Unico® American Corporation

2019 ANNUAL REPORT

Unico® American Corporation

OUR MISSION

To provide highly specialized commercial insurance products, with outstanding integrity, value and peace-of-mind for America's business owners, agents and brokers.

OUR VISION

We are committed to maintaining financial strength, delivering sustainable growth, building shareholder value and showing respect and opportunity for our employees.

OUR CORE VALUES

Excellence

Be professional, disciplined and outstanding.

Success

Get it right, profitably, and celebrate accomplishment.

Integrity

Do the right thing, ethically and honestly.

People

Foster a great work environment, team effort, and treat each other with respect and dignity. Our employees are our most important asset.

Diversity

Embrace different people, different ideas and different ways of doing things.

Stability

Be dependable and take pride in our work.

01-06-2017

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To Our Shareholders:

I am writing this year's letter differently, paying due respect to the severe impact that Covid-19 is having upon our community and also providing more insight concerning our operations and business plans moving forward.

At the time of this writing, the challenges of the Covid-19 pandemic are at the top of peoples' minds. While our employees' families are facing the same challenges as others, our employees have nonetheless remained resolute in their dedication and they are performing their duties with outstanding composure and excellence of quality. The company's operations have continued without interruption and we accommodated a substantial increase in the amount of telecommuting options available to our people. Among our customers, those hardest hit so far are in the Restaurant and Bar/Tavern business. Nevertheless, we do not believe that the policies that we have written provide coverage for losses related to the Covid-19 situation.

Turning to a discussion of our operations before Covid-19, it is important to note that our Crusader Insurance Company subsidiary is one of the smallest insurance companies in the United States. Thus, Crusader's relatively high net retention of risk can result in significant volatility in our quarterly results. Our 2019 fourth quarter loss illustrates this point, and is a particular reflection of the sometimes volatile nature of the commercial niches that we serve. For a number of years, a significant majority of Crusader's revenue has come from the sale and underwriting of insurance in three market sector niches: Long-haul Trucking; Residential Apartment Buildings; and Bars/Taverns. Although these market niches have historically been profitable, new, adverse loss development patterns in the underwriting of those niches have been reflected in more recent underwriting results. At the same time all three of these niches have been impacted by "social inflation", which is a term that encompasses new, adverse trends pertaining to society's application of the law when an insurance company attempts to enforce its rights, including increased litigation, broader definitions of liability and contract interpretations, plaintiff friendly legal decisions, larger compensatory jury awards and larger awards for non-economic damages.

For example, compared to prior years, the frequency and severity of third-party liability claims have grown in all three of Crusader's primary niches, with a disproportionate effect on owners of Apartment Buildings and for owners of Bars & Taverns. Rather than abandon our customers in these niches, we worked to identify and better understand the new hazards and to overhaul our underwriting and marketing of policies covering such hazards. This resulted in the adoption of significant rate increases, new coverage restrictions and modified risk-selection techniques.

Although we continually evaluate potential risks in our underwriting practices, I believe that our recent efforts have produced a vastly superior process compared to what we had before, and have put us in a better marketing position. Nevertheless, we remain mindful that, due to the vagaries caused by phenomena such as social inflation, there remains a significant amount of uncertainty and risk of financial loss related to the underwriting of niches we serve.

Moving forward, we plan to continue serving our traditional market niches using our recently improved processes/products and shifting some of our focus back to improvements in distribution, diversification and execution. While our Crusader subsidiary will offer an "*admitted*" option to the public that it serves, our general agency subsidiary, Unifax Insurance Systems, Inc., will soon also be offering a "*non-admitted*" or "*E&S*" option, through a non-affiliated, "A" rated insurer, affording added flexibility and opportunities to prospective customers. Although starting out with only one E&S relationship, our plan is for Unifax to develop other relationships with more non-affiliated insurers, on a fee-for-service basis. Further diversification and generation of fee-for-service revenue is planned through our claims adjusting subsidiary, U.S. Risk Managers, Inc., whereby US Risk will provide claims-handling services to non-affiliated insurers and to non-affiliated self-insureds, in addition to handling claims for Crusader.

To help focus our efforts, all of the Company's employees are now individually tasked, monitored and compensated in accordance with a detailed "Bonus Plan," which was introduced on December 18, 2019. Except for the Company's three Executive Officers (who do not participate in the plan), that plan prescribes KPI's for each employee that tie directly into the Company's business plans, its forecasts and its financial statements. Unfortunately, the potential impact of the Covid-19 situation upon the Company's Bonus Plan cannot be determined at this time.

In January 2019, the A.M. Best Company downgraded Crusader's rating from "A-" to "B++." After that, some people asked me how the downgrade would affect Unico's financial results. Simply put, the downgrade has the potential to adversely affect Crusader's sales and its cost/availability of reinsurance, but in practice that does not always occur and it is impossible to quantify. Although it would be preferable to have the higher rating, Crusader's rating is only one of a great number of variables, all of which contribute to Unico's financial results. For example, while it is commonly believed that there is a competitive advantage to the insurer that has the higher A.M. Best rating, we have found that the customers in our market niches are more concerned about coverage, price, convenience and commissions. Other factors also include "*admitted*" versus "*non-admitted*" status, the availability of "fronting" arrangements, and the availability of waivers to the enforcement of higher rating requirements. As to the cost/availability of reinsurance, the downgrade had virtually no impact on us.

During the past few years we made significant changes in staffing, in management, in pricing, in product, in risk selection, in risk engineering, in claims handling, in investing and in Information Technology. With renewed confidence in the profitability of today's products and services, the Company's subsidiaries are now working to improve sales in the markets that they have historically served, to gain access to markets that they have not previously served, and to generate new sources of revenue on a fee-for-service basis. We are committed to maintain financial strength, delivering sustainable growth, building shareholder value and showing respect and opportunity for our employees. I believe that our work has been successful in that regard and I look forward to the day that such will be consistently reflected in our financial statements.

Thank you, to our employees, customers, shareholders and directors, for your continued understanding and support. It is my honor to work with so many great people!

Very truly yours,

Cary L. Cheldin
Chairman of the Board and CEO

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UNITED STATES
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, 2019 Commission File No. 000-03978

UNICO AMERICAN CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

Title of each class	Trading Symbol(s)	Name Of Each Exchange On Which Registered
Common Stock, No Par Value	**UNAM**	**The Nasdaq Stock Market LLC**

Securities registered pursuant to section 12(g) of the Act:
None
(Title of Class)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes X No___

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

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

Large accelerated filer __ Accelerated filer __
Non-accelerated filer __ Smaller reporting company X Emerging growth company __
(Do not check if a smaller reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ___

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 28, 2019, the last business day of Registrant's most recently completed second fiscal quarter, was $16,009,563.

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 30, 2020
Common Stock, no par value per share	5,305,742

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, 2019, 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.

UNICO AMERICAN CORPORATION
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Forward Looking Statements

This Form 10-K, and the documents incorporated by reference in this document, our press releases and oral statements made from time to time by us or on our behalf, may contain "forward-looking statements" within the meaning of the federal securities laws, including Section 27A of the Securities Act of 1933, as amended (or "the Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (or "the Exchange Act"). In this context, forward-looking statements are not historical facts and include statements about our plans, objectives, beliefs and expectations. Forward-looking statements include statements preceded by, followed by, or that include the words "believes," "expects," "anticipates," "seeks," "plans," "estimates," "intends," "projects," "targets," "should," "could," "may," "will," "can," "can have," "likely," the negatives thereof or similar words and expressions. These forward-looking statements are contained throughout this Form 10-K, including, but not limited to, statements found in Part I – Item 1 – "Business" and Part II – Item 7 – "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Forward-looking statements are only predictions and are not guarantees of future performance. These statements are based on current expectations and assumptions involving judgments about, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. These predictions are also affected by known and unknown risks, uncertainties and other factors that may cause our actual results to be materially different from those expressed or implied by any forward-looking statement. Many of these factors are beyond our ability to control or predict. Our actual results could differ materially from the results contemplated by these forward-looking statements due to a number of factors. Such factors include, but are not limited to, the following:

- failure to meet minimum capital and surplus requirements;
- vulnerability to significant catastrophic property loss;
- the impact of the recent coronavirus outbreak;
- changes in accounting standards issued by the Financial Accounting Standards Board;
- ability to adjust claims accurately;
- insufficiency of loss and loss adjustment expense reserves to cover future losses;
- changes in federal or state tax laws;
- ability to realize deferred tax assets;
- ability to accurately underwrite risks and charge adequate premium;
- ability to obtain reinsurance or collect from reinsurers and or losses in excess of reinsurance limits;
- extensive regulation and legislative changes;
- reliance on subsidiaries to satisfy obligations;
- downgrade in financial strength rating or long-term issuer credit rating by A.M. Best;
- changes in interest rates;
- investments subject to credit, prepayment and other risks;
- geographic concentration;
- reliance on independent insurance agents and brokers;
- insufficient reserve for doubtful accounts;
- litigation;
- enforceability of exclusions and limitations in policies;
- reliance on information technology systems;
- single operating location;
- ability to prevent or detect acts of fraud with disclosure controls and procedures;
- change in general economic conditions;
- dependence on key personnel;
- ability to attract, develop and retain employees and maintain appropriate staffing levels;
- insolvency, financial difficulties, or default in performance of obligations by parties with significant contracts or relationships
- ability to effectively compete;
- maximization of long-term value and no focus on short-term earnings expectations;
- control by a small number of stockholders;
- limited trading of stock;
- failure to maintain effective system of internal controls; and
- difficulty in effecting a change of control or sale of any subsidiaries.

Please see Part I - Item 1A – "Risk Factors" of this Form 10-K, as well as other documents we file with the U.S. Securities and Exchange Commission ("SEC") from time-to-time, for other important factors that could cause our actual results to differ materially from our current expectations and from the forward-looking statements discussed herein. Because of these and other risks, uncertainties and assumptions, you should not place undue reliance on these forward-looking statements. In addition, these statements speak only as of the date of this Form 10-K and, except as may be required by law, we undertake no obligation to revise or update publicly any forward-looking statements for any reason.

