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UNICO AMERICAN CORP
Form 10-Q
November 09, 2006

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly Report under Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2006 or

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

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
(I.R.S. Employee
Identification No.)

23251 Mulholland Drive, Woodland Hills, California
(Address of Principal Executive Offices)

91364
(Zip Code)

(818) 591-9800
(Registrant's telephone number, Including Area Code)

No Change
(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 No
--- ---

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer
--- --- ---

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

Yes No
--- ---

5,592,065
Number of shares of common stock outstanding as of November 7, 2006

PART 1 - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

UNICO AMERICAN CORPORATION
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Unaudited)

September 30
2006

ASSETS

Investments

Available for sale:

Fixed maturities, at fair value (amortized cost: September 30, 2006

\$136,549,491; December 31, 2005 \$136,128,428)

\$136,285,425

Short-term investments, at cost

10,045,581

Total Investments

146,331,006

Cash

58,032

Accrued investment income

1,646,173

Premiums and notes receivable, net

6,169,994

Reinsurance recoverable:

Paid losses and loss adjustment expenses

59,043

Unpaid losses and loss adjustment expenses

24,568,931

Deferred policy acquisition costs

6,592,139

Property and equipment (net of accumulated depreciation)

778,944

Deferred income taxes

1,643,551

Other assets

652,204

Total Assets

\$188,500,017

=====

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES

Unpaid losses and loss adjustment expenses

\$100,944,501

Unearned premiums

26,890,317

Advance premium and premium deposits

1,736,255

Accrued expenses and other liabilities

3,758,619

Total Liabilities

\$133,329,692

STOCKHOLDERS' EQUITY

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Common stock, no par - authorized 10,000,000 shares; issued and outstanding shares 5,592,065 at September 30, 2006, and 5,496,315 at December 31, 2005	\$3,230,083
Accumulated other comprehensive (loss)	(174,284)
Retained earnings	52,114,526

Total Stockholders' Equity	\$55,170,325

Total Liabilities and Stockholders' Equity	\$188,500,017
	=====

See notes to unaudited consolidated financial statements.

2

UNICO AMERICAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended September 30		
	2006	2005	
	-----	-----	-----
REVENUES			

Insurance Company Revenues			
Premium earned	\$14,006,664	\$16,046,897	\$43,
Premium ceded	3,330,008	3,508,114	10,
	-----	-----	-----
Net premium earned	10,676,656	12,538,783	32,
Net investment income	1,522,453	1,047,537	4,
Other income	22,394	31,081	
	-----	-----	-----
Total Insurance Company Revenues	12,221,503	13,617,401	37,
Other Revenues from Insurance Operations			
Gross commissions and fees	1,242,068	1,377,801	3,
Investment income	25,781	15,544	
Finance charges and fees	168,280	187,889	
Other income	1,700	5,800	
	-----	-----	-----
Total Revenues	13,659,332	15,204,435	41,
	-----	-----	-----
EXPENSES			

Losses and loss adjustment expenses	5,718,427	7,900,404	18,
Policy acquisition costs	2,252,267	2,619,682	7,
Salaries and employee benefits	1,434,854	1,309,777	4,
Commissions to agents/brokers	136,787	160,598	
Other operating expenses	712,350	628,957	2,

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Total Expenses	10,254,685	12,619,418	32,
Income Before Taxes	3,404,647	2,585,017	9,
Income tax provision	1,190,501	923,559	3,
Net Income	\$2,214,146	\$1,661,458	\$6,

PER SHARE DATA

Basic Shares Outstanding	5,590,452	5,496,315	5,
Basic Earnings Per Share	\$0.40	\$0.30	
Diluted Shares Outstanding	5,661,251	5,610,753	5,
Diluted Earnings Per Share	\$0.39	\$0.30	

See notes to unaudited consolidated financial statements.

3

UNICO AMERICAN CORPORATION
AND SUBSIDIARIES

STATEMENT OF COMPREHENSIVE INCOME
(UNAUDITED)

	Three Months Ended September 30	
	2006	2005
Net Income	\$2,214,146	\$1,661,458
Other changes in comprehensive income, net of tax:		
Unrealized gains (losses) on securities classified as available-for-sale arising during the period	585,200	(292,199)
Comprehensive Income	\$2,799,346	\$1,369,259

See notes to unaudited consolidated financial statements.

4

UNICO AMERICAN CORPORATION
AND SUBSIDIARIES

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CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

FOR THE NINE MONTHS ENDED SEPTEMBER 30

	2006

Cash Flows from Operating Activities:	
Net Income	\$6,058,416
Adjustments to reconcile net income to net cash from operations	
Depreciation	177,600
Net amortization of bonds and treasury bills	(19,041)
Changes in assets and liabilities	
Premium, notes and investment income receivable	131,904
Reinsurance recoverable	2,762,817
Deferred policy acquisitions costs	764,040
Other assets	72,755
Reserve for unpaid losses and loss adjustment expenses	(970,047)
Unearned premium reserve	(3,728,730)
Advance premium and premium deposits	275,465
Accrued expenses and other liabilities	(149,802)
Tax benefit from disqualified incentive stock options	(196,464)
Income taxes current/deferred	460,533

Net Cash Provided from Operations	5,639,446

Investing Activities	
Purchase of fixed maturity investments	(51,454,624)
Proceeds from maturity of fixed maturity investments	51,047,000
Net decrease in short-term investments	(5,564,818)
Additions to property and equipment	(132,040)

Net Cash (Used) by Investing Activities	(6,104,482)

Financing Activities	
Proceeds from exercise of stock options	313,132
Tax benefit from disqualified incentive stock options	196,464
Repayment of notes payable - related parties	-

Net Cash Provided (Used) by Financing Activities	509,596

Net increase in cash	44,560
Cash at beginning of period	13,472

Cash at End of Period	\$58,032
	=====
Supplemental Cash Flow Information Cash paid during the period for:	
Interest	-
Income taxes	\$3,050,651

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See notes to unaudited consolidated financial statements.

