UNICO AMERICAN CORP
Form 10-K
March 25, 2016

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

Annual report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2015 Commission File No. 0-3978

UNICO AMERICAN CORPORATION

(Exact name of registrant as specified in its charter)

Nevada	**95-2583928**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
26050 Mureau Road, Calabasas, California	**91302**
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code: **(818) 591-9800**

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, No Par Value	**NASDAQ Stock Market LLC**
(Title of each class)	*Name Of Each Exchange On Which Registered*

Securities registered pursuant to section 12(g) of the Act:

None

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No X

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No X

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy of information statements incorporated by reference as Part III of this Form 10-K or any amendment to this Form 10-K. X

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 accelerator filer," "accelerator filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer __ Accelerated filer __

Non-accelerated filer __ Smaller reporting company X

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No X

The aggregate market value of registrant's voting and non-voting common equity held by non-affiliates as of June 30, 2015, the last business day of Registrant's most recently completed second fiscal quarter, was $29,921,651.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at March 25, 2016
Common Stock, $0 Par value per share	5,307,133

Portions of the definitive proxy statement that Registrant intends to file pursuant to Regulation 14(a) by a date no later than 120 days after December 31, 2015, to be used in connection with the annual meeting of shareholders, are incorporated herein by reference into Part III hereof. If such definitive proxy statement is not filed in the 120-day period, the information called for by Part III will be filed as an amendment to this Form 10-K not later than the end of the 120-day period.

PART I

Item 1. Business.

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

Descriptions of the Company’s operations in the following paragraphs are categorized between the Company’s major segment, the insurance company operation, and other insurance operations. The insurance company operation is conducted through Crusader Insurance Company (Crusader), Unico’s property and casualty insurance company. Revenues from insurance company operation and other insurance operations for the years ended December 31, 2015, December 31, 2014, and December 31, 2013, are as follows:

	Year ended December 31								
	2015			2014			2013		
	Total Revenues	Percent of Total Company Revenues		Total Revenues	Percent of Total Company Revenues		Total Revenues	Percent of Total Company Revenues	
Insurance company operation	$30,420,988	91.4	%	$27,466,597	90.1	%	$27,806,086	89.3	%
Other insurance operations									
Gross commissions and fees:									
Health insurance program commission income	960,670	2.9	%	1,082,412	3.6	%	1,233,324	4.0	%
Policy fee income	1,706,134	5.1	%	1,619,060	5.3	%	1,667,102	5.4	%
Daily automobile rental insurance program commission	18,408	0.1	%	116,160	0.4	%	224,180	0.7	%
Association operations membership and fee income	88,530	0.3	%	100,332	0.3	%	114,801	0.4	%
Total gross commission and fee income	2,773,742	8.4	%	2,917,964	9.6	%	3,239,407	10.5	%
Investment income	414	—		555	—		1,168	—	
Finance fees earned	65,730	0.2	%	67,012	0.2	%	76,845	0.2	%
Other income	3,765	—		18,112	0.1	%	7,386	—	
Total other insurance operations	2,843,651	8.6	%	3,003,643	9.9	%	3,324,806	10.7	%
Total revenues	$33,264,639	100.0	%	$30,470,240	100.0	%	$31,130,892	100.0	%

INSURANCE COMPANY OPERATION

General

The insurance company operation is conducted through Crusader. Crusader is a multiple line property and casualty insurance company that began transacting business on January 1, 1985. Since 2004, all Crusader business has been written in the state of California until June 2014 when Crusader also began writing business in the state of Arizona. During the year ended December 31, 2015, approximately 98% of Crusader's business was commercial multiple peril policies. Commercial multiple peril policies provide a combination of property and liability coverages for businesses. Commercial property coverage insures against loss or damage to buildings, inventory and equipment from natural disasters, including hurricanes, windstorms, hail, water, explosions, severe winter weather, and other events such as theft and vandalism, fires, storms, and financial loss due to business interruption resulting from covered property damage. However, Crusader does not write earthquake coverage. Commercial liability coverage insures against third party liability from accidents occurring on the insured's premises or arising out of its operation. In addition to commercial multiple peril policies, Crusader also writes separate policies to insure commercial property and commercial liability risks on a mono-line basis. Crusader is domiciled in California; and, as of December 31, 2015, Crusader is licensed as an admitted insurance carrier in the states of Arizona, California, Nevada, Oregon, and Washington.