PART I

Item 1. Business.

Unico American Corporation is an insurance holding company. Currently, the Company's subsidiary Crusader Insurance Company ("Crusader") underwrites commercial property and casualty insurance, the Company's subsidiaries Unifax Insurance Systems, Inc. ("Unifax") and American Insurance Brokers, Inc. ("AIB") provide marketing and various underwriting support services related to property, casualty, health and life insurance, the Company's subsidiary American Acceptance Company ("AAC") provides insurance premium financing, and the Company's subsidiary Insurance Club, Inc., dba AAQHC, an Administrator ("AAQHC") provides 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.

Descriptions of the Company's operations in the following paragraphs are categorized between the Company's major segment, the insurance company operation, and other insurance operations. The insurance company operation is conducted through Crusader, Unico's property and casualty insurance company. Revenues from insurance company operation and other insurance operations for the years ended December 31, 2019, 2018, and 2017 are as follows:

	2019		2018		2017	
	Total Revenues	Percent of Total Company Revenues	Total Revenues	Percent of Total Company Revenues	Total Revenues	Percent of Total Company Revenues
Insurance company operation	$28,945,799	92.3%	$31,028,500	92.3%	$33,972,236	92.3%
Other Insurance operations						
Gross commissions and fees:						
Health insurance program commission income	939,689	3.0%	944,755	2.9%	1,047,593	2.8%
Policy fee income	1,146,420	3.6%	1,408,592	4.2%	1,622,032	4.5%
Daily automobile rental insurance program commission	-	-	-	-	4,375	-
Association operations membership and fee income	90,549	0.3%	76,035	0.2%	70,016	0.2%
Total gross commission and fee income	2,176,658	6.9%	2,429,382	7.3%	2,744,016	7.5%
Investment income	14	-	229	-	331	-
Finance fees earned	239,524	0.8%	144,925	0.4%	74,834	0.2%
Other income	10,819	-	9,760	-	65	-
Total other insurance operations	2,427,015	7.7%	2,584,296	7.7%	2,819,246	7.7%
Total revenues	$31,372,814	100.0%	$33,612,796	100.0%	$36,791,482	100.0%

INSURANCE COMPANY OPERATION

General

The Company's 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. From 2004 until June 2014, all of Crusader's business was written in the state of California. Crusader's business remains concentrated in California (99.9%, 99.8%, and 99.7% of direct written premium (before reinsurance ceded) in 2019, 2018, and 2017, respectively. Crusader underwrites three statutory annual statement lines of business: (1) commercial multiple peril ("CMP"), (2) liability other than automobile and products, and (3) fire. During the years ended December 31, 2019, 2018, and 2017, CMP policies comprised 98%, 98%, and 99% of Crusader's direct written premium, respectively. CMP policies include both property and liability coverages. 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 CMP policies, Crusader also writes separate policies to insure commercial property and commercial liability risks on a mono-line basis which provides either commercial property or commercial liability coverage, but not both. Crusader is domiciled in California; and, as of December 31, 2019, Crusader is licensed as an admitted insurance carrier in the states of Arizona, California, Nevada, Oregon, and Washington.

Production and Servicing of Policies

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

The property casualty insurance marketplace continues to be intensely competitive. While Crusader attempts to meet such competition with competitive prices, its emphasis is on service, innovation, 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. The Company believes that it can grow its sales and profitability through improved specialization and sales incentives, currently focused in four underwriting verticals: (1) Transportation, (2) Food, Beverage & Entertainment, (3) Garage & Mercantile, and (4) Apartments & Commercial Buildings.

Adjusting of Claims

Crusader currently manages all of its claims with a staff of in-house claim adjusters. This staff adjusts claims and oversees all outside claim services such as attorneys, independent or outside claim adjusters, investigators, and experts as necessary. Crusader has requested a regulatory approval from California Department of Insurance ("CA DOI") to move its claims adjusting function to its affiliate, U.S. Risk Managers, Inc. If such approval is granted, in addition to Crusader, U.S. Risk Managers, Inc. plans to offer claims adjusting services to non-affiliated entities.

Reinsurance

A reinsurance transaction occurs when an insurance company transfers (cedes) a portion of its exposure on policies written to a reinsurer that assumes that risk for a premium (ceded premium). Reinsurance does not legally discharge Crusader from primary liability under its policies. If the reinsurer fails to meet its obligations, Crusader must nonetheless pay its policy obligations. Crusader's primary excess of loss reinsurance agreements, or treaties, during the years ended December 31, 2019, 2018, and 2017 are as follows:

Loss Year	Reinsurers	A.M. Best Rating	Retention
2019	Renaissance Reinsurance U.S. Inc.	A+	
	& Hannover Ruck SE	A+	$500,000
2018	Renaissance Reinsurance U.S. Inc.	A+	
	& Hannover Ruck SE	A+	$500,000
2017	Renaissance Reinsurance U.S. Inc.	A+	
	& Hannover Ruck SE	A+	$500,000

Reinsurance treaties are generally structured in layers, with different negotiated economic terms and retention of participation, or liability, in each layer. In calendar year 2019, Crusader retained a participation in its excess of loss reinsurance treaties of 0% in its 1st layer (reinsured losses between $500,000 and $1,000,000), 0% in its 2nd layer (reinsured losses between $1,000,000 and $4,000,000), and 0% in its property and casualty clash treaty. In calendar year 2018, Crusader retained a participation in its excess of loss reinsurance treaties of 5% in its 1st layer (reinsured losses between $500,000 and $1,000,000), 0% in its 2nd layer (reinsured losses between $1,000,000 and $4,000,000), and 0% in its property and casualty clash treaty. In calendar year 2017, Crusader retained a participation in its excess of loss reinsurance treaties of 5% in its 1st layer (reinsured losses between $500,000 and $1,000,000), 0% in its 2nd layer (reinsured losses between $1,000,000 and $3,000,000), and 0% in its property and casualty clash treaty.

Crusader also has catastrophe reinsurance treaties from various highly rated California authorized and California unauthorized reinsurance companies. These reinsurance treaties help protect Crusader against losses in excess of certain retentions from catastrophic events that may occur on property risks which Crusader insures. In calendar years 2019, 2018, and 2017, Crusader retained a participation in its catastrophe excess of loss reinsurance treaties of 5% in its 1st layer (reinsured losses between $1,000,000 and $10,000,000) and 0% in its 2nd layer (reinsured losses between $10,000,000 and $46,000,000).

Crusader has no reinsurance recoverable balances in dispute.

Crusader evaluates each of its ceded reinsurance treaties at its inception to determine if there is sufficient risk transfer to allow the contract to be accounted for as reinsurance under current accounting literature. As of December 31, 2019, all such ceded contracts are accounted for as risk transfer reinsurance.

The aggregate amount of ceded earned premium to the reinsurers was $7,220,734, $6,478,500, and $6,656,508 for the years ended December 31, 2019, 2018, and 2017, respectively.

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

Unpaid Losses and Loss Adjustment Expenses

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

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

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

Net Written Premium to Statutory Surplus Ratio

The following table shows, for the periods indicated, Crusader's statutory ratio of net written premium (after reinsurance ceded) to statutory surplus. Since each property and casualty insurance company has different capital needs, an "acceptable" ratio of net written premium to statutory surplus for one company may be inapplicable to another. While there is no statutory requirement applicable to Crusader that establishes a permissible net premium to surplus ratio, guidelines established by the National Association of Insurance Commissioners (“NAIC”) provide that such ratio should generally be no greater than 3 to 1.

	Year ended December 31		
Statutory Accounting Basis:	2019	2018	2017
Net written premium	$28,650,820	$25,874,020	$31,628,111
Statutory surplus	$46,498,960	$50,148,258	$50,446,888
Ratio	0.6 to 1	0.5 to 1	0.6 to 1

Crusader's results herein are reported in accordance with U.S. generally accepted accounting principles ("GAAP"). These results differ from Crusader's financial results reported in accordance with Statutory Accounting Principles ("SAP") as prescribed or permitted by insurance regulatory authorities. Crusader is required to file financial statements with insurance regulatory authorities prepared on a SAP basis.

SAP differs in certain respects from GAAP. The more significant of these differences that apply to Crusader are:

- Under GAAP, policy acquisition costs such as commissions, premium taxes and other costs incurred in connection with the successful acquisition of new and renewal business are capitalized and amortized on a pro rata basis over the period in which the related premium is earned, rather than expensed as incurred as required by SAP.
- Certain assets included in balance sheets under GAAP are designated as "non-admitted assets" and are charged directly against statutory surplus under SAP. Non-admitted assets primarily include premium receivables that are outstanding over 90 days, federal deferred tax assets in excess of statutory limitations, furniture, equipment, leasehold improvements, and prepaid expenses.
- Under GAAP, amounts related to ceded reinsurance are shown on a gross basis as prepaid reinsurance premium and reinsurance recoverable, rather than netted against unearned premium reserves and loss and loss adjustment expense reserves, respectively, as required by SAP.
- Under GAAP, fixed maturity securities that are classified as available-for-sale are reported at estimated fair values, rather than at amortized cost or the lower of amortized cost or market, depending on the specific type of security, as required by SAP.
- The differing treatment of income and expense items results in a corresponding difference in federal income tax expense. Under GAAP reporting, changes in deferred income taxes are reflected as an item of income tax benefit or expense. As required by SAP, federal income taxes are recorded as income tax benefit or expense when payable and deferred taxes, subject to limitations, are recognized but only to the extent that they do not exceed a specified percentage of statutory surplus. Changes in deferred taxes are recorded directly to statutory surplus.