5

UNICO AMERICAN CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Unico American Corporation is an insurance holding company that underwrites property and casualty insurance through its insurance company subsidiary; provides property, casualty, health and life 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, unless otherwise indicated. Unico was incorporated under the laws of Nevada in 1969.

Principles of Consolidation

The accompanying unaudited consolidated financial statements include the accounts of Unico American Corporation and its subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2006, are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. Quarterly financial statements should be read in conjunction with the consolidated financial statements and related notes in the Company's 2005 Annual Report on Form 10-K as filed with the Securities and Exchange Commission.

Use of Estimates in the Preparation of the Financial Statements

The preparation of financial statements in conformity with GAAP requires the Company to make estimates and assumptions that affect its reported amounts of assets and liabilities and its disclosure of any contingent assets and liabilities at the date of its financial statements, as well as its reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

Reclassifications

Certain reclassifications have been made to prior year balances to conform to the current year presentation.

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NOTE 2 - STOCK-BASED COMPENSATION

Prior to January 1, 2006, the Company applied the intrinsic-value based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations including FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation," an interpretation of APB Opinion No. 25, to account for its fixed-plan stock options. Under this method, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. FASB Statement No. 123 (SFAS 123), "Accounting for Stock-Based Compensation," and FASB Statement No. 148, "Accounting for Stock Based Compensation - Transition and Disclosure," an amendment of SFAS 123, established accounting and disclosure requirements using a fair-value based method of accounting for stock-based employee compensation plans. As permitted by existing accounting standards, the Company had elected to continue to apply the intrinsic-value based method of accounting described above and had adopted only the disclosure requirements of SFAS 123, as amended through December 31, 2005. On January 1, 2006, the Company adopted FASB Statement No. 123 (Revised 2004), "Share-Based Payment" (SFAS 123R), on a modified prospective basis.

On December 30, 2005, the Company accelerated the vesting of all of its outstanding stock-based compensation awards granted under the Company's 1999 Omnibus Stock Plan. All accelerated options were "in the money." The number of shares covered by the options accelerated totaled 67,500 of which 37,500 were originally scheduled to vest on January 1, 2006, and 30,000 were originally scheduled to vest on January 1, 2007. The Company accelerated vesting of the options in order to minimize the compensation costs associated with the adoption of SFAS 123R.

6

UNICO AMERICAN CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2006

All accelerated options were granted to long-term management employees who were not expected to leave the Company prior to the originally scheduled vesting date. The estimated compensation cost that will be excluded from current and future periods as a result of the acceleration of the vesting of the options is approximately \$89,100.

On adoption of SFAS 123R on the modified prospective basis on January 1, 2006, there were no unvested stock options or awards; and, therefore, there was no adjustment recorded upon adoption. Prospectively, grants of share-based payment awards will be accounted for in accordance with SFAS 123R and compensation expense will be recognized based on an estimate of the number of awards expected to actually vest based on the estimate of fair value of the awards.

Had compensation cost for the Company's stock-based compensation plan been reflected in the accompanying consolidated financial statements based on the fair value at the grant dates for option awards consistent with the method of SFAS 123, the Company's net income would have been reduced to the pro forma amounts indicated below:

Three Months Ended Nine Months Ended

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	September 30, 2005	September 30, 2005
	-----	-----
Net Income		
As reported	\$1,661,458	\$4,859,951
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	12,376	37,126
	-----	-----
Pro forma	\$1,649,082	\$4,822,825
	=====	=====
Income Per Share - Basic		
As reported	\$0.30	\$0.88
Pro forma	\$0.30	\$0.88
Income Per Share - Assuming Dilution:		
As reported	\$0.30	\$0.87
Pro forma	\$0.29	\$0.86

Calculations of the fair value under the method prescribed by SFAS No. 123 were made using the Black-Scholes Option-Price Model with the following weighted average assumptions used for the 1999 and 2002 grants:

	2002	1999
	Grant	Grant
	-----	-----
Dividend yield	1.40%	2.46%
Expected volatility	34%	43%
Expected lives	10 Years	10 Years
Risk-free interest rates	4.05%	6.09%
Fair value of options granted	\$1.32	\$4.30

The Company recognized a federal tax benefit in the amount of \$196,464 in the nine months ended September 30, 2006. This federal tax benefit resulted from the disqualification of certain previously exercised incentive stock options. The disqualification is due to the sale of the underlying stock by employees prior to the required one year holding period under federal tax law. The Company recognized the federal tax benefit as an equity adjustment, which is also presented in the Statements of Cash Flows as a financing activity in accordance with SFAS 123R.

7

UNICO AMERICAN CORPORATION
AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE 3 - REPURCHASE OF COMMON STOCK - EFFECT ON STOCKHOLDERS' EQUITY

The Company previously announced that its Board of Directors had authorized the repurchase in the open market from time to time of up to an aggregate of 945,000 shares of the common stock of the Company. During the nine months ended September 30, 2006, the Company did not repurchase any shares of the Company's common stock. As of September 30, 2006, the Company had purchased and retired under the Board of Directors' authorization an aggregate of 868,958 shares of its common stock at a cost of \$5,517,465.

