UNICO AMERICAN CORP
Form 10-K
March 31, 2011

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, 2010 Commission File No. 0-3978

UNICO AMERICAN CORPORATION
(Exact name of registrant as specified in its charter)

Nevada (State or other jurisdiction of incorporation or organization)	95-2583928 (IRS Employer Identification No.)
23251 Mulholland Drive, Woodland Hills, California (Address of Principal Executive Offices)	91364 (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 (Title of each class)	NASDAQ Stock Market LLC 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 Web site, 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__ 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 __ (Do not check if a smaller reporting company)	Smaller reporting company X

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, 2010, the last business day of Registrant's most recently completed second fiscal quarter was $23,770,814.

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, 2011
Common Stock, $0 Par value per share	5,333,081

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, 2010, 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 - insurance company operation, and all other revenues from insurance operations. The insurance company operation is conducted through Crusader Insurance Company (Crusader), Unico's property and casualty insurance company. Insurance company revenues and other revenues from insurance operations for the years ended December 31, 2010, December 31, 2009, and December 31, 2008, are as follows:

	Year ended December 31								
	2010			2009			2008		
	Total Revenues	Percent of Total Company Revenues		Total Revenues	Percent of Total Company Revenues		Total Revenues	Percent of Total Company Revenues	
Insurance company revenues	$32,334,184	87.1	%	$35,936,552	86.3	%	$40,527,988	86.7	%
Other revenues from insurance operations									
Gross commissions and fees:									
Health insurance program commission income	1,933,288	5.2	%	2,526,772	6.1	%	2,754,293	5.9	%
Policy fee income	1,980,928	5.3	%	2,109,681	5.1	%	2,239,306	4.8	%
Daily automobile rental insurance program commission	364,968	1.0	%	401,829	1.0	%	403,943	0.9	%
Association operations membership and fee income	212,215	0.6	%	261,980	0.6	%	300,214	0.6	%
Other commission and fee income	170	-		787	-		8,315	-	
Total gross commission and fee income	4,491,569	12.1	%	5,301,049	12.8	%	5,706,071	12.2	%
Investment income	3,432	-		1,350	-		61,434	0.1	%
Finance charges and fees earned	276,737	0.8	%	369,285	0.9	%	460,422	1.0	%
Other income	14,829	-		8,870	-		13,529	-	
Total other revenues from insurance operations	4,786,567	12.9	%	5,680,554	13.7	%	6,241,456	13.3	%

Total revenues	$37,120,751	100.0 %	$41,617,106	100.0 %	$46,769,444	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. During the year ended December 31, 2010, approximately 98% of Crusader's business was commercial multiple peril policies. Commercial multiple peril policies provide a combination of property and liability coverage 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, 2010, Crusader was licensed as an admitted insurance carrier in the states of Arizona, California, Nevada, Oregon, and Washington.

The insurance marketplace continues to be intensely competitive as more insurers are competing for the same customers. Many of Crusader's competitors price their insurance at rates that the Company believes are inadequate to support an underwriting profit. 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 key areas of its operations: (1) product development, (2) improved service to retail brokers, and (3) appointment of captive and independent retail agents. During 2010, Crusader continued to introduce product changes such as rates, eligibility guidelines, rules and coverage forms. Improved service is primarily focused upon transacting business through the internet, as well as providing more options to make the agents' and brokers' time more efficiently spent with Crusader (i.e., as opposed to spending time with Crusader's competitors). As of December 31, 2010, Crusader had appointed 16 retail agents. Presently, it is expected that each such retail agent should be able to reach an annual sales volume of approximately one to two million dollars of Crusader's products within three to five years of their appointment by Crusader. However, Crusader does not intend to substantially increase its number of retail agents appointed until such time as the Company implements a new policy administration system.

All of Crusader's business is produced by Unifax Insurance Systems, Inc. (Unifax), its sister corporation. Unifax has substantial experience with these classes of business. The commissions paid by Crusader to Unifax are eliminated as intercompany transactions and are not reflected in the previous table.

Reinsurance

A reinsurance transaction occurs when an insurance company transfers (cedes) a portion of its exposure on policies written by it to a reinsurer that assumes that risk for a premium (ceded premium). Reinsurance does not legally discharge the Company from primary liability under its policies. If the reinsurer fails to meet its obligations, the Company must nonetheless pay its policy obligations.