Regulation

The insurance company operation is subject to regulation by the CA DOI and by the insurance departments of other states in which Crusader is licensed. The insurance departments have broad regulatory, supervisory, and administrative powers. These powers relate primarily to the standards of solvency which must be met and maintained; the licensing of insurers and their agents; the nature and limitation of insurers' investments; the prior approval of rates, rules, and forms; the issuance of securities by insurers; periodic financial and market conduct examinations of the affairs of insurers; the annual and other reports required to be filed on the financial condition and results of operations of such insurers or for other purposes; and the establishment of reserves required to be maintained for unearned premium, losses, and other purposes. The regulations and supervision by the insurance departments are designed principally for the benefit of policyholders and not for the stockholders of the insurance company. The insurance departments may perform market conduct examinations of Crusader to ensure compliance with applicable laws and regulations with respect to rating, underwriting and claims handling practices. The most recent market conduct examination of Crusader was conducted by the CA DOI and covered the rating and underwriting practices in California during the period June 1, 2015, through August 31, 2015. The examination report was adopted by the CA DOI on January 9, 2017. All issues identified during the examination were resolved to the satisfaction of the CA DOI and Crusader. None of the issues identified during the examination had any material effect on Crusader. The CA DOI conducts periodic financial examinations of Crusader. During 2017, the CA DOI completed a financial examination of Crusader's December 31, 2015, statutory financial statements. On June 23, 2017, a report of examination was officially filed and became part of the records of the CA DOI. The Company has complied with all comments and recommendations identified in the report of examination, and none of the issues in that report of examination had any material effect on Crusader.

The NAIC uses a Risk-Based Capital ("RBC") Model Law for property and casualty companies. The RBC Model Law is intended to provide standards for calculating a variable regulatory capital requirement related to a company's current operations and its risk exposures (asset risk, underwriting risk, credit risk and off-balance sheet risk). These standards are intended to serve as a diagnostic solvency tool for regulators that establish uniform capital levels and specific authority levels for regulatory intervention when an insurer falls below minimum capital levels. The RBC Model Law specifies four distinct action levels at which a regulator can intervene with increasing degrees of authority over a domestic insurer if its RBC is equal to or less than 200% of its computed authorized control level RBC. A company's RBC is required to be disclosed in its statutory annual statement.

The RBC is not intended to be used as a rating or ranking tool nor is it to be used in premium rate making or approval. Crusader's adjusted capital at December 31, 2019, was 641% of the authorized control level RBC.

The following table sets forth the different levels of risk-based capital that may trigger regulatory involvement and the corresponding actions that may result.

LEVEL	TRIGGER	CORRECTIVE ACTION
Company action level	Adjusted capital less than 200% of authorized control level	The insurer must submit a comprehensive plan to the insurance commissioner.
Regulatory action level	Adjusted capital less than 150% of authorized control level	In addition to above, insurer is subject to examination, analysis and specific corrective action.
Authorized control level	Adjusted capital less than 100% of authorized control level	In addition to both of the above, insurance commissioner may place insurer under regulatory control.
Mandatory control level	Adjusted capital less than 70% of authorized control level	Insurer must be placed under regulatory control.

Insurance Regulatory Information System ("IRIS") was developed by a committee of state insurance regulators primarily to assist state insurance departments in executing their statutory mandate to oversee the financial condition of insurance companies. IRIS helps those companies that merit highest priority in the allocation of the regulators' resources on the basis of 13 financial ratios that are calculated annually. The analytical phase is a review of statutory annual statements and the financial ratios. The ratios and trends are valuable in pointing to companies likely to experience financial difficulties but are not themselves indicative of adverse financial condition. The ratio and benchmark comparisons are mechanically produced and are not intended to replace the state insurance departments' own in-depth financial analysis or on-site examinations.

An unusual range of ratio results has been established from studies of the ratios of companies that have become insolvent or have experienced financial difficulties. In the analytical phase, companies that receive four or more financial ratio values outside the usual range are analyzed in order to identify those companies that appear to require immediate regulatory action. Subsequently, a more comprehensive review of the ratio results and an insurer's statutory annual statement is performed to confirm that an insurer's situation calls for increased or close regulatory attention.

In 2019, Crusader was outside the usual value range on the following one of the 13 IRIS ratio tests:

IRIS Ratio	Unusual Value	Crusader's Result
5 – two-year overall operating ratio	Over 100%	106.0%

For the year ended December 31, 2019, Crusader was outside the usual value range on IRIS ratio 5 due primarily to Crusader's net loss of $2,190,703. Crusader's net loss during the year ended December 31, 2019, was due primarily to adverse development of insured events of prior years.

In 2018, Crusader was outside the usual value range on the following one of the 13 IRIS ratio tests:

IRIS Ratio	Unusual Value	Crusader's Result
5 – two-year overall operating ratio	Over 100%	113.0%

For the year ended December 31, 2018, Crusader was outside the usual value range on IRIS ratio 5 due primarily to Crusader's net loss of $453,966. Crusader's net loss during the year ended December 31, 2018, was due primarily to adverse development of insured events of prior years.

In 2017, Crusader was outside the usual value range on the following four of the 13 IRIS ratio tests:

IRIS Ratio	Unusual Value	Crusader's Result
5 – two-year overall operating ratio	Over 100%	110.0%
6 – investment yield	Equal or greater than 6.5% or equal or less than 3.0%	1.5%
7 – gross change in policyholders' surplus	Equal or greater than 50% or equal or less than -10%	-15.0%
8 – change in adjusted policyholders' surplus	Equal or greater than 25% or equal or less than -10%	-15.0%

For the year ended December 31, 2017, Crusader was outside the usual value range on IRIS ratios 5, 7, and 8 due primarily to Crusader's $6,207,351 net loss. Crusader was outside the usual value range on IRIS ratio 6 due primarily to Crusader's relatively conservative investments.

California Insurance Guarantee Association

The California Insurance Guarantee Association ("CIGA") was created to provide for payment of claims for which insolvent insurers of most casualty lines are liable but which such insurers' assets as insufficient to satisfy. The Company is subject to assessment by CIGA for its pro-rata share of such claims based on written premium in the particular line in the year preceding the assessment by insurers writing that line of insurance in California. Such assessments are based upon estimates of losses to be incurred in liquidating an insolvent insurer. Assessments are recouped through a mandated surcharge to policyholders the year after the assessment. No assessment was made by CIGA for the 2019, 2018, and 2017 calendar years.

Holding Company Act

Crusader is subject to regulation by the CA DOI pursuant to the provisions of the California Insurance Holding Company System Regulatory Act (the "Holding Company Act"). Pursuant to the Holding Company Act, the CA DOI may examine the affairs of Crusader at any time. Certain transactions defined to be of an extraordinary type may not be effected without the prior approval of the CA DOI. Such transactions include, but are not limited to, sales, purchases, exchanges, loans and extensions of credit, and investments made within the immediately preceding 12 months involving the lesser of 3% of admitted assets or 25% of statutory surplus as of the preceding December 31. An extraordinary transaction also includes a dividend which, together with other dividends or distributions made within the preceding 12 months, exceeds the greater of 10% of the insurance company's statutory surplus as of the preceding December 31 or the insurance company's net income for the preceding calendar year. An insurance company is also required to notify the CA DOI of any dividend after declaration, but prior to payment.

The Holding Company Act also provides that the acquisition or change of control of a California domiciled insurance company or of any person who controls such an insurance company cannot be consummated without the prior approval of the insurance commissioner. In general, a presumption of control arises from the ownership of voting securities and securities that are convertible into voting securities, which in the aggregate constitute 10% or more of the voting securities of a California insurance company or a person who controls a California insurance company, such as Crusader. A person seeking to acquire control, directly or indirectly, of the Company must generally file with the insurance commissioner an application for change of control containing certain information required by statute and published regulations and provide a copy of the application to the Company. The Holding Company Act also effectively restricts the Company from consummating certain reorganizations or mergers without prior regulatory approval. The Company is in compliance with the Holding Company Act.

Rating

Insurance companies are rated to provide both industry participants and insurance consumers with meaningful information on specific insurance companies. Higher ratings generally indicate financial stability and a strong ability to pay claims. These ratings are based upon factors relevant to policyholders and are not directed toward protection of investors. Such ratings are neither a rating of securities nor a recommendation to buy, hold or sell any security and may be revised or withdrawn at any time. Ratings focus primarily on the following factors: capital resources, financial strength, demonstrated management expertise in the insurance business, credit analysis, systems development, market segment position and growth opportunities, marketing, sales conduct practices, investment operations, enterprise risk management, minimum statutory surplus requirements and capital sufficiency to meet projected growth, as well as access to such traditional capital as may be necessary to continue to meet standards for capital adequacy.

The claims-paying abilities of insurers are rated to provide both insurance consumers and industry participants with comparative information on specific insurance companies. Claims-paying ratings are important for the marketing of certain insurance products.

On January 17, 2019, A.M. Best Company downgraded Crusader's Financial Strength Rating to B++ (Good) from A- (Excellent) and its Long-Term Issuer Credit Rating (Long-Term ICR") to bbb+ from a-. The outlook of the Financial Strength Rating was revised at that time to stable from negative while the outlook of the Long-Term Issuer Credit Rating remained negative. The rating downgrades reflected a revision in A.M. Best's assessment of Crusader's operating performance to adequate from strong.

On January 30, 2020, A.M. Best Company affirmed Crusader's Financial Strength Rating of B++ (Good) and further downgraded Crusader's Long-Term Issuer Credit Rating ("Long-Term ICR") to "bbb" from "bbb+". The outlook of the FSR of Crusader remains stable while the outlook of the Long-Term ICR of Crusader was revised to stable from negative. Also on January 30, 2020, A.M Best downgraded the Long-Term ICR of Unico to "bb" from "bb+". The outlook of the Long-Term ICR of Unico was revised to stable from negative.