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NOTE 4 - EARNINGS PER SHARE

The following table represents the reconciliation of the numerators and denominators of the Company's basic earnings per share and diluted earnings per share computations reported on the Consolidated Statements of Operations for the three and nine months ended September 30, 2006 and 2005:

	Three Months Ended September 30		Ni 200
	2006	2005	
Basic Earnings Per Share			
Net income numerator	\$2,214,146	\$1,661,458	\$6,05
Weighted average shares outstanding denominator	5,590,452	5,496,315	5,55
Basic Earnings Per Share	\$0.40	\$0.30	
Diluted Earnings Per Share			
Net income numerator	\$2,214,146	\$1,661,458	\$6,05
Weighted average shares outstanding	5,590,452	5,496,315	5,55
Effect of diluted securities	70,799	114,438	8
Diluted shares outstanding denominator	5,661,251	5,610,753	5,64
Diluted Earnings Per Share	\$0.39	\$0.30	

NOTE 5 - RECENTLY ISSUED ACCOUNTING STANDARDS

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154, "Accounting Changes and Error Corrections" (SFAS No. 154). SFAS No. 154 establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to a newly adopted accounting principle. The statement will be effective for the Company for all accounting changes and any error corrections occurring after January 1, 2006.

FASB Staff Position (FSP) No. 115-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." FSP 115-1 provides guidance for determining when an investment is considered impaired, whether impairment is other-than-temporary, and measurement of an impairment loss. An investment is considered impaired if the fair value of the investment is less than its cost. If, after consideration of all available evidence to evaluate the realizable value of its investment, impairment is determined to be other-than-temporary, then an impairment loss should be recognized equal to the difference between the investment's cost and its fair value. FSP 115-1 nullifies certain provisions of Emerging Issues Task Force (EITF) Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain

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Investments," while retaining the disclosure requirements of EITF 03-1 which were adopted in 2003. FSP 115-1 is effective for reporting periods beginning after December 15, 2005. FSP 115-1 did not significantly impact the Company's financial statements upon its adoption on January 1, 2006.

8

UNICO AMERICAN CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2006

In June 2006, the Financial Accounting Standards Board (FASB) issued interpretation of FASB Statement No. 109, "Accounting for Uncertainty in Income Taxes" (FIN 48). This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. This interpretation will be effective January 1, 2007. The Company is currently assessing the effect of implementing FIN 48.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measures" (SFAS 157). SFAS 157 provides guidance for using fair value to measure assets and liabilities and applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. SFAS 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company are currently reviewing the provisions of SFAS 157 to determine the impact on our financial statements.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108 ("SAB 108"). SAB 108 requires registrants to quantify misstatements by using both the balance-sheet and income-statement approaches and to determine whether financial statement restatement is necessary. SAB 108 is effective for annual financial statements covering the first fiscal year ending after November 15, 2006. The Company has not completed its analysis to determine the impact on the Company's consolidated financial statements from adoption of SAB 108.

In September 2006, the FASB issued Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans- an Amendment of FASB Statement No. 87, 88, 106 and 132(R)" ("SFAS 158"). SFAS 158 requires a business entity that sponsors employer defined benefit plan measure plan assets and obligations as of the date of the employer's fiscal year-end statement of financial position and recognize funded status as a component of other comprehensive income. SFAS 158 is effective for fiscal years ending after December 15, 2006. There will be no impact on the Company's consolidated financial statements from adoption of this standard since the Company does not provide defined benefit plan to its employees.

NOTE 6 - SEGMENT REPORTING

Statement of Financial Accounting Standards No. 131 (SFAS No. 131), "Disclosures about Segments of an Enterprise and Related Information," became effective for fiscal years effective after December 15, 1997. SFAS No. 131 establishes

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standards for the way information about operating segments is reported in financial statements. The Company has adopted SFAS No. 131 and has identified its insurance company operation, Crusader Insurance Company (Crusader), as its primary reporting segment. Revenues from this segment comprised 89% of consolidated revenues for the three and nine months ended September 30, 2006. For the three and nine months ended September 30, 2005, revenues from this segment comprised 90% of consolidated revenues. The Company's remaining operations constitute a variety of specialty insurance services, each with unique characteristics and individually insignificant to consolidated revenues.

9

UNICO AMERICAN CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2006

Revenues, income before income taxes, and assets by segment are as follows:

	Three Months Ended September 30		Nine Months September
	2006	2005	2006
Revenues			
Insurance company operation	\$12,221,503	\$13,617,401	\$37,042,743
Other insurance operations	5,110,087	5,728,516	15,183,942
Intersegment eliminations (1)	(3,672,258)	(4,141,482)	(10,826,532)
Total other insurance operations	1,437,829	1,587,034	4,357,410
Total Revenues	\$13,659,332	\$15,204,435	\$41,400,153
Income (Loss) Before Income Taxes			
Insurance company operation	\$3,540,983	\$2,311,592	\$10,046,390
Other insurance operations	(136,336)	273,425	(714,429)
Total Income Before Income Taxes	\$3,404,647	\$2,585,017	\$9,331,961
As of September 30			
	2006	2005	
Assets			
Insurance company operation	\$170,387,293	\$160,576,857	
Intersegment eliminations (2)	(1,407,216)	(2,047,200)	

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Total insurance company operation	168,980,077	158,529,657
Other insurance operations	19,519,940	21,717,059
	-----	-----
Total Assets	\$188,500,017	\$180,246,716
	=====	=====

- (1) Intersegment revenue eliminations reflect commission paid by Crusader to Unifax Insurance Systems, Inc., (Unifax) a wholly owned subsidiary of the Company.
- (2) Intersegment asset eliminations reflect the elimination of Crusader receivables and Unifax payables.

10

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION ----- AND RESULTS OF OPERATIONS -----

OVERVIEW -----

General -----

Unico American Corporation is an insurance holding company that underwrites property and casualty insurance through its insurance company subsidiary; provides property, casualty, health and life insurance through its agency subsidiaries; and through its other subsidiaries provides insurance premium financing and membership association services.

The Company had a net income of \$2,214,146 for the three months ended September 30, 2006, compared to net income of \$1,661,458 for the three months ended September 30, 2005, an increase in net income of \$552,688 (33%). For the nine months ended September 30, 2006, the Company had a net income of \$6,058,416 compared to a net income of \$4,859,951 for the nine months ended September 30, 2005, an increase in net income of \$1,198,465 (25%).

