UNICO AMERICAN CORP
Form 10-K
March 31, 2008

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, 2007 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.)
23251 Mulholland Drive, Woodland Hills, California	91364
(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 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 accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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, 2007, the last business day of Registrant's most recently completed second fiscal quarter was $37,184,103.

5,625,308
Number of shares of common stock outstanding as of March 26, 2008

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, 2007, 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 through its other subsidiaries provides insurance premium financing and membership association services. 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. 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 - its 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, 2007, December 31, 2006, and December 31, 2005, are as follows:

	Year ended December 31					
	2007		2006		2005	
	Total Revenues	Percent of Total Company Revenues	Total Revenues	Percent of Total Company Revenues	Total Revenues	Percent of Total Company Revenues
Insurance company revenues	$ 44,137,213	87.9%	$ 48,942,568	89.4%	$ 54,833,512	89.6%
Other revenues from insurance operations						
Gross commissions and fees:						
Health insurance program commission income	2,320,161	4.6%	1,634,438	3.0%	1,628,061	2.7%
Policy fee income	2,332,404	4.7%	2,638,985	4.8%	3,001,966	4.9%
Daily automobile rental insurance program:						
Commission	390,659	0.8%	371,317	0.7%	441,066	0.7%
Claim administration fees	-	-	4,035	-	70,000	0.1%
Association operations membership and fee income	309,712	0.6%	300,527	0.5%	318,349	0.5%
Other commission and fee income	13,095	-	38,030	0.1%	48,589	0.1%
Total gross commission and fee income	5,366,031	10.7%	4,987,332	9.1%	5,508,031	9.0%
Investment income	152,002	0.3%	100,955	0.2%	68,828	0.1%
Finance charges and fees earned	553,997	1.1%	678,740	1.2%	758,325	1.3%
Other income	14,050	-	7,786	-	13,826	-
Total other revenues from insurance operations	6,086,080	12.1%	5,774,813	10.5%	6,349,010	10.4%
Total Revenues	$ 50,223,293	100.0%	$ 54,717,381	100.0%	$ 61,182,522	100.0%

INSURANCE COMPANY OPERATION

General

The insurance company operation is conducted through Crusader Insurance Company. Crusader is a multiple line property and casualty insurance company that began transacting business on January 1, 1985. Since 2004, all Crusader business was written in the State of California. During the year ended December 31, 2007, 96% 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 coverages insure 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 risk on a mono-line basis. As of December 31, 2007, Crusader was licensed as an admitted insurance carrier in the states of Arizona, California, Nevada, Oregon, and Washington.

Historically, most of Crusader's marketing was aimed at independent insurance brokers, representatives of the consumer. With the relatively recent advent of heightened competition and of declining sales, in 2007 Crusader adopted a plan to supplement its marketing efforts with independent agents, representatives of the Company. The Company believes that those agents will be particularly effective and that their efforts will not diminish the business historically produced by independent brokers. Crusader began making those agency appointments during 2008.

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. Crusader is licensed in property and casualty and disability lines of insurance by the California Department of Insurance.

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 – 2007	Platinum Underwriters Reinsurance, Inc. & Hannover Ruckversicherungs AG	A	$300,000	$500,000
2004	Platinum Underwriters Reinsurance, Inc. & Hannover Ruckversicherungs AG	A	$250,000	$500,000
2003	Platinum Underwriters Reinsurance, Inc. & Hannover Ruckversicherungs AG & QBE Reinsurance Corporation	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 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 and casualty clash treaties. 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 and casualty clash treaties. 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 and casualty clash treaties.

The 2007 excess of loss 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 treaties do not provide for a contingent commission. Crusader's 2004 and 2003 1st layer primary excess of loss treaty provides 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 payment received is subject to return based on future development of ceded losses and loss adjustment expenses. Based on the Company's ceded losses and loss adjustment expenses (including ceded incurred but not reported losses) as of December 31, 2007, the Company recognized $253,555 of contingent commission. In March 2007, the Company received an advance of $1 million from its reinsurer to be applied against future contingent commission earned, if any. As of December 31, 2007, the Company recorded $746,445 of this payment as an advance from its reinsurer and it is included in accrued expenses and other liabilities in the consolidated balance sheets.

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 aggregate amount of earned premium ceded to the reinsurers was $11,532,308 for the year ended December 31, 2007, $13,758,424 for the year ended December 31, 2006, and $14,234,844 for the year ended December 31, 2005.

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 1997 through 2007. The top line of the table shows the estimated liability for unpaid losses and loss adjustment expenses 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 is increased or decreased, 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. As of December 31, 2007, all periods stated in the table prior to 2003 reflected a cumulative deficiency. The 2003 through 2006 periods reflect a cumulative redundancy. 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 may not be appropriate to extrapolate future deficiencies or redundancies based on this table.

					CRUSADER INSURANCE COMPANY			
				ANALYSIS OF LOSS AND LOSS ADJUSTMENT EXPENSE DEVELO				
					Year Ended December 31			
	1997	1998	1999	2000	2001	2002	2003	2004
Reserve for Unpaid Losses and Loss Adjustment Expenses	$ 40,591,248	$ 40,374,232	$ 37,628,165	$ 34,546,026	$ 49,786,215	$ 53,596,945	$ 58,883,861	$ 67,349,9
Paid Cumulative as of								
1 Year Later	12,677,646	15,393,167	18,745,224	20,841,417	23,010,615	21,326,688	18,546,279	14,626,4
2 Years Later	23,740,181	28,570,117	34,905,359	37,976,277	39,463,106	35,883,729	28,289,327	26,374,0
3 Years Later	30,217,031	38,923,545	46,072,688	49,053,708	46,256,431	40,808,763	35,508,898	34,031,6
4 Years Later	35,620,705	45,425,709	53,153,491	52,821,183	49,157,040	44,116,477	39,577,949	
5 Years Later	40,639,328	50,526,164	56,021,297	54,919,573	51,678,787	46,382,760		
6 Years Later	45,028,598	52,588,830	57,247,843	56,715,300	53,604,855			
7 Years Later	46,921,020	53,482,116	58,801,974	58,428,481				
8 Years Later	47,807,308	54,659,842	60,000,165					
9 Years Later	48,975,696	55,763,935						
10 Years Later	50,067,816							
Reserves Reestimated as of								