The ratings reflect Crusader's balance sheet strength, which A.M. Best categorizes as very strong, as well as its marginal operating performance, limited business profile and marginal enterprise risk management. The downgrade of the Long-Term ICR reflects a revision in A.M. Best's assessment of Crusader's operating performance to marginal from adequate. According to A.M. Best, (i) the downgrades consider a material decline in Crusader's operating performance, resulting from sub-par underwriting results in a relatively compact time frame, (ii) Crusader's adverse performance has been amplified by increased frequency and severity of apartment building insurance related claims, (iii) multiple operating metrics of Crusader trail the commercial casualty composite on a five-year and 10-year basis, and (iv) the consequential business changes being implemented to address these conditions lead to significant execution risk in returning Crusader's operational results to historical levels.

Terrorism Risk Insurance Act of 2002

On November 26, 2002, the Terrorism Risk Insurance Act of 2002 (the "Act") was signed into law. The Act was extended in 2005, reauthorized in 2007, 2017 and 2019, and is set to expire on December 31, 2027. The Act establishes a program within the Department of the Treasury in which the federal government will share the risk of loss from acts of terrorism with the insurance industry. Federal participation will be triggered when the Secretary of the Treasury, in concurrence with the Secretary of State and the Attorney General of the United States, certifies an act to be an act of terrorism. No act shall be certified as an act of terrorism unless the terrorist act results in aggregate losses in excess of $5 million.

Under the reauthorized Act, the federal government will pay the following percentages of covered terrorism losses exceeding the statutorily established deductible for the reported years and remaining years under the Act:

Loss Year	Coverage Percentage
2017	83%
2018	82%
2019	81%
2020-2027	80%

All property and casualty insurance companies are required to participate in the program to the extent that they must make available property and casualty insurance coverage for terrorism that does not differ materially from the terms, amounts and other coverage limitations applicable to losses arising from events other than acts of terrorism.

The Company does not write policies on properties considered targets of terrorist activities such as airports, large hotels, large office structures, amusement parks, landmark defined structures, or other large scale public facilities. In addition, there is not a high concentration of policies in any one area where increased exposure to terrorist threats exist. Consequently, the Company believes its exposure relating to acts of terrorism is low. Crusader received $64,330, $94,014, and $111,773 in terrorism coverage premium from approximately 5%, 6%, and 5% of its policyholders during the years ended December 31, 2019, 2018, and 2017, respectively. Crusader's terrorism deductible was $7,046,682, $7,799,966, and $7,490,724 during the years ended December 31, 2019, 2018, and 2017, respectively. Crusader's 2020 terrorism deductible is $6,791,640.

Data Privacy And Protection

The Company, through its subsidiaries, may be subject to a variety of laws and regulations concerning data privacy and data security. In California, where the Company is headquartered and conducts business, certain laws such as the California Consumer Privacy Act (CCPA) and California Insurance Information Privacy and Protection Act (IIPPA) may directly impact the Company's operations. At the federal level, standards set forth by the Federal Trade Commission (FTC) and the privacy and security rules under the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") as amended by the Health Information Technology for Economic and Clinical Health Act ("HITECH"), and their respective implementing regulations may also apply to the Company through certain subsidiary activity. The general purpose of these laws and regulations is to increase the level of transparency, security, and protections around the personal information (sometimes referred to as personal identifying information or personal data) collected by the Company.

The CCPA, for example, took effect in January 2020, and creates new data privacy rights for California residents, including: (1) the right to know what personal information has been collected about or from them by a covered business; (2) the right to request that such information be deleted; (3) the right to opt-out of the sale of their personal information; and (4) the right to exercise said rights without discrimination. The CCPA imposes attendant obligations on covered businesses to make certain disclosures to California residents and to respond to data subject requests. The California Attorney General, the agency charged with issuing interpretive regulations, has yet to finalize its CCPA regulations as of the date of this filing. Thus, the exact scope of the CCPA is still evolving and may be subject to further and future interpretation. The CCPA permits the Attorney General to investigate non-compliance and, if appropriate, seek civil penalties. There is also a limited private right of action available under the law. In addition to the CCPA, there are a number of legislative proposals in the United States, both at the federal and state level, that could impose new or additional obligations on the Company from a data privacy and security perspective.

HIPAA authorizes the United States Department of Health and Human Services (“HHS”) to issue standards for administrative simplification, as well as for the privacy and security of protected health information. The regulations issued pursuant to the HIPAA Administrative Simplification provisions and HITECH impose a number of requirements on covered entities and their business associates that access, maintain, create, and/or receive individually identifiable health information, as defined under HIPAA, HITECH, and their implementing regulations. These regulations establish significant criminal penalties and civil sanctions for non-compliance. HHS sets standards relating to the privacy and security of individually identifiable health information. In general, these regulations restrict how covered entities and their business associates may use and disclose medical records and other individually identifiable health information in any form, whether communicated electronically, on paper or orally, subject only to limited exceptions. In addition, the regulations provide patients’ rights to understand and control how their health information is used. HHS has published security regulations designed to protect health information from unauthorized use or disclosure and require notification to members, the Secretary of HHS, and in certain cases the media, in the event of a breach of unsecured individually identifiable health information.

The IIPPA is a California state law that applies to certain insurance providers and related entities. The IIPPA provides protections for certain individual’s personally identifiable information in the insurance context, which is generally provided to an agent, broker, or insurance company in order to apply for insurance or submit a claim. The IIPPA contains certain notice requirements, and transparency requirements for covered businesses. Non-compliance carries the risk of license revocation by the DOI, and other remedies available in court.

OTHER INSURANCE OPERATIONS

General Agency Operations

Unifax primarily sells and services CMP business insurance policies for Crusader in California.

Bedford Insurance Services, Inc. (“Bedford”), a subsidiary of the Company, sold and serviced daily automobile rental policies. Bedford stopped selling and servicing the daily automobile rental polices in 2015. Bedford did not receive any commission income during the years ended December 31, 2019 and 2018; Bedford received commission income during the year ended December 31, 2017, in the amount of $4,375, which related to policies written during prior years.

As general agents, these subsidiaries market, rate, underwrite, inspect and issue policies, bill and collect insurance premiums, and maintain accounting and statistical data. Unifax is the exclusive general agent for Crusader. Bedford was a non-exclusive general agent for non-affiliated insurance companies. The Company's marketing is conducted through advertising to independent insurance agents and brokers. For its services, the general agent receives a commission (based on the written premium) from the insurance company and, in some cases, a policy fee from the customer. These subsidiaries hold licenses issued by the CA DOI and other states where applicable.

Insurance Premium Finance Operation

American Acceptance Corporation ("AAC"), a subsidiary of the Company, is a licensed insurance premium finance company that provides insurance purchasers with the ability to pay their insurance premium on an installment basis. The premium finance company pays the insurance premium to the insurance company in return for a premium finance note from the insured. These notes are paid off by the insured in nine monthly installments and are secured by the unearned premium held by the insurance company. AAC provides premium financing solely for Crusader policies that are produced by Unifax in California.

Association Operation

Insurance Club, Inc., dba AAQHC, An Administrator ("AAQHC") (formerly American Association for Quality Health Care), a subsidiary of the Company, is a membership association and a third party administrator. AAQHC provides various consumer benefits to its members, including participation in group dental, vision, and life insurance policies that it negotiates. AAQHC also provides services as a third party administrator and is licensed by the CA DOI. For these services, AAQHC receives membership and fee income from its members.

Health Insurance Operation

American Insurance Brokers, Inc. ("AIB"), a subsidiary of the Company, markets health insurance in California as a general agency and an independent broker through non-affiliated insurance companies for individuals and groups. The services provided consist of marketing, sales and customer service. For these services AIB receives commissions from insurance companies. AIB holds licenses issued by the CA DOI.

Claims Management

The Company re-activated its U.S. Risk Managers, Inc. subsidiary so that it can provide claims adjustment services to non-affiliated insurers and to self-insurers on a fee-for-service basis (i.e., where Crusader will not be underwriting the risk), providing the potential for an alternative revenue source to the Company; also, the Company plans to execute a "fronting" agreement with a non-admitted, non-affiliated insurer that is rated "A-" or better by A.M. Best Company thereby providing Unifax and Crusader with a wider range of possibilities for their products and services.

INVESTMENTS

The Company's Board of Directors approved investment guidelines which are similar to what the Company believes are general investment guidelines used by Crusader's peers.

Under the Company's investment guidelines, investments may only include U.S. Treasury notes, U.S. government agency notes, mortgage-backed securities (including pass through securities and collateralized mortgage obligations) that are backed by agency and non-agency collateral, commercial mortgage-backed securities, U.S. corporate obligations, asset backed securities, (including but not limited to credit card, automobile and home equity backed securities), tax-exempt bonds, preferred stocks, common stocks, commercial paper, repurchase agreements (treasuries only), mutual funds, exchange traded funds, bank certificates of deposits and time deposits. The investment guidelines provide for certain investment limitations in each investment category.

Unless agreed to in advance in writing by Crusader, investments in the following types of securities are prohibited:

- Mortgage loans, except for mortgage backed securities issued by an agency of the U.S. government.
- Derivative mortgage-backed securities including interest only, principal only and inverse floating rate securities.
- All fixed maturity real estate securities, except mortgage-backed securities (including pass through securities and collateralized mortgage obligations) that are backed by agency and non-agency collateral and commercial mortgage-backed securities.
- Options and futures contracts.
- All non-U.S. dollar denominated securities.
- Any security that would not be in compliance with the regulations of Crusader's state of domicile.

An independent investment advisor manages Crusader's investments. The advisor's role currently is limited to maintaining Crusader's portfolio within the investment guidelines and providing investment accounting services to the Company. The investments continue to be held by Crusader's current custodian, Union Bank Global Custody Services.