This overview discusses some of the relevant factors that management considers in evaluating the Company's performance, prospects, and risks. It is not all inclusive and is meant to be read in conjunction with the entirety of management's discussion and analysis, the Company's financial statements and notes thereto, and all other items contained within the report on this Form 10-Q.

Revenue and Income Generation -----

The Company receives its revenue primarily from earned premium derived from the insurance company operations, commission and fee income generated from the insurance agency operations, finance charges and fee income from the premium finance operations, and investment income from cash generated primarily from the insurance operation. The insurance company operation generated approximately 90% of consolidated revenues for the three and nine months ended September 30, 2006. The Company's remaining operations constitute a variety of specialty insurance services, each with unique characteristics and individually not material to consolidated revenues.

Insurance Company Operation -----

The property and casualty insurance industry is highly competitive and includes

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many insurers, ranging from large companies offering a wide variety of products worldwide to smaller, specialized companies in a single state or region offering only a single product. Many of the Company's existing or potential competitors have considerably greater financial and other resources, have a higher rating assigned by independent rating organizations such as A.M. Best Company, have greater experience in the insurance industry, and offer a broader line of insurance products than the Company. Currently, Crusader is writing primarily the Commercial Multiple Peril line of business in California. Crusader's A.M. Best Company rating is B+ (Very Good) with a rating outlook of stable.

A primary challenge of the property and casualty insurance company operation is contending with the fact that the Company sells its products before the ultimate costs are actually known. When pricing its products, the Company projects the ultimate losses and loss adjustment expenses that it anticipates will be incurred after the policy is sold. In addition, factors such as changes in, among other things, regulations, the legal environment, and inflation can all impact the ultimate cost.

The property and casualty insurance industry is characterized by periods of soft market conditions, in which premium rates are stable or falling and insurance is readily available, and by periods of hard market conditions, where rates rise, coverage may be more difficult to find, and insurers' profits increase. The Company believes that the "hard market" that existed in California in the past few years has transitioned to a "soft market." The Company cannot determine how long the existing market conditions will continue, nor in which direction they might change.

11

Crusader's underwriting results are as follows:

	Three Months Ended September 30			Ni
	2006	2005	Increase (Decrease)	2006
Net premium earned	\$10,676,656	\$12,538,783	\$(1,862,127)	\$32,696
Less:				
Losses and loss adjustment expenses	5,718,427	7,900,404	(2,181,977)	18,289
Policy acquisition costs	2,252,267	2,619,682	(367,415)	7,018
Total	7,970,694	10,520,086	(2,549,392)	25,308
Underwriting Profit (Before Income Taxes)	\$2,705,962	\$2,018,697	\$687,265	\$7,387

The improved underwriting results for the three and nine months ended September 30, 2006, as shown in the above table, are primarily the result of the following:

- o Net premium earned for the three and nine months ended September 30, 2006, decreased as compared to the prior periods due to the Company's reduction in direct written premium. Policies issued decreased by 754

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(16%) to 3,820 for the three months ended September 30, 2006, compared to 4,574 for the three months ended September 30, 2005. For the nine months ended September 30, 2006, policies issued decreased by 2,490 (18%) to 11,418, compared to 13,908 for the nine months ended September 30, 2005. Despite the increased competition in the property and casualty marketplace, the Company believes that rate adequacy is more important than premium growth and underwriting profit is the Company's primary goal.

- o Losses and loss adjustment expenses decreased for the three and nine months ended September 30, 2006, as compared to prior periods, as a result of the decrease in earned premiums and as a result of an increase in the amount of favorable development of prior years' losses for the three and nine months ended September 30, 2006, as compared to prior periods.
- o Policy acquisition costs for the three and nine months ended September 30, 2006, decreased as compared to the prior periods due to the Company's reduction in direct earned premium.

Other Operations

The Company's other revenues from insurance operations consist of commissions, fees, finance charges, and investment and other income. Excluding investment and other income, these operations accounted for approximately 11% of total revenues in the three and nine months ended September 30, 2006, and approximately 10% of total revenues in the three and nine months ended September 30, 2005.

Investments and Liquidity

The Company generates revenue from its investment portfolio, which consisted of approximately \$146.7 million (at amortized cost) at September 30, 2006, compared to \$140.6 million (at amortized cost) at December 31, 2005. Investment income for the three months ended September 30, 2006, increased \$485,153 (46%) to \$1,548,234 and increased \$1,166,362 (37%) to \$4,347,553 for the nine months ended September 30, 2006, compared to \$1,063,081 and \$3,181,191 for the three and nine months ended September 30, 2005, respectively. The increase in investment income is primarily a result of an increase in the Company's annualized yield on average invested assets.

LIQUIDITY AND CAPITAL RESOURCES

Due to the nature of the Company's business (insurance and insurance services) and whereas Company growth does not normally require material reinvestments of profits into property or equipment, the cash flow generated from operations usually results in improved liquidity for the Company.

Crusader generates a significant amount of cash as a result of its holdings of unearned premium reserves, reserves for loss payments, and its capital and surplus. Crusader's loss and loss adjustment expense payments are the most significant cash flow requirement of the Company. These payments are continually monitored and projected to ensure that the Company has the liquidity to cover these payments without the need to liquidate its investments. As of September 30, 2006, the Company had cash and investments of \$146,653,104 (at amortized cost) of which \$143,540,898 (97.9%) were cash and investments of Crusader.

As of September 30, 2006, the Company had invested \$136,549,491 (at amortized

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cost) or 93% of its invested assets in fixed maturity obligations. In accordance with Statement of Financial Accounting Standard No. 115, "Accounting for Certain Investments in Debt and Equity Securities," the Company is required to classify its investments in debt and equity securities into one of three categories: held-to-maturity, available-for-sale, or trading securities. Although all of the Company's investments are classified as available-for-sale, the Company's investment guidelines place primary emphasis on buying and holding high-quality investments until maturity.