Production and Servicing of Policies

Crusader sells its insurance policies through Unifax Insurance Systems, Inc. (Unifax), Crusader's sister corporation and exclusive general agent. All policies are produced by a network of independent brokers and agents.

Although Crusader plans to continually introduce new products, it did not introduce new products during 2015; instead, in 2015 Crusader implemented product changes such as revised rates, eligibility guidelines, rules and coverage forms. On October 9, 2015, the Company concluded that a charge for impairment of the Company's capitalized computer software costs, related to a policy administration system contract entered into on November 1, 2012, was required under U.S. generally accepted accounting principles (GAAP). The decision to impair the asset was based on the Company's beliefs that the software had not achieved and would not be able to achieve the Company's expected implementation targets and that the Company was unable to renegotiate the terms of its agreement with the software vendor. The Company believes that it will need to make future cash expenditures to replace or upgrade its policy administration system but it is unable to estimate the amount at this time. While the Company's policy administration system continues to support the Company's existing operations, the Company believes it would realize more competitive parity with respect to product and service by switching or upgrading to a more contemporary platform. The Company is currently evaluating its alternatives. Crusader does not intend to substantially increase its number of appointed retail agents until the Company replaces or upgrades its policy administration system.

The property casualty insurance marketplace continues to be intensely competitive. While Crusader attempts to meet such competition with competitive prices, its emphasis is on service, promotion, and distribution. Crusader believes that rate adequacy is more important than premium growth and that underwriting profit (net earned premium less losses and loss adjustment expenses and policy acquisition costs) is its primary goal. Nonetheless, Crusader believes that it can grow its sales and profitability by continuing to focus upon three areas of its operations: (1) product development, (2) improved service to retail brokers, (3) appointment of captive and independent retail agents, and (4) geographical expansion..

Adjusting of Claims

Crusader manages all of its claims with a staff of in-house claim adjusters. This staff adjusts claims and oversees all outside claim services such as attorneys, independent or outside claim adjusters, investigators, and experts as necessary.

Reinsurance

A reinsurance transaction occurs when an insurance company transfers (cedes) a portion of its exposure on policies written to a reinsurer that assumes that risk for a premium (ceded premium). Reinsurance does not legally discharge

Crusader from primary liability under its policies. If the reinsurer fails to meet its obligations, Crusader must nonetheless pay its policy obligations. Crusader's primary excess of loss reinsurance agreements during the years ended December 31, 2015, 2014 and 2013 are as follows:

Loss Years	Reinsurers	A.M. Best Rating	Retention	Annual Aggregate Deductible
2013 – 2015	Platinum Underwriters Reinsurance, Inc. & Hannover Ruckversicherungs AG & TOA Reinsurance	A A+ A+	$500,000	$—

In calendar years 2015 and 2014, Crusader retained a participation in its excess of loss reinsurance treaties of 10% in its 1st layer ($500,000 in excess of $500,000), 0% in its 2nd layer ($2,000,000 in excess of $1,000,000) and 0% in its property and casualty clash treaty.

In calendar year 2013, Crusader retained a participation in its excess of loss reinsurance treaties of 10% in its 1st layer ($500,000 in excess of $500,000), 5% in its 2nd layer ($1,000,000 in excess of $1,000,000) and 0% in its property and casualty clash treaty.