COMPETITION

Insurance Company and General Agency Operations (Property and Casualty)

The property and casualty markets in which the Company operates are highly competitive. Property and casualty insurers generally compete on many factors, including price, commission rates, consumer recognition, coverages offered, financial stability, customer service and geographic coverage. Competition is also affected by the pace of technological developments. An insurer's ability to innovate, develop and implement new applications and other technology can affect its competitive position. The Company continues to invest in technology in order to compete more effectively in the insurance marketplace. The marketplace is highly cyclical, characterized by periods of high premium rates and shortages of underwriting capacity followed by periods of severe price competition and excess underwriting capacity.

The profitability of insurers is affected by many factors including premium adequacy, the frequency and severity of claims, state regulations, interest rates, general business conditions, and court decisions redefining and expanding the extent of coverage. One of the challenging and unique features of the property and casualty insurance business is the fact that since premiums are collected before losses are paid, its products are normally priced before its costs are known.

Additional information regarding competition in the insurance marketplace is discussed in Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations - Results of Operations."

Insurance Premium Financing Operation

AAC's insurance premium financing operation currently finances policies produced only through its sister company, Unifax. Consequently, AAC's growth is primarily dependent on the growth of Crusader and Unifax business. From July 2010 to March 1, 2018, AAC offered 0% financing on policies produced by Unifax for Crusader. Effective March 1, 2018, the annual percentage rate charged on AAC new loans increased from 0% to a single fixed interest rate. Effective April 1, 2019, the Company converted from the single fixed interest rate for all financed policies to a tiered interest rate structure under which different fixed interest rates are charged based on amount of underlying financed premium. The Company believes the interest rates charged by AAC are competitive and will not have a negative impact on its business.

Health Insurance Operation

The health insurance market is uncertain due to changes in healthcare insurance mandated by recent federal legislation. AIB markets a variety of health and life insurance products to individuals and groups. These same products are offered by most of the Company's competitors; thus service, reliability and stability are important to obtain and retain customers.

EMPLOYEES

As of March 30, 2020, the Company employed 72 persons of which 72 are full time employees at its facility located in Calabasas, California. The Company has no collective bargaining agreements and believes its relations with its employees are excellent.

CONCENTRATION OF RISKS

99.9%, 99.8%, and 99.7% of Crusader's direct written premium was derived from California during the years ended December 31, 2019, 2018, and 2017, respectively. In 2019, approximately 39% and 49% of the $939,689 commission income from the Company's health insurance program was from Guardian Life Insurance Company of America dental and group life plan programs and the Blue Shield Care Trust health and life insurance programs, respectively. In 2018, approximately 37% and 46% of the $944,755 commission income from the Company's health insurance program was from Guardian Life Insurance Company of America dental and group life plan programs and the Blue Shield Care Trust health and life insurance programs, respectively. In 2017, approximately 42% and 45% of the $1,047,593 commission income from the Company's health insurance program was from Guardian Life Insurance Company of America dental and group life plan programs and the Blue Shield Care Trust health and life insurance programs, respectively.

Crusader's reinsurance recoverable on paid and unpaid losses and loss adjustment expenses is as follows:

Name of Reinsurer	A.M.Best Rating (1)	Year ended December 31 2019	2018	2017
Renaissance Reinsurance U.S. Inc.	A+	$8,095,647	$4,911,922	$4,464,980
Hannover Ruck SE	A+	6,869,914	4,142,308	3,384,341
TOA Reinsurance Company of America	A	438,308	476,101	670,337
Other	A	7,827	(48)	574
Total		$15,411,696	$9,530,283	$8,520,232

(1) A.M. Best ratings are as of December 31, 2019.

Item 1A. Risk Factors.

An investment in the Company's securities involves a high degree of risk. The Company operates in a dynamic and rapidly changing industry that involves numerous risks and uncertainties. The risks and uncertainties described below are not the only ones the Company faces. Other risks and uncertainties, including those that the Company does not currently consider material, may impair the Company's business. If any of the risks discussed below actually occur, the Company's business, financial condition, operating results or cash flows could be materially adversely affected. This could cause the value of the Company's securities to decline, and you may lose all or part of your investment.

RISKS RELATED TO THE COMPANY'S BUSINESS AND INDUSTRY

Crusader is subject to minimum capital and surplus requirements, and any failure to meet these requirements could subject Crusader to regulatory action.

Crusader is subject to RBC standards and other minimum capital and surplus requirements imposed under applicable laws of its state of domicile. The RBC standards, based upon the Risk-Based Capital Model Act adopted by the NAIC, require Crusader to report the results of RBC calculations to state departments of insurance and the NAIC. If Crusader fails to meet these standards and requirements, the CA DOI may require specified actions to be taken, which could have a material and adverse impact on the Company's competitiveness, operational flexibility, financial condition, and results of operations.

The Company's business is vulnerable to significant catastrophic property loss, which could have an adverse effect on its financial condition and results of operations.

The Company faces a significant risk of loss in the ordinary course of its business for property damage resulting from natural disasters, man-made catastrophes and other catastrophic events, particularly hurricanes, earthquakes, hail storms, explosions, tropical storms, fires, sinkholes, war, acts of terrorism, severe winter weather and other natural and man-made disasters. Such events typically increase the frequency and severity of commercial property claims. Because catastrophic loss events are by their nature unpredictable, historical results of operations may not be indicative of future results of operations, and the occurrence of claims from catastrophic events may result in substantial volatility in the Company's financial condition and results of operations from period to period. In addition, catastrophic events could harm the financial condition of issuers of obligations the Company holds in its investment portfolio, resulting in impairments to these investments, and the financial condition of the Company's reinsurers, thereby increasing the probability of default on reinsurance recoveries. Although the Company attempts to manage its exposure to such events, the occurrence of one or more major catastrophes in any given period could have a material and adverse impact on the Company's financial condition and results of operations and could result in substantial outflows of cash as losses are paid.

The Company's business may be adversely affected by the recent coronavirus outbreak.

In December 2019, a novel strain of coronavirus, SARS CoV-2, was reported to have surfaced in Wuhan, China. As of March 2020, the novel coronavirus has spread to other countries, including the United States, as has been declared to be a pandemic by the World Health Organization. Efforts to contain the spread of the coronavirus have intensified, including severe travel restrictions imposed by the U.S. government related to China and Europe. The outbreak and any preventative or protective actions that the Company, its clients, their respective suppliers, or governments may take in respect of this coronavirus may disrupt the Company's business and the business of its clients. The Company is diligently working to ensure that it can operate with minimal disruption, and to mitigate the impact of the outbreak on its employees' health and safety. However, given the interconnectivity of the global economy and the possible rate of future global transmission, the full extent to which the coronavirus pandemic could affect the global economy is unknown and its impact may extend beyond the areas which are currently known to be impacted. Any resulting financial impact will depend on future developments and cannot be reasonably estimated at this time, but may materially affect the business, financial condition and results of operations of the Company.

Additionally, the continued spread of the coronavirus has led to severe disruption and volatility in the global capital markets, which could increase the Company's cost of capital, and adversely affect the Company's ability to access the capital and debt markets, and adversely affect the value of the Company's investment portfolio. It is possible that the continued spread of the coronavirus could cause an economic slowdown or recession (which could adversely affect the demand for the Company's insurance products and increase delinquencies and defaults by its customers) or cause other unpredictable events, each of which could adversely affect the business, results of operations or financial condition of the Company

Changes in accounting standards issued by the Financial Accounting Standards Board ("FASB") or other standard-setting bodies may adversely affect the Company's consolidated financial statements.

The Company's consolidated financial statements are subject to the application of GAAP, which is periodically revised and/or expanded. Accordingly, the Company is required to adopt new or revised accounting standards from time to time issued by recognized authoritative bodies, including the FASB. It is possible that future changes the Company is required to adopt could change the current accounting treatment that the Company applies to its consolidated financial statements and that such changes could have a material effect on the Company's financial condition and results of operations.

The Company's success may depend on its ability to adjust claims accurately.

Many factors can affect the Company's ability to adjust claims accurately, including the following:

- the training, experience, and skill of the Company's claims representatives,
- continued access to independent or outside adjusters,
- the extent of fraudulent or inflated claims and the Company's ability to recognize and respond to,such claims
- the claims organization's culture and the effectiveness of its management, and
- the Company's ability to develop or select and implement appropriate procedures, technologies, and systems to support claims functions.

The Company's failure to pay claims fairly, accurately, and in a timely manner, or to deploy claims resources appropriately, could result in unanticipated costs, lead to material litigation, undermine customer goodwill and the Company's reputation in the marketplace, impair its brand image and, as a result, materially adversely affect its competitiveness, financial results, prospects, and liquidity.

Loss and loss adjustment expense reserves are based on estimates and may not be sufficient to cover future losses.

Loss and loss adjustment expense reserves represent an estimate of amounts needed to pay and administer claims with respect to insured events that have occurred, including events that have occurred but have not yet been reported to Crusader. If claims exceed the related reserves, the Company may not have sufficient funds available to satisfy all such claims, and in any event, the Company's operating results and financial condition would be adversely affected. There is a high level of uncertainty inherent in the evaluation of the required loss and loss adjustment expense reserves for Crusader. The long-tailed nature of liability claims and the volatility of jury awards exacerbate that uncertainty. The difficulty in estimating the loss and loss adjustment expense reserves contributed to adverse development of insured events of prior years in the amount of $3,191,185 which Crusader experienced in 2019. Crusader sets loss and loss adjustment expense reserves at each balance sheet date based upon 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. The ultimate cost of claims is dependent upon future events, the outcomes of which are affected by many factors. Crusader claim reserving procedures and settlement philosophy, current and perceived social and economic inflation, current and future court rulings and jury attitudes, improvements in medical technology, and many other economic, scientific, legal, political, and social factors all can have significant effects on the ultimate costs of claims. Changes in Crusader operations and management philosophy also may cause actual developments to vary from the past. 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.