The Company's investments in fixed maturity obligations of \$136,549,491 (at amortized cost) includes \$907,754 (0.7%) of pre-refunded state and municipal tax-exempt bonds, \$121,192,355 (88.7%) of U.S. treasury securities, \$14,049,382 (10.3%) of industrial and miscellaneous securities, and \$400,000 (0.3%) of long-term certificates of deposit.

The balance of the Company's investments is in short-term investments that include U.S. treasury bills, bank money market accounts, certificates of deposit, commercial paper, and a short-term treasury money market fund.

The Company's investment guidelines on equity securities limit investments in equity securities to an aggregate maximum of \$2,000,000. The Company's investment guidelines on fixed maturities limit those investments to high-grade obligations with a maximum term of eight years. The maximum investment authorized in any one issuer is \$2,000,000 and the maximum in any one U.S. government agency or U.S. government sponsored enterprise is \$3,000,000. This dollar limitation excludes bond premiums paid in excess of par value and U.S. government or U.S. government guaranteed issues. Investments in municipal securities are primarily pre-refunded and secured by U.S. treasury securities. The short-term investments are either U.S. government obligations, FDIC insured, or are in an institution with a Moody's rating of P2 and/or a Standard & Poor's rating of A1. All of the Company's fixed maturity investment securities are rated and readily marketable and could be liquidated without any materially adverse financial impact.

During 2005 the Company began its conversion to a "paperless office" including improvements to its computer network, hardware, and other related computer infrastructure. As of September 30, 2006, the Company had substantially completed its "paperless office" project and the planned conversion and improvements. The Company is now fine-tuning its paperless office systems and back scanning its previous paper files and documents. As of September 30, 2006, the Company had incurred approximately \$760,000 of capital expenditures on these projects. The Company anticipates its potential payback on these capital expenditures in approximately two to three years due to productivity improvements, improved customer service, and lower operating costs. In addition, the Company is in the process of enhancing its technology related to its underwriting procedures and electronic communication systems to better accommodate its customers' needs and to improve operating efficiencies.

The Company previously announced that its Board of Directors had authorized the repurchase in the open market from time to time of up to an aggregate of 945,000 shares of the common stock of the Company (see Note 3). No shares were repurchased in the three and nine months ended September 30, 2006.

Although material capital expenditures may also be funded through borrowings, the Company believes that its cash and short-term investments as of the date of this report, net of trust restriction of \$22,075, statutory deposits of \$700,000, cash of \$200,000 deposited with superior courts in lieu of bonds, and the dividend restriction between Crusader and Unico plus the cash to be generated from operations, should be sufficient to meet its operating requirements during the next twelve months without the necessity of borrowing funds.

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RESULTS OF OPERATIONS

All comparisons made in this discussion are comparing the three months and nine months ended September 30, 2006, to the three months and nine months ended September 30, 2005, unless otherwise indicated.

The Company had a net income of \$2,214,146 for the three months ended September 30, 2006, compared to a net income of \$1,661,458 for the three months ended September 30, 2005, an increase of \$552,688 (33%). For the nine months ended September 30, 2006, the Company had a net income of \$6,058,416 compared to a net income of \$4,859,951 for the nine months ended September 30, 2005, an increase of \$1,198,465 (25%). Total revenues decreased \$1,545,103 (10%) to \$13,659,332 for the three months and \$4,947,719 (11%) to \$41,400,153 for the nine months ended September 30, 2006, compared to total revenues of \$15,204,435 for the three months and \$46,347,872 for the nine months ended September 30, 2005.

13

PREMIUM WRITTEN (before reinsurance) is a non-GAAP financial measure which is defined, under statutory accounting, as the contractually determined amount charged by the Company to the policyholder for the effective period of the contract based on the expectation of risk, policy benefits, and expenses associated with the coverage provided by the terms of the policies. Premium earned, the most directly comparable GAAP measure, represents the portion of premiums written that is recognized as income in the financial statements for the period presented and earned on a pro-rata basis over the term of the policies. Commencing April 1, 2006, the Company prospectively changed its statutory reporting of written premium amount to exclude advance premiums that had been recorded but were not yet effective as of the reporting date. Advance premiums represent policies that have been submitted to the Company and are bound, billed, and recorded up to 30 days prior to the policy effective date. Written premium reported on the Company's statutory statement decreased 1,774,882 (12%) to \$13,331,282 and decreased 6,641,052 (15%) to \$38,823,317 for the three and nine months ended September 30, 2006, compared to \$15,106,164 and \$45,464,369 for the three and nine months ended September 30, 2005. Had the change of excluding advance business from statutory written premium been made on a retroactive basis, written premium would have been \$13,331,282 and \$39,416,704 for the three and nine months ended September 30, 2006, compared to \$15,966,403 and \$46,224,423 for the three and nine months ended September 30, 2005, and the decrease in written premium would have been 16.5% for the three months and 14.7% for the nine months ended September 30, 2006.

The decrease in written premium for the three and nine months ended September 30, 2006, compared to the three and nine months ended September 30, 2005, was primarily the result of the increased competition in the property and casualty market. The Company believes that the "hard market" that existed in California in the past few years has transitioned to a "soft market." The Company cannot determine how long the existing market conditions will continue, nor in which direction they might change.

The Company intends to continue to allocate its resources toward improving its California business rates, rules, and forms. The Company continues to believe that it can compete effectively and profitably by offering better service and by marketing its policies through its current independent agents and brokers.