Crusader's primary excess of loss reinsurance agreements since January 1, 1998, are as follows:

Loss Year(s)	Reinsurer(s)	A.M. Best Rating	Retention	Annual Aggregate Deductible
2005 – 2010	Platinum Underwriters Reinsurance, Inc. & Hannover Ruckversicherungs AG	A A	$300,000	$500,000
2004	Platinum Underwriters Reinsurance, Inc. & Hannover Ruckversicherungs AG	A A	$250,000	$500,000
2003	Platinum Underwriters Reinsurance, Inc. & Hannover Ruckversicherungs AG & QBE Reinsurance Corporation	A A A	$250,000	$500,000

2002	Partner Reinsurance Company of the U.S.	A+	$250,000	$675,000
2000 - 2001	Partner Reinsurance Company of the U.S.	A+	$250,000	$500,000
1998 - 1999	General Reinsurance Corporation	A++	$250,000	$750,000

Prior to January 1, 1998, National Reinsurance Corporation (acquired by General Reinsurance Corporation in 1996) charged a provisional rate on exposures up to $500,000 that was subject to adjustment and was based on the amount of losses ceded, limited by a maximum percentage that could be charged. That provisionally rated treaty was cancelled on a runoff basis and replaced by a flat rated treaty on January 1, 1998.

In 2010, 2009 and 2008 Crusader retained a participation in its excess of loss reinsurance treaties of 20% in its 1st layer ($700,000 in excess of $300,000), 15% in its 2nd layer ($1,000,000 in excess of $1,000,000), and 0% in its property and casualty clash treaty. In 2007 Crusader retained a participation in its excess of loss reinsurance treaties of 15% in its 1st layer ($700,000 in excess of $300,000), 15% in its 2nd layer ($1,000,000 in excess of $1,000,000), and 15% in its property clash treaty. In 2006 and 2005 Crusader retained a participation in its excess of loss reinsurance treaties of 10% in its 1st layer ($700,000 in excess of $300,000), 10% in its 2nd layer ($1,000,000 in excess of $1,000,000), and 30% in its property clash treaty. In 2004 Crusader retained a participation in its excess of loss reinsurance treaties of 10% in its 1st layer ($750,000 in excess of $250,000), 10% in its 2nd layer ($1,000,000 in excess of $1,000,000), and 30% in its property clash treaty. In 2003 Crusader retained a participation in its excess of loss reinsurance treaties of 5% in its 1st layer ($750,000 in excess of $250,000), 10% in its 2nd layer ($1,000,000 in excess of $1,000,000), and 30% in its property clash treaty.

The 2007 through 2010 excess of loss reinsurance treaties do not provide for a contingent commission. Crusader's 2006 1st layer primary excess of loss treaty provides for a contingent commission equal to 20% of the net profit, if any, accruing to the reinsurer. The first accounting period for the contingent commission covers the period from January 1, 2006, through December 31, 2006. The 2005 excess of loss reinsurance treaties do not provide for a contingent commission. Crusader's 2004 and 2003 1st layer primary excess of loss treaties provide for a contingent commission to the Company equal to 45% of the net profit, if any, accruing to the reinsurer. The first accounting period for the contingent commission covers the period from January 1, 2003, through December 31, 2004. For each accounting period as described above, the Company will calculate and report to the reinsurers its net profit (excluding incurred but not reported losses), if any, within 90 days after 36 months following the end of the first accounting period, and within 90 days after the end of each 12-month period thereafter until all losses subject to the agreement have been finally settled. Any contingent commission received is subject to return based on future development of ceded losses and loss adjustment expenses. As of December 31, 2010, the Company has received a total net contingent commission of $3,668,199 for the years subject to contingent commission. Of this amount, the Company has recognized $2,323,858 of contingent commission income, of which $637,477 was recognized in the year ended December 31, 2010. The remaining balance of the net payments received of $1,344,341 is currently unearned and included in "Accrued Expenses and Other Liabilities" in the consolidated balance sheets. The unearned contingent commission may be subsequently earned or returned to the reinsurer depending on the future development of the ceded IBNR for the years subject to contingent commission.