Changes in federal or state tax laws could have a materially adverse effect on the Company's financial condition and results of operations.

The Company's financial condition and results of operations are dependent, in part, on tax policy implemented at the federal and/or state level. The Company's results are also subject to federal and state tax rules applicable to dividends received from its subsidiaries. Additionally, changes in tax laws could have an adverse effect on deferred tax assets and liabilities included in the Company's consolidated balance sheets and results of operations. The Company cannot predict whether any tax legislation will be enacted in the near future or whether any such changes to existing federal or state tax law would have a material adverse effect on the Company's financial condition and results of operations.

Any inability of the Company to realize its deferred tax assets may have a materially adverse effect on the Company's financial condition and results of operations.

The Company recognizes deferred tax assets and liabilities for the future tax consequences related to differences between the financial statement carrying amounts of existing assets and liabilities and the respective tax bases, and for tax credits. The Company evaluates its deferred tax assets for recoverability based on available evidence, including assumptions about future profitability, reversal patterns of recorded deferred tax assets and deferred tax liabilities, and capital gain generation. Although management believes that it is more-likely-than-not that the net deferred tax assets will be realized, some or all of the Company's deferred tax assets could expire unused if the Company is unable to generate taxable income of a sufficient nature in the future to utilize them.

If the Company determines it is more-likely-than-not that it would not be able to realize all or a portion of its deferred tax assets in the future, the Company would reduce the deferred tax asset through a charge to earnings in the period in which the determination is made. This charge could have a materially adverse effect on the Company's results of operations and financial condition. In addition, the assumptions used to make this determination are subject to change from period to period based on changes in tax laws or variances between the Company's projected operating performance and actual results. As a result, management's judgment is required in assessing the possible need for a deferred tax asset valuation allowance.

The Company may be negatively impacted by emerging claim and coverage issues.

As insurance industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claims and coverage may emerge, including new or expanded theories of liability. This phenomenon is generally referred to as "social inflation." These or other changes could impose new financial obligations on the Company by extending coverage beyond its underwriting intent or otherwise require the Company to make unplanned modifications to the products and services that the Company provides, or cause the delay or cancellation of products and services that the Company provides. Examples of emerging claims and coverage issues include, without limitation:

- Judicial expansion of policy coverage and a greater propensity to grant claimants more favorable amounts and the impact of new theories of liability.
- Plaintiffs targeting property and casualty insurers, including the Company, in purported class action litigation relating to claims-handling and other practices.
- Social inflation trends, including higher and more frequent claims, more favorable judgments and legislated increases.
- Medical developments that link health issues to particular causes, resulting in liability claims.
- Claims relating to unanticipated consequences of current or new technologies, including cyber security related risks.
- Claims relating to potentially changing climate conditions.
- Increased claims due to third party funding of litigation.

In some instances, these changes may not become apparent until sometime after the Company has issued insurance policies that are affected by the changes. As a result, the full extent of liability under the Company's insurance policies may not be known for many years after a policy is issued. For example, social changes and litigation trends have resulted in significantly larger verdicts awarded by juries in recent years in connection with altercations in bars and taverns, and in significantly larger settlements on cases which do not go to trial in connection with tenants-rights, rent-control, property-utilization and property-maintenance laws, as well as other forms of social inflation, and these trends may continue. In addition, the potential passage of new legislation designed to expand the right to sue, to remove limitations on recovery, to extend the statutes of limitations or otherwise to repeal or weaken tort reforms could have an adverse impact on the Company's business.

The Company's success depends on its ability to accurately underwrite risks and to charge adequate premium to policyholders.

The Company's financial condition, liquidity and results of operations largely depend on the Company's ability to underwrite and set premium accurately for the risks it faces. Premium rate adequacy is necessary to generate sufficient premium to offset losses, loss adjustment expenses, underwriting expenses, and to earn a profit. In order to price its products accurately, the Company must collect and properly analyze a substantial volume of data; develop, test and apply appropriate rating formulas; closely monitor and timely recognize changes in trends; and project both severity and frequency of losses with reasonable accuracy. The Company's ability to undertake these efforts successfully is subject to a number of risks and uncertainties, including, without limitation:

- Availability of sufficient reliable data.
- Incorrect or incomplete analysis of available data.
- Uncertainties inherent in estimates and assumptions.
- Selection and application of appropriate rating formulae or other pricing methodologies.
- Adoption of successful pricing strategies.
- Prediction of policyholder retention (e.g., policy life expectancy).
- Unanticipated court decisions, legislation or regulatory action.
- Ongoing changes in the Company's claim settlement practices.
- Unexpected inflation.
- Social changes, particularly those affecting litigation patterns.

Such risks may result in the Company's pricing being based on outdated, inadequate, or inaccurate data, or inappropriate analyses, assumptions, or methodologies, and may cause the Company to estimate incorrectly future changes in the frequency or severity of claims. As a result, the Company could underprice risks, which would negatively affect the Company's margins, or it could overprice risks, which could reduce the Company's volume and competitiveness. The Company's ability to accurately underwrite risks in insurance contracts depends in part on its ability to forecast such changes and trends. If it is not successful in doing so, the Company's operating results, financial condition, and cash flow could be materially adversely affected.

Inability to obtain reinsurance or to collect ceded losses and loss adjustment expenses could adversely affect Crusader's ability to write new policies.

The availability, amount and cost of reinsurance depend on market conditions and may vary significantly. Any decrease in the amount of Crusader's reinsurance will increase the risk of loss and could materially adversely affect its business and financial condition. Ceded reinsurance does not discharge Crusader's direct obligations under the policies it writes. Crusader remains liable to its policyholders even if it is unable to make recoveries that it believes it is entitled to under the reinsurance contracts. Losses may not be recovered from the reinsurers until claims are paid, which may create timing and liquidity risk. Additionally, any losses in excess of Crusader's reinsurance limits would remain direct obligations of Crusader and would therefore have a negative impact on the Company's financial condition and results of operations. For example, during the year ended December 31, 2017, Crusader settled a claim which incurred losses and loss adjustment expenses in excess of its reinsurance limits.

The insurance business is subject to extensive regulation and such regulation may become more extensive in the future, which may adversely affect the Company's business, financial condition and results of operations.

Crusader is subject to extensive regulations and supervision in the states in which it operates or is licensed to conduct business. These regulations are generally designed to protect the interests of policyholders and not necessarily the interests of insurers, their stockholders or other investors. The regulations relate to authorization for lines of business, capital and surplus requirements, investment limitations, underwriting limitations, transactions with affiliates, dividend limitations, changes in control, premium rates and a variety of other financial and nonfinancial components of an insurance company's business. These powers include, among other things, the ability to:

- Place limitations on Crusader's investments and dividends.
- Place limitations on Crusader's ability to transact business with its affiliates.
- Establish standards of solvency including minimum reserves and capital surplus requirements.
- Prescribe the form and content of and to examine Crusader's financial statements.

Federal legislation currently does not directly impact the property and casualty business, but the business can be indirectly affected by changes in federal regulations. From time to time, the U.S. Congress and certain federal agencies investigate the current condition of the insurance industry to determine whether federal regulation is necessary. The Company cannot predict whether, and to what extent, new laws and regulations that would affect its business will be adopted, the timing of any such adoption and what effects, if any, they may have on the Company's business, financial condition, and results of operations. The Company is unable to predict whether such laws will be enacted and how and to what extent this could affect the Company.

Crusader, along with other licensed insurers, is required to bear a portion of the losses suffered by some insureds as the result of impaired or insolvent insurance companies. In addition, Crusader must participate in mandatory arrangements to provide various types of insurance coverage to individuals or other entities that otherwise are unable to purchase that coverage from private insurers. The effect of these and similar arrangements could reduce its profitability in any given period or limit its ability to grow the business. The NAIC and state insurance regulators are continually reexamining existing laws and regulations, specifically focusing on modifications to statutory accounting principles, interpretations of existing laws and the development of new laws and regulations.

Many states have adopted measures related to the NAIC's Solvency Modernization Initiative ("SMI"), which have included model regulations that require insurers to summarize their key risks and risk management strategies to regulators. The SMI resulted in a 2010 amendment to the NAIC's Model Insurance Holding Company System Regulatory Act, which requires the ultimate controlling person in an insurer's holding company structure to identify and report material enterprise risks to the state insurance regulator. The SMI also produced the NAIC Risk Management and Own Risk Solvency Model Act ("ORSA"), which requires insurers meeting premium thresholds to maintain a risk management framework, and annually submit a comprehensive report designed to assess the adequacy of an insurer's risk management practices, including risks related to the insurer's future solvency position. The Company is currently exempt from providing an ORSA summary report as it does not meet the minimum premium requirements. On the federal level, the Dodd-Frank Act, enacted in July 2010, mandated significant changes to the regulation of U.S. insurance effective as of July 21, 2011. Currently, the impact of these regulations has not materially affected the Company's business. Any proposed or future state or federal legislation or NAIC initiatives, if adopted, may be more restrictive on the ability of Crusader to conduct business and/or may result in higher costs.

The extensive regulation to which the Company is subject may affect the cost of or demand for the Company's products and may limit the ability to obtain rate increases or to take other actions that the Company might desire to do in order to increase its profitability.

Unico is a holding company that relies on its subsidiaries to satisfy its obligations.

As a holding company, Unico does not generate revenue sufficient to pay operating expenses or stockholders' dividends. Consequently, Unico relies on the ability of its subsidiaries to meet its obligations. The ability of Crusader to pay dividends to Unico is regulated by state insurance laws, which limit the amount of, and in certain circumstances may prohibit the payment of, cash dividends. The inability of Crusader to pay dividends in an amount sufficient to enable Unico to meet its cash requirements could have a materially adverse effect on the Company's results of operations, financial condition, and its ability to pay dividends to its shareholders.

Past and future downgrades in the financial strength rating or long-term issuer credit rating of Crusader could reduce the amount of business it may be able to write.