PREMIUM EARNED before reinsurance decreased \$2,040,233 (13%) to \$14,006,664 for the three months and \$6,111,022 (12%) to \$43,145,433 for the nine months ended September 30, 2006, compared to \$16,046,897 for the three months and \$49,256,455 for the nine months ended September 30, 2005. The Company writes annual policies

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and, therefore, earns written premium over the one-year policy term. The decrease in earned premium is a direct result of the related decrease in written premium previously discussed.

Premium ceded decreased \$178,106 (5%) to \$3,330,008 for the three months and \$451,880 (4%) to \$10,449,076 for the nine months ended September 30, 2006, compared to ceded premium of \$3,508,114 in the three months and \$10,900,956 for the nine months ended September 30, 2005. The Company evaluates each of its ceded reinsurance contracts at their inception to determine if there is a sufficient risk transfer to allow the contract to be accounted for as reinsurance under current accounting literature. At September 30, 2006, all such ceded contracts are accounted for as risk transfer reinsurance. Earned premium ceded consists of both premium ceded under the Company's current reinsurance contracts and premium ceded to the Company's provisionally rated reinsurance contracts. Prior to January 1, 1998, the Company's reinsurer 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 in 1997. Direct earned premium, earned ceded premium, and ceding commission are as follows:

	Three Months Ended September 30			Nine M -----
	2006 -----	2005 -----	Increase (Decrease) -----	
Direct earned premium	\$14,006,664	\$16,046,897	(\$2,040,233)	\$43,145,433
Earned ceded premium:				
Excluding provisionally rated ceded premium	3,422,262	3,505,643	(83,381)	10,517,027
Provisionally rated ceded premium	(92,254)	2,471	(94,725)	(67,951)
Total Earned Ceded Premium	3,330,008	3,508,114	(178,106)	10,449,076
Ceding commission	(1,081,140)	(1,153,640)	72,500	(3,330,526)
Total Earned Ceded Premium Net of Ceding Commission	\$2,248,868 =====	\$2,354,474 =====	\$ (105,606) =====	\$7,118,550 =====

Total earned ceded premium excluding provisionally rated ceded premium was 24% of direct earned premium in the three and nine months ended September 30, 2006, compared to 22% in the three and nine months ended September 30, 2005. There was no change in the ceding commission rate.

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.

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.

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The Company will calculate and report to the reinsurer its net profit, 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. Based on losses and loss adjustment expenses ceded (including incurred but not reported losses) as of September 30, 2006, no contingent commission has been accrued. The 2005 1st layer primary 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 Company will calculate and report to the reinsurer its net profit, 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. Based on losses and loss adjustment expenses ceded (including incurred but not reported losses) as of September 30, 2006, no contingent commission has been accrued.

INVESTMENT INCOME, excluding realized investment gains, increased \$485,153 (46%) to \$1,548,234 for the three months ended September 30, 2006, compared to investment income of \$1,063,081 for the three months ended September 30, 2005. Investment income, excluding realized investment gains, increased \$1,166,362 (37%) to \$4,347,553 for the nine months ended September 30, 2006, compared to investment income of \$3,181,191 for the nine months ended September 30, 2005. The increase in investment income in the current periods as compared to the prior year periods is a result of an increase in the Company's annualized yield on average invested assets from 3.1% for the three and nine months ended September 30, 2005, to 4.3% and 4.0% for the three and nine months ended September 30, 2006, respectively. The increase in the annualized yield on average invested assets is a result of higher yields in the marketplace on both new and reinvested assets.

The average annualized yields on the Company's average invested assets are as follows:

	Three Months Ended September 30		Nine Months End
	2006	2005	2006
	----	----	----
Average Invested Assets	\$144,725,503	\$137,839,419	\$143,596,530
Total Investment Income	\$1,548,234	\$1,063,081	\$4,347,553
Annualized Yield on Average Invested Assets	4.3%	3.1%	4.0%

The par value, amortized cost, estimated market value and weighted average yield of fixed maturity investments at September 30, 2006, by contractual maturity are as follows. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalties.

Maturities by Calendar Year	Par Value	Amortized Cost	Fair Value	Weighted Average Yield
-----	-----	-----	-----	-----
December 31, 2006	\$12,525,000	\$12,539,729	\$12,509,817	3.1%
December 31, 2007	67,775,000	67,714,898	67,318,141	4.2%
December 31, 2008	40,610,000	40,602,707	40,664,952	4.9%
December 31, 2009	13,500,000	13,601,951	13,690,640	5.1%

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December 31, 2010	100,000	100,000	100,000	4.1%
December 31, 2011	2,000,000	1,990,206	2,001,875	4.7%
	-----	-----	-----	
Total	\$136,510,000	\$136,549,491	\$136,285,425	4.4%
	=====	=====	=====	

15

The weighted average maturity of the Company's fixed maturity investments was 1.2 years as of September 30, 2006 and September 30, 2005. Due to the current interest rate environment, management believes it is prudent to purchase fixed maturity investments with maturities of three years or less and with minimal credit risk.

As of September 30, 2006, the Company held fixed maturity investments with unrealized appreciation of \$272,888 and fixed maturity investments with unrealized depreciation of \$536,954. The Company monitors its investments closely. If an unrealized loss is determined to be other than temporary, it is written off as a realized loss through the Consolidated Statements of Operations. The Company's 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 and the extent to which the fair value has been less than the cost, the financial condition and the near-term prospects of the issuer, whether the debtor is current on its contractually obligated interest and principal payments, and the Company's intent to hold the investment for a period of time sufficient to allow the Company to recover its costs. The Company has concluded that the gross unrealized losses of \$536,954 as of September 30, 2006, were temporary in nature. However, facts and circumstances may change which could result in a decline in market value considered to be other than temporary. The following table summarizes all fixed maturities in an unrealized loss position at September 30, 2006, and the aggregate fair value and gross unrealized loss by length of time those fixed maturities have been continuously in an unrealized loss position:

	Market Value	Gross Unrealized Loss
	-----	-----
0-6 months	-	-
7-12 months	\$65,892,549	\$335,248
Over 12 months	29,743,678	201,706
	-----	-----
Total	\$95,636,227	\$536,954
	=====	=====

As of September 30, 2006, the fixed maturity investments with a gross unrealized loss position for a continuous period of 7 to 12 months consisted of U.S. treasury securities and investment-grade industrial securities. The fixed maturity investments with a gross unrealized loss position for a continuous period over 12 months consisted of U.S. treasury securities, investment-grade industrial securities, and pre-refunded municipal bonds.