Crusader's excess of loss reinsurance treaties provided for a contingent commission for accident years 2006, 2004 and 2003. Crusader's 2006 1st layer primary excess of loss reinsurance treaty provided for a contingent commission equal to 20% of the net profit, if any, accruing to the reinsurer. Crusader's 2004 and 2003 1st layer primary excess of loss reinsurance treaties provided for a contingent commission to the Company equal to 45% of the net profit, if any, accruing to the reinsurer. Any contingent commission received was subject to return based on future development of ceded losses and loss adjustment expenses. The contingent commission income (loss) recognized was $91,686, $(17,092) and $301,102 for the years ended December 31, 2015, 2014 and 2013, respectively. As of December 31, 2015, the contingent commission agreements had expired, and all contingent commission income due on these agreements had been recognized. As of December 31, 2015 and 2014, the unearned contingent commission balance included in "Accrued expenses and other liabilities" in the Consolidated Balance Sheets was $0 and $77,839, respectively.

Crusader also has catastrophe reinsurance treaties from various highly rated California authorized and California unauthorized reinsurance companies. These reinsurance treaties help protect Crusader against losses in excess of certain retentions, from catastrophic events that may occur on property risks which Crusader insures. In calendar years 2015 and 2014, Crusader retained a participation in its catastrophe excess of loss reinsurance treaties of 5% in its 1st layer ($9,000,000 in excess of $1,000,000) and 0% in its 2nd layer ($31,000,000 in excess of $10,000,000). In calendar year 2013, Crusader retained a participation in its catastrophe excess of loss reinsurance treaties of 10% in its 1st layer ($9,000,000 in excess of $1,000,000) and 0% in its 2nd layer ($31,000,000 in excess of $10,000,000).

Crusader has no reinsurance recoverable balances in dispute.

Crusader evaluates each of its ceded reinsurance treaties at its inception to determine if there is sufficient risk transfer to allow the contract to be accounted for as reinsurance under current accounting literature. As of December 31, 2015, all such ceded contracts are accounted for as risk transfer reinsurance.

The aggregate amount of ceded earned premium to the reinsurers was $5,328,639, $5,090,268 and $5,121,233 for the years ended December 31, 2015, 2014 and 2013, respectively.

On most of the premium that Crusader cedes to the reinsurer, the reinsurer pays a commission to Crusader that includes a reimbursement of the cost of acquiring the portion of the premium that is ceded. Crusader does not currently assume any reinsurance. Crusader intends to continue obtaining reinsurance although the availability and cost may vary from time to time. The unpaid losses ceded to the reinsurer are recorded as an asset on the balance sheet.

Unpaid Losses and Loss Adjustment Expenses

Crusader maintains reserves for losses and loss adjustment expenses with respect to both reported and unreported losses. When a claim for loss is reported to Crusader, a reserve is established for the expected cost to settle the claim, including estimates of any related legal expense and other costs associated with resolving the claim. These reserves are called "case based" reserves. In addition, Crusader also sets up reserves at the end of each reporting period for losses that have occurred but have not yet been reported to Crusader. These incurred but not reported losses are referred to as "IBNR" reserves.

Crusader establishes reserves for reported losses based on historical experience, upon case-by-case evaluation of facts surrounding each known loss, and the related policy provisions. The amount of reserves for unreported losses is estimated by analysis of historical and statistical information. The ultimate liability of Crusader may be greater or less than estimated reserves. Reserves are monitored and adjusted when appropriate and are reflected in the statement of operations in the period of adjustment. Reserves for losses and loss adjustment expenses are estimated to cover the future amounts needed to pay claims and related expenses with respect to insured events that have occurred.

Crusader does not discount to a present value the portion of loss and loss adjustment expense reserves expected to be paid in future periods. Federal tax law, however, requires Crusader to discount loss and loss adjustment expense reserves for federal income tax purposes.