Rating agencies rate insurance companies based on financial strength as an indication of an ability to pay claims. The financial strength rating of A.M. Best is subject to periodic review using, among other things, proprietary capital adequacy models and is subject to revision or withdrawal at any time. Insurance financial strength ratings are directed toward the concerns of policyholders and insurance agents and are not intended for the protection of investors. Crusader and Unico have experienced downgrades in such ratings in the past, and may experience further downgrades in the future. Any downgrade in Crusader's A.M. Best rating could cause a reduction in the number of policies it writes and could have a materially adverse effect on the Company's results of operations and financial position.

On January 17, 2019, A.M. Best Company downgraded Crusader's Financial Strength Rating to B++ (Good) from A- (Excellent) and its Long-Term Issuer Credit Rating (Long-Term ICR") to bbb+ from a-. The outlook of the Financial Strength Rating was revised at that time to stable from negative while the outlook of the Long-Term Issuer Credit Rating remained negative. The rating downgrades reflected a revision in A.M. Best's assessment of Crusader's operating performance to adequate from strong.

On January 30, 2020, A.M. Best Company affirmed Crusader's Financial Strength Rating of B++ (Good) and further downgraded Crusader's Long-Term Issuer Credit Rating ("Long-Term ICR") to "bbb" from "bbb+". The outlook of the FSR of Crusader remains stable while the outlook of the Long-Term ICR of Crusader was revised to stable from negative. Also on January 30, 2020, A.M Best downgraded the Long-Term ICR of Unico to "bb" from "bb+". The outlook of the Long-Term ICR of Unico was revised to stable from negative.

The ratings reflect Crusader's balance sheet strength, which A.M. Best categorizes as very strong, as well as its marginal operating performance, limited business profile and marginal enterprise risk management. The downgrade of the Long-Term ICR reflects a revision in A.M. Best's assessment of Crusader's operating performance to marginal from adequate. According to A.M. Best, (i) the downgrades consider a material decline in Crusader's operating performance, resulting from sub-par underwriting results in a relatively compact time frame, (ii) Crusader's adverse performance has been amplified by increased frequency and severity of apartment building insurance related claims, (iii) multiple operating metrics of Crusader trail the commercial casualty composite on a five-year and 10-year basis, and (iv) the consequential business changes being implemented to address these conditions lead to significant execution risk in returning Crusader's operational results to historical levels.

<u>The Company's earnings may be affected by changes in interest rates</u>.

Investment income is an important component of the Company's revenues and net income. The ability to achieve investment objectives is affected by factors that are beyond the Company's control. Many of the instruments in which the Company may invest are subject to interest rate risk. Interest rates are highly sensitive to many factors, including governmental monetary policies and domestic and international economic and political conditions. Any significant decline in investment income as a result of falling interest rates or general market conditions may have an adverse effect on net income and, as a result, on the Company's stockholders' equity and statutory surplus.

The outlook for the Company's investment income is dependent on the composition of its investment portfolio, the future direction of interest rates and the amount of cash flows from operations that are available for investment. The fair values of fixed maturity investments that are "available-for-sale" fluctuate with changes in interest rates and cause fluctuations in stockholders' equity.

<u>The Company's investments may be subject to credit, prepayment and other risks</u>.

The Company's investment guidelines allow investing in new classes of securities which are subject to additional risks. Rating errors by agencies, such as Moody's, Standard & Poor's, and Fitch, and/or economic downturn may create credit risk, a decline in interest rates may create prepayment risk, and a decrease in tax rates may reduce attractiveness of state and municipal bonds and may impact their market valuation. Any significant loss on investments or general market downturn may have an adverse effect on the Company's stockholders' equity and statutory surplus and its business.

<u>The Company's geographic concentration ties its performance to the business, economic, and regulatory conditions in California</u>.

The Company's insurance business is concentrated in California (99.9% and 99.8% of direct written premium (before reinsurance ceded) in 2019 and 2018, respectively). Accordingly, unfavorable business, economic or regulatory conditions in the state of California could negatively impact the Company's performance. In addition, California is exposed to severe natural perils, such as earthquakes and fires along with the possibility of terrorist acts. Accordingly, the Company could suffer losses as a result of catastrophic events, and such losses could be magnified as a result of its business concentration in California.

<u>The Company's single operating location exposes it to geographic risk</u>.

The Company conducts its business from a single facility located in the Calabasas building. The Company may not be able to access the building due to natural disasters, civil unrests, closures of public roads or utilities, or other unforeseen events. While the Company has procedures and insurance in place to mitigate short-term access limitations to the building, an extended building access limitation may have an adverse impact on the Company's results of operation.

<u>The Company relies on independent insurance agents and brokers</u>.

The failure or inability of independent insurance agents and brokers to market the Company's insurance programs successfully could have a materially adverse effect on its business, financial condition and results of operations. Independent brokers are not obligated to promote the Company's insurance programs and may sell competitors' insurance programs. The Company's business largely depends on the marketing efforts of independent brokers and on the Company's ability to offer insurance programs and services that meet the requirements of the customers of those brokers.

The Company's reserve for doubtful accounts is based on estimates.

The Company may not be able to collect the premiums it estimates are collectible from its agents and brokers and, therefore, the Company's reserve for doubtful accounts may not be sufficient.

Litigation may have an adverse effect on the Company's business.

The Company's is routinely involved in litigation, which can be unpredictable and costly, and may result in negative effects on the Company's business, reputation, financial condition or results of operations. By virtue of the nature of its business, the Company is subject to numerous legal proceedings in which it may be named as either plaintiff or defendant. Such disputes may concern the issuance or non-issuance of individual insurance policies, coverage disputes or other matters. In addition, the insurance industry is the target of class action lawsuits and other types of litigation, some of which involve claims for substantial and/or indeterminate amounts and the outcomes of which are unpredictable. This litigation can be based on a variety of issues including insurance and claim settlement practices. Although the Company has not been the target of any specific class action lawsuits, it is possible that a lawsuit of this type could have a negative impact on the Company's business.

The exclusions and limitations in the Company's policies may not be enforceable.

Many of the Company's policies include exclusions or other conditions that define and limit coverage; these exclusions and conditions are designed to manage the Company's exposure to certain types of risks and expanding theories of legal liability. In addition, many of the Company's policies limit the period during which a policyholder may bring a claim under the policy; this period in many cases is shorter than the statutory period under which these claims can be brought by the policyholders. While these exclusions and limitations help the Company assess and control its loss exposure, it is possible that a court or regulatory authority could nullify or void an exclusion or limitation, or legislation could be enacted modifying or barring the use of these exclusions and limitations. This could result in higher than anticipated losses and loss adjustment expenses by extending coverage beyond the Company's underwriting intent or increasing the number or size of claims, which could have a materially adverse effect on the Company's operating results. In some instances, these changes may not become apparent until sometime after the Company has issued the insurance policies that are affected by the changes. As a result, the full extent of liability under the Company's insurance policies may not be known for many years after a policy is issued.

The Company relies on its information technology systems, and the data it maintains within those systems, to manage many aspects of its business. Cybersecurity risks, the failure of these systems to operate properly, and/or the failure to maintain the confidentiality, integrity, and availability of policyholder and claims data, including personal identifying information, could result in a materially adverse effect on the Company's business, reputation, financial condition and results of operations.

The Company collects and retains large volumes of internal and policyholder data, including personal identifying information. The Company uses this information for a variety of business purposes, including but not limited to underwriting, claims, billing, and administration. The Company also collects and retains the personal identifying information of its employees and job applicants. The Company therefore depends on the security, accuracy, reliability, and proper functioning of its information technology systems, many of which contain the personal identifying information of its policyholders, employees, and job applicants, to effectively manage many aspects of its business, including underwriting, policy acquisition, claims processing and handling, accounting, reserving and actuarial processes and policies, job applications, employee management, and maintaining its policyholder data.

The failure of hardware or software that supports the Company's information technology systems or the loss of data contained in the systems could disrupt its business and could result in decreased premiums, increased overhead costs, and inaccurate reporting, all of which could have a materially adverse effect on the Company's business, financial condition, and results of operations. In addition, despite system redundancy, the implementation of security measures and the existence of a disaster recovery plan for the Company's information technology systems, these systems are vulnerable to damage or interruption from events such as:

- Earthquake, fire, flood, and other natural disasters.
- Terrorism acts and attacks by computer viruses or hackers.
- Power loss.
- Unauthorized access.
- Computer systems or data network failure.

It is possible that a system failure, accident, security breach, or unauthorized internal or external knowledge, or misuse of confidential Company data could result in a material disruption to the Company's business and reputation, as well as an increased risk of remedial and other expenses, fines, or lawsuits.

During the first quarter of 2020, AAQHC concluded an investigation regarding potential unauthorized access to non-public personal information as a result of a vulnerability in AAQHC's website. The investigation identified non-public personal information pertaining to approximately 15 individuals that likely were accessed without authorization. The vulnerability has been remediated, the affected individuals are being notified, and will be offered complimentary credit monitoring services. AAQHC is also in the process of notifying its vendor related to this incident, which may trigger additional inquiries and potential lawsuits. While the incident is not expected to have a material impact on the Company's business, it may increase the risk associated with future incidents, investigations, and lawsuits, particularly the risk of damage to the Company's reputation.

Although the Company seeks to mitigate the impact and severity of potential cyber threats more generally, not every risk or liability can be mitigated against. To the extent that a critical system fails or is not properly implemented and the failure cannot be corrected in a timely manner, the Company may experience disruptions to the business that could have a materially adverse effect on the Company's results of operations. In addition, the costs associated with the development or acquisition of new computer software, such as in the case of the Company's planned replacement of its policy administration system, may result in impairment charges if such acquisition or development is not successfully implemented. Any such impairment charges may adversely impact the Company's results of operation.