GROSS COMMISSIONS AND FEES decreased \$135,733 (10%) to \$1,242,068 for the three months and \$375,724 (9%) to \$3,766,748 for the nine months ended September 30, 2006, compared to commissions and fees of \$1,377,801 for the three months and \$4,142,472 for the nine months ended September 30, 2005. The decrease in gross commissions and fee income for the three and nine months ended September 30, 2006, compared to the three and nine months ended September 30, 2005, is as follows:

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	Three Months Ended September 30			
	2006	2005	Increase (Decrease)	
	----	----	-----	----
Policy fee income	\$667,232	\$791,296	\$(124,064)	\$2,0
Health and life insurance program commission income	409,098	399,397	9,701	1,2
Membership and fee income	75,474	79,609	(4,135)	2
Other commission and fee income	7,707	9,106	(1,399)	
Daily automobile rental insurance program:				
Commission income	82,557	98,393	(15,836)	2
Contingent commission	-	-	-	
	-----	-----	-----	----
Total	\$1,242,068	\$1,377,801	\$(135,733)	\$3,7
	=====	=====	=====	=====

Unifax primarily sells and services insurance policies for Crusader. The commissions paid by Crusader to Unifax are eliminated as intercompany transactions and are not reflected as income in the financial statements. Unifax also receives policy fee income that is directly related to the Crusader policies it sells. Policy fee income decreased \$124,064 (16%) and \$275,612 (12%) for the three and nine months ended September 30, 2006, compared to the three and nine months ended September 30, 2005. The decrease in policy fee income is a result of a decrease in the number of policies issued during the three and nine months ended September 30, 2006, as compared to the three and nine months ended September 30, 2005, offset in part by an approximate 8% increase in the policy fee for policies effective on or after June 26, 2005.

16

American Insurance Brokers, Inc. (AIB), a wholly owned subsidiary of the Company, sells and services health insurance policies for individual/family and small business groups and receives commission and fee income based on the premiums that it writes. Commission income in this program increased \$9,701 (2%) and decreased \$13,646 (1%) for the three and nine months ended September 30, 2006, respectively, compared to the three and nine months ended September 30, 2005. The Company's subsidiary Insurance Club, Inc., DBA the American Association for Quality Health Care (AAQHC), is a membership association that provides various consumer benefits to its members, including participation in group health care and life insurance policies that AAQHC negotiates for the association. For these services, AAQHC receives membership and fee income from its members. Membership and fee income decreased \$4,135 (5%) and \$13,859 (6%) for the three and nine months ended September 30, 2006, compared to the three and nine months ended September 30, 2005. In May 2006, CIGNA HealthCare began offering new small group medical insurance policies in the state of California. Currently, all new CIGNA small group medical insurance policies are written through AIB and all CIGNA small group medical insurance policyholders are members of AAQHC. The new programs are competitively priced and are being actively marketed.

The daily automobile rental insurance program is produced by Bedford Insurance Services, Inc., a wholly owned subsidiary of the Company. Bedford receives a commission from a non-affiliated insurance company based on premium written. Commission in the daily automobile rental insurance program (excluding contingent commission) decreased \$15,836 (16%) and \$91,629 (28%) for the three and nine months ended September 30, 2006, compared to the three and nine months

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ended September 30, 2005. The decrease is due to the continued intense competition in the daily automobile rental insurance program. Bedford continues to produce business only at rates that it believes are adequate. Primarily due to declining sales, in April 2006 Bedford hired a new general manager who has substantial experience in the daily automobile rental insurance business. Future sales growth of the Bedford program is also currently dependent on the non-affiliated insurance company approving and implementing various product enhancements that Bedford recommends. Bedford is currently working with the non-affiliated insurance company to obtain their approval of the recommended program enhancements.

LOSSES AND LOSS ADJUSTMENT EXPENSES were 54% of net premium earned for the three months and 56% of net premium earned for the nine months ended September 30, 2006, compared to 63% of net premium earned for the three months and 64% of net premium earned for the nine months ended September 30, 2005. Favorable development of all prior accident years' losses and loss adjustment expenses for the three and nine months ended September 30, 2006, were \$1,591,023 and \$4,471,666, respectively. Favorable development of all prior accident years' losses and loss adjustment expenses for the three and nine months ended September 30, 2005, were \$771,077 and \$2,385,274, respectively. The development of prior years' losses and loss adjustment expenses for the periods indicated was lower than previously anticipated. Accordingly, the Company reduced its estimate of its ultimate losses and loss adjustment expenses for those prior accident years. Losses and loss adjustment expenses for the 2006 accident year were 70% of net premium earned for the three and nine months ended September 30, 2006. Losses and loss adjustment expenses for the 2005 accident year were 70% of net premium earned for the three and nine months ended September 30, 2005.