The process of establishing loss and loss adjustment expense reserves involves significant judgment. The following table shows the development of the unpaid losses and loss adjustment expenses for fiscal years 2005 through 2014. The top line of the table shows the estimated liability for unpaid losses and loss adjustment expenses, net of reinsurance, recorded at the balance sheet date for each of the indicated years. This liability represents the estimated amount of losses and loss adjustment expenses for losses arising in the current and prior years that are unpaid at the balance sheet date. The table shows the re-estimated amount of the previously recorded liability based on experience as of the end of each succeeding year. The estimate may change as more information becomes known. The Company believes that Crusader's loss and loss adjustment expense reserves are properly stated. When subsequent loss and loss adjustment expense development justifies changes in reserving practices, the Company responds accordingly.

The following table reflects redundancies in Crusader's net loss and loss adjustment expense reserves for each of the 2005 through 2014 periods. The gross loss and loss adjustment expense reserves reflect a cumulative redundancy for the 2005 through 2012 periods and a cumulative deficiency for the 2013 and 2014 periods. See discussion of losses and loss adjustment expenses in Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations - Results of Operations - Insurance Company Operation."

When evaluating the information in the following table, it should be noted that each amount includes the effects of all changes in amounts of prior periods; therefore, the cumulative redundancy represents the aggregate change in the estimates over all prior years. Conditions and trends that have affected development of the liability in the past may not necessarily occur in the future. Accordingly, it would not be appropriate to extrapolate future deficiencies or redundancies based on this table.

CRUSADER INSURANCE COMPANY
ANALYSIS OF LOSS AND LOSS ADJUSTMENT EXPENSE DEVELOPMENT
Year Ended December 31

	2005	2006	2007	2008	2009	2010	2011	2012
Reserve for Unpaid Losses and Loss Adjustment Expenses, Net	$76,235,467	$70,076,430	$66,305,287	$58,839,017	$55,409,545	$49,743,381	$46,512,179	$43,200
Paid Cumulative as of								
1 Year Later	17,257,218	18,136,957	20,255,356	17,123,126	15,809,062	12,431,401	11,351,147	11,745
2 Years Later	30,280,022	32,708,859	34,175,791	27,981,461	24,809,437	19,595,440	17,779,156	18,831
3 Years Later	39,459,338	40,477,741	40,878,873	33,327,793	29,641,757	23,297,603	22,916,160	24,258
4 Years Later	44,045,638	43,803,412	44,243,160	35,105,657	31,495,691	25,222,399	26,284,075	
5 Years Later	45,490,105	45,453,118	45,060,447	36,003,375	32,704,049	26,692,418		
6 Years Later	48,502,411	46,048,205	45,811,654	36,865,292	33,205,930			
7 Years Later	49,035,550	46,577,491	46,529,380	37,320,640				
8 Years Later	49,552,230	47,030,806	46,844,635					
9 Years Later	50,006,478	47,344,849						
10 Years Later	50,254,118							
Reserves Re-estimated as of								
1 Year Later	64,064,785	65,958,329	62,748,486	54,883,464	50,841,366	44,900,923	42,149,270	38,641
2 Years Later	60,840,795	61,135,905	59,520,345	51,044,229	47,332,499	40,856,252	36,568,583	34,754
3 Years Later	57,688,373	56,989,424	56,548,186	47,343,297	43,887,081	35,561,980	33,200,620	33,318
4 Years Later	55,381,880	54,055,748	54,131,673	44,479,597	39,135,538	32,678,862	32,286,316	
5 Years Later	52,540,959	52,443,534	51,927,804	40,337,061	36,817,185	30,888,052		
6 Years Later	51,219,584	50,931,469	48,468,874	38,638,138	35,588,729			
7 Years Later	52,482,257	48,219,250	47,449,344	38,027,276				
8 Years Later	50,631,560	47,748,694	47,263,548					
9 Years Later	50,558,519	47,690,494						
10 Years Later	50,524,127							
Cumulative Redundancy	$25,711,340	$22,385,936	$19,041,739	$20,811,741	$19,820,816	$18,855,329	$14,225,863	$9,882,
	$101,914,548	$93,596,117	$94,730,711	$78,654,590	$71,585,408	$61,559,695	$54,486,843	$49,784

Gross
Liability for
Unpaid
Losses
and Loss
Adjustment
Expenses