In conducting its business, the Company also uses various third party vendors and service providers. These service providers and the systems they utilize are typically subject to the same types of security-related risks the Company faces. The Company provides certain of these vendors with data, including non-public personal identifying information. There is no guarantee that the Company's due diligence or ongoing vendor oversight will be sufficient to ensure the integrity and security of the systems used by these vendors or the protection of information that resides thereon. Adverse consequences for the Company in the event of a significant event involving the systems of its vendors or the information provided to the vendors, among others, could delay the Company's delivery of products and services, result in a direct or indirect financial loss, and/or result in loss of business and/or reputational damage.

The legal and regulatory environment governing data privacy and security is becoming increasingly complex, and continues to evolve. Certain laws and contracts that the Company enters into require it to notify various parties, including consumers or customers, in the event of certain actual or potential data breaches or systems failures, including those of our service providers. These notifications can result, among other things, in the loss of customers, lawsuits, adverse publicity, diversion of management's time and energy, the attention of regulatory authorities, fines, and disruptions in sales. Data privacy laws, such as the CCPA, HIPAA, and the IIPPA, further present additional compliance challenges regarding notice, responding to consumer requests, and securing covered data adequately. Maintaining compliance with applicable data privacy and security laws and regulations may increase the Company's operating costs and adversely impact its ability to market products and service policyholders. Any inability to prevent or adequately respond to these legal and regulatory challenges could disrupt the Company's business, inhibit its ability to retain existing customers or attract new customers, otherwise harm its reputation and/or result in financial losses, litigation, increased costs, or other adverse consequences that could be material to the Company.

<u>The Company has experienced delays and cost overruns in connection with the upgrade of its legacy information technology system.</u>

In 2018, the Company identified the need to replace or upgrade its legacy information technology system to process its smaller premium accounts more efficiently. At that time, the Company determined that the cost to replace its legacy IT system would be between $4 million and $8 million, and the installation of such a system would take between two to four years. After weighing the time and expense involved against the anticipated benefit from such an investment, the Company opted for what it then perceived to be a less expensive upgrade to its legacy system, an upgrade that then seemed to offer more incremental benefits in a shorter timeframe. While initially expected to be completed by the end of 2019, the system upgrade is now expected to be completed by the end of 2020, due to unexpected technical challenges. The Company has also experienced repeated cost overruns in connection with the system upgrade, which have adversely impacted the Company's results of operations. The Company believes that the failure to have replaced or upgraded its legacy information technology system has contributed to its operating losses in recent years. If the Company experiences further delays or cost overruns, its results of operations may be adversely affected in future periods.

The Company's disclosure controls and procedures may not prevent or detect all acts of fraud.

The Company's disclosure controls and procedures are designed to reasonably ensure that information required to be disclosed in reports filed or submitted under the Securities Exchange Act is accumulated and communicated to management and is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. The Company's management believes that any disclosure controls and procedures or internal controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision making can be faulty and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by an unauthorized override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and the Company cannot ensure that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and may not be detected.

Changes in general economic conditions may have an adverse effect on the Company's revenues and profitability.

The Company's financial condition and results of operations may be negatively impacted by national and local economic conditions, such as recessions, increased levels of unemployment, inflation and the disruption in the financial markets. The Company is not able to predict the effect of these factors or their duration and severity.

The Company depends on key personnel, the loss of which could negatively impact its business.

The Company's current and future success is dependent to a large extent on the retention and continued service of its key personnel, which includes its executive officers. The loss or unavailability of any key personnel, which includes its executive officers, could have an adverse effect on the Company's financial condition and results of operations.

The ability of the Company to attract, develop and retain employees and to maintain appropriate staffing levels is critical to the Company's success.

The Company must hire and train new employees and retain current employees to handle its operations. The failure of the Company to successfully hire and retain a sufficient number of skilled employees could have an adverse effect on the Company's business.

The Company's financial condition may be adversely affected if one or more parties that have significant contracts or relationships with the Company become insolvent, experience other financial difficulties, or default in the performance of obligations.

The Company's business is dependent on the performance by third parties of their responsibilities under various contractual or services arrangements. These include, for example, contracts for the acquisition of goods and services (such as telecommunications and information technology facilities, equipment and support, and other systems and services that are integral to its operations), agreements with independent or outside claim adjusters, agreements with other insurance carriers to sell products that the Company does not offer, and arrangements for transferring certain risks (including reinsurance used in connection with certain insurance products and corporate insurance policies). The Company is also dependent on its dealings with banks and other financial institutions. If one or more of these parties were to default in the performance of their obligations or determine to abandon or terminate support for a system, product, or service that is significant to the Company's business, it could suffer significant financial losses and operational interruptions or other problems, which could in turn adversely affect its financial performance, cash flows, or results of operations and cause damage to its brand and reputation.

The property casualty insurance industry is highly competitive, and the Company may not be able to compete effectively against larger and/or better capitalized companies.

The Company faces intense competition in the property and casualty insurance industry. Competition in the property and casualty marketplace is based on many factors including premiums charged, services provided, financial strength ratings assigned by independent rating agencies, speed of claims payments, reputation, perceived financial strength, technology, and general experience. The Company competes with many regional and national property and casualty insurance companies. Many of these competitors are better capitalized than the Company, have greater financial, marketing and management resources than the Company, and have higher A.M. Best ratings. The superior capitalization, resources and ratings of the Company's competitors may enable them to offer lower rates, to withstand larger losses, and to more effectively take advantage of new marketing opportunities and attract new customers. Intense competitive pressure on prices can result from the actions of even a single large competitor. The Company's competition may also become increasingly better capitalized in the future as the traditional barriers between insurance companies and banks and other financial institutions erode and as the property and casualty industry continues to consolidate.

The Company may undertake strategic marketing and operating initiatives to improve its competitive position and drive growth. If the Company is unable to successfully implement new strategic initiatives or if the Company's marketing campaigns do not attract new customers, the Company's competitive position may be harmed, which could adversely affect the Company's business and results of operations.

Crusader is a participant in various underwriting pools and programs which have legal power to levy assessments to Crusader.

As an admitted insurer in several states, Crusader is obligated to participate in various underwriting pools and programs run at federal and state levels. Examples include, but not limited to, a program established by the Terrorism Risk Insurance Act of 2002 within the Department of the Treasury, California Assigned Risk Plan, California FAIR Plan, and California Insurance Guarantee Association. These underwriting pools and programs have legal powers to assess their participants for net losses sustained in these underwriting pools and programs operations. Such assessments could have an adverse effect on the Company's financial condition and results of operations.

RISKS RELATED TO THE COMPANY'S STOCK

The Company's goal is to maximize the long-term value of the enterprise and thus does not focus on short-term earnings expectations.

The Company does not manage its business to maximize short-term stock performance. It also does not provide earnings estimates to the market and does not comment on earnings estimates by analysts. As a result, its reported results for a particular period may vary, perhaps significantly, from investors' expectations, which could result in significant volatility in the price of its common shares.

In addition, due to the Company's focus on the long-term value of an enterprise, it may undertake business strategies and establish related financial goals for a specific year that are designed to enhance its longer-term performance, while understanding that such strategies may not always similarly benefit short-term results, such as its annual underwriting profit or earnings per share.

The Company is controlled by a small number of shareholders who will be able to exert significant influence over matters requiring shareholder approval.

A small number of holders of the Company's stock own a majority of the voting power of the Company. Accordingly, those holders have the ability to exert significant influence on the outcome of corporate actions, involving the Company requiring shareholder approval, including the election of directors, change of control transactions or any other significant corporate transactions. This concentration of ownership may conflict with the interests of the Company's other shareholders.

Failure to maintain an effective system of internal control over financial reporting may have an adverse effect on the Company's stock price.

Section 404 of the Sarbanes-Oxley Act of 2002 and the related rules and regulations promulgated by the SEC require the Company to include in its Form 10-K a report by its management regarding the effectiveness of the Company's internal control over financial reporting. The report includes, among other things, an assessment of the effectiveness of the Company's internal control over financial reporting as of the end of its fiscal year, including a statement as to whether or not the Company's internal control over financial reporting is effective. This assessment must include disclosure of any material weaknesses in the Company's internal control over financial reporting identified by management. Areas of the Company's internal control over financial reporting may require improvement from time to time. If management is unable to assert that the Company's internal control over financial reporting is effective now or in any future period, investors may lose confidence in the accuracy and completeness of the Company's financial reports, which could have an adverse effect on its stock price.

Insurance laws make it difficult to effect a change of control of the Company or the sale of any subsidiaries.

To acquire control of a U.S. insurance company or any holding company of a U.S. insurance company, prior written approval must be obtained from the Department of Insurance in the state where the insurer is domiciled. The Department of Insurance of the state will consider a number of factors relating to the acquirer and the transaction prior to granting approval of the application to acquire control of the insurer or the holding company. These laws and regulations may discourage potential acquisition proposals and may delay, deter or prevent a change of control of the Company or the sale by the Company of any of its insurance subsidiaries, including transactions that some or all of the Company's shareholders might consider to be desirable.

The trading market for the Company's stock is relatively illiquid.

There has been relatively limited trading volume in the market for the Company's common stock, and a more active, liquid public trading market may not develop or may not be sustained. Limited liquidity in the trading market for the Company's common stock may adversely affect shareholders' ability to sell their shares of common stock at the time they wish to sell them or at a price that they considers acceptable.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

On September 26, 2013, Crusader purchased land and a two-story building in Calabasas, California. The Company moved its home office to this location on October 9, 2015, and has been occupying the building through the present time.

Item 3. Legal Proceedings.

The Company, by virtue of the nature of the business conducted by it, becomes involved in numerous legal proceedings in which it may be named as either plaintiff or defendant. Incidental actions are sometimes brought by customers or others that relate to disputes concerning the issuance or non-issuance of individual insurance policies or other matters. In addition, the Company resorts to legal proceedings from time to