Crusader also has catastrophe reinsurance from various highly rated California authorized and unauthorized reinsurance companies. These reinsurance agreements help protect Crusader against liabilities in excess of certain retentions, including major or catastrophic losses that may occur from any one or more of the property and/or casualty risks which Crusader insures. The Company has no reinsurance recoverable balances in dispute.

The Company evaluates each of its ceded reinsurance contracts 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, 2010, all such ceded contracts are accounted for as risk transfer reinsurance.

The aggregate amount of earned premium ceded to the reinsurers was $7,427,236 for the year ended December 31, 2010, $9,276,407 for the year ended December 31, 2009, and $8,771,069 for the year ended December 31, 2008.

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. The Company 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 the Company, 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, the Company also sets up reserves at the end of each reporting period for losses that have occurred but have not yet been reported to the Company. 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.

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 2000 through 2010. 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 reestimated 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 its 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 and deficiencies in Crusader's net loss and loss adjustment expense reserves. The net reserves for the 2002 through 2009 periods reflect a cumulative redundancy. The gross reserves also reflect a cumulative redundancy for the 2002 through 2009 periods. See discussion of losses and loss adjustment expenses in Item 7 - "Management's Discussion and Analysis - 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 or deficiency represents the aggregate change in the estimates over all prior years. Conditions and trends that have affected development of 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 CO
ANALYSIS OF LOSS AND LOSS ADJUSTMENT E
Year Ended December 3

	2000	2001	2002	2003	2004	2005	
Reserve for Unpaid Losses and Loss Adjustment Expenses, Net	$34,546,026	$49,786,215	$53,596,945	$58,883,861	$67,349,989	$76,235,467	$70
Paid Cumulative as of							
1 Year Later	20,841,417	23,010,615	21,326,688	18,546,279	14,626,446	17,257,218	18
2 Years Later	37,976,277	39,463,106	35,883,729	28,289,327	26,374,067	30,280,022	32
3 Years Later	49,053,708	46,256,431	40,808,763	35,508,898	34,031,644	39,459,338	40
4 Years Later	52,821,183	49,157,040	44,116,477	39,577,949	37,471,168	44,045,638	43
5 Years Later	54,919,573	51,678,787	46,382,760	41,417,614	38,960,467	45,490,105	
6 Years Later	56,715,300	53,604,855	47,272,911	42,384,891	39,606,633		
7 Years Later	58,428,481	53,834,453	47,994,346	42,843,453			
8 Years Later	58,528,260	53,826,582	48,289,708				
9 Years Later	58,496,996	53,954,614					
10 Years Later	58,602,303						
Reserves Re-estimated as of							
1 Year Later	53,872,376	57,577,066	56,348,531	58,048,427	63,525,526	64,064,784	65
2 Years Later	59,746,880	60,629,814	57,237,770	54,623,000	51,981,027	60,840,795	61
3 Years Later	62,172,320	60,974,567	55,430,550	50,602,947	49,959,618	57,688,373	56
4 Years Later	62,369,460	59,745,610	53,154,847	49,959,618	47,537,734	55,381,880	54
5 Years Later	61,894,587	58,289,479	53,047,154	47,848,145	46,539,900	52,540,959	
6 Years Later	61,192,597	58,677,307	51,628,155	47,335,768	44,229,362		
7 Years Later	61,975,092	57,039,089	51,380,177	45,793,998			
8 Years Later	60,565,031	56,156,091	50,249,934				
9 Years Later	59,879,760	54,899,151					
10 Years Later	59,041,794						
Cumulative Redundancy (Deficiency)	$(24,495,768)	$(5,112,936)	$3,347,011	$13,089,863	$23,120,627	$23,694,508	$16
Gross Liability for Unpaid Losses and Loss Adjustment Expenses	$45,217,369	$60,534,295	$74,905,284	$78,139,090	$87,469,000	$101,914,548	$93
Ceded Liability for Unpaid Losses and Loss Adjustment Expenses	(10,671,343)	(10,748,080)	(21,308,339)	(19,255,229)	(20,119,011)	(25,679,081)	(2
Net Liability for Unpaid Losses and Loss Adjustment Expenses	$34,546,026	$49,786,215	$53,596,945	$58,883,861	$67,349,989	$76,235,467	$70