The Company's consolidated financial statements include estimated reserves for unpaid losses and related loss adjustment expenses of the insurance company operation. Crusader sets loss and loss adjustment expense reserves at each balance sheet date at management's best estimate of the ultimate payments that it anticipates will be made to settle all losses incurred and related loss adjustment expenses incurred as of that date for both reported and unreported losses. Estimating loss reserves is a difficult process as there are many factors that can ultimately affect the final settlement of a claim and, therefore, the reserve that is needed. Changes in the regulatory and legal environment, results of litigation, medical costs, the cost of repair materials and labor rates can all impact ultimate claim costs. In addition, time can be a critical part of reserving determinations since the longer the span between the incidence of a loss and the payment or settlement of the claim, the more variable the ultimate settlement amount can be. Accordingly, short-tail claims, such as property damage claims, tend to be more reasonably predictable than long-tail liability claims. The liability for unpaid losses and loss adjustment expenses is based upon the accumulation of individual case estimates for losses reported prior to the close of the accounting period plus estimates based on experience and industry data for development of case estimates and for unreported losses and loss adjustment expenses. Since the emergence and disposition of claims are subject to uncertainties, the net amounts that will ultimately be paid to settle claims may vary significantly from the estimated amounts provided for in the accompanying consolidated financial statements. Any adjustments to reserves are reflected in the operating results of the periods in which they are made. Management believes that the aggregate reserves for losses and loss adjustment expenses are reasonable and adequate to cover the cost of claims, both reported and unreported.

POLICY ACQUISITION COSTS consist of commissions, premium taxes, inspection fees, and certain other underwriting costs, which are related to the production of

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Crusader's insurance policies. These costs include both Crusader expenses and allocated expenses of other Unico subsidiaries. Crusader's reinsurers pay Crusader a ceding commission, which is primarily a reimbursement of the acquisition cost related to the ceded premium. Policy acquisition costs, net of ceding commission, are deferred and amortized as the related premiums are earned. These costs were approximately 21% of net premium earned for the three and nine months ended September 30, 2006, and 21% of net premium earned for the three and nine months ended September 30, 2005.

SALARIES AND EMPLOYEE BENEFITS increased \$125,077 (10%) to \$1,434,854 for the three months and \$249,135 (6%) to \$4,117,907 for the nine months ended September 30, 2006, compared to salary and employee benefits of \$1,309,777 for the three months and \$3,868,772 for the nine months ended September 30, 2005.

COMMISSIONS TO AGENT/BROKERSs decreased \$23,811 (15%) to \$136,787 for the three months and \$70,688 (14%) to \$447,213 for the nine months ended September 30, 2006, compared to commission expense of \$160,598 for the three months and \$517,901 for the nine months ended September 30, 2005. The decrease is primarily the result of a decrease in commissions incurred in the health and life insurance program and the daily automobile rental insurance program.

OTHER OPERATING EXPENSES increased \$83,393 (13%) to \$712,350 for the three months and \$222,020 (11%) to \$2,194,547 for the nine months ended September 30, 2006, compared to \$628,957 for the three months and \$1,972,527 for the nine months ended September 30, 2005.

INCOME TAX PROVISION was an expense of \$1,190,501 (35% of pre-tax income) for the three months and \$3,273,545 (35% of pre-tax income) for the nine months ended September 30, 2006, compared to an income tax expense of \$923,559 (36% of pre-tax income) in the three months and an income tax expense of \$2,725,384 (36% of pre-tax income) for the nine months ended September 30, 2005. This change was primarily due to a pre-tax income of \$3,404,647 in the three months and \$9,331,961 in the nine months ended September 30, 2006, compared to pre-tax income of \$2,585,017 in the three months and \$7,585,335 in the nine months ended September 30, 2005.

The effect of inflation on net income of the Company during the three and nine months ended September 30, 2006, and the three and nine months ended September 30, 2005, was not significant.

FORWARD LOOKING STATEMENTS

Certain statements contained herein, including the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations," that are not historical facts are forward-looking. These statements, which may be identified by forward-looking words or phrases such as "anticipate," "believe," "expect," "intend," "may," "should," and "would," involve risks and uncertainties, many of which are beyond the control of the Company. Such risks and uncertainties could cause actual results to differ materially from these forward-looking statements. Factors which could cause actual results to differ materially include underwriting actions not being effective, rate increases for coverages not being sufficient, premium rate adequacy relating to competition or regulation, actual versus estimated claim experience, regulatory changes or developments, unforeseen calamities, general market conditions and the Company's ability to introduce new profitable products.

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's consolidated balance sheet includes a substantial amount of

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invested assets whose fair values are subject to various market risk exposures including interest rate risk and equity price risk. The Company's invested assets consist of the following:

	September 30 2006 ----	December 31 2005 ----	Increase (Decrease) -----
Fixed maturity bonds (at amortized value)	\$136,149,491	\$135,628,428	\$521,063
Short-term cash investments (at cost)	10,045,581	4,475,162	5,570,419
Certificates of deposit (over 1 year, at cost)	400,000	500,000	(100,000)
	-----	-----	-----
Total Invested Assets	\$146,595,072 =====	\$140,603,590 =====	\$5,991,482 =====

There have been no material changes in the composition of the Company's invested assets or market risk exposures since the end of the preceding fiscal year end.

18

ITEM 4 - CONTROLS AND PROCEDURES

An evaluation was carried out by the Company's management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of September 30, 2006, (as defined in Rule 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective. During the period covered by this report, there have been no changes in the Company's internal control over financial reporting that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1A. RISK FACTORS

There were no material changes from risk factors as previously disclosed in the Company's Form 10-K for the year ended December 31, 2005, in response to Item 1A to Part I of Form 10-K.

ITEM 6 - EXHIBITS

- 31.1 Certificate of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certificate of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UNICO AMERICAN CORPORATION

Date: November 8, 2006 By: /s/ ERWIN CHELDIN

Erwin Cheldin
Chairman of the Board, President and Chief
Executive Officer, (Principal Executive Officer)

Date: November 8, 2006 By: /s/ LESTER A. AARON

Lester A. Aaron
Treasurer, Chief Financial Officer, (Principal
Accounting and Principal Financial Officer)

19

EXHIBIT INDEX

Exhibit No.	Description
-----	-----
31.1	Certificate of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2	Certificate of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)

