845 |

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notes to condensed consolidated financial statements – (continued)

| | The Effect of Interest Rate Contracts on the Statements of Operations Quarters Ended June 30, | |
|---|---|---|
| | 2016 | 2015 |
| | (Unaudited) | |
| | (In thousands) | |
| Loss recognized in income on interest rate contracts | $2,811 | $3,366 |
| Gain recognized in AOCI on interest rate contracts (effective portion) | $(2,081) | $(3,370) |
| Loss reclassified from AOCI into income (effective portion) | $2,809 | $3,360 |
| (Gain) loss recognized in income on interest rate contracts (ineffective portion and amount excluded from effectiveness testing) | $2 | $6 |

Gains or losses recognized in income on derivatives are recorded as interest expense in the statements of operations. During the first quarter of fiscal 2017, we recognized an increase in the fair value of our cash flow hedges of $1.3 million, net of taxes. Embedded in this change was $2.8 million of losses reclassified from accumulated other comprehensive income to interest expense during the first quarter of fiscal 2017, net of taxes. At June 30, 2016, we expect to reclassify $8.0 million of net losses on interest rate contracts from accumulated other comprehensive income to earnings as interest expense over the next twelve months.

6. Accumulated Other Comprehensive Income (Loss)

A summary of accumulated other comprehensive income (loss) components, net of tax, were as follows:

| | Foreign Currency Translation | Unrealized Net Gain on Investments | Fair Market Value of Cash Flow Hedges | Postretirement Benefit Obligation Net Loss | Accumulated Other Comprehensive Income (Loss) |
|---|---|---|---|---|---|
| | (Unaudited) | | | | |
| | (In thousands) | | | | |
| Balance at March 31, 2016 | $(63,643) | $14,115 | $(9,208) | $(1,789) | $(60,525) |
| Foreign currency translation | (278) | – | – | – | (278) |
| Unrealized net gain on investments | – | 19,388 | – | – | 19,388 |
| Change in fair value of cash flow hedges | – | – | 4,099 | – | 4,099 |
| Amounts reclassified from AOCI | – | – | (2,809) | – | (2,809) |
| Other comprehensive income (loss) | (278) | 19,388 | 1,290 | – | 20,400 |
| | $(63,921) | $33,503 | $(7,918) | $(1,789) | $(40,125) |

Balance at June 30,
2016

7. Stockholders' Equity

On March 15, 2016, we declared a cash dividend on our Common Stock of $1.00 per share to holders of record on April 5, 2016. The dividend was paid on April 21, 2016.

On June 8, 2016, the stockholder's approved the 2016 AMERCO Stock Option Plan (Shelf Stock Option Plan). As of June 30, 2016, no awards had been issued under this plan.

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notes to condensed consolidated financial statements – (continued)

## 8. Contingent Liabilities and Commitments

We lease a portion of our rental equipment and certain of our facilities under operating leases with terms that expire at various dates substantially through 2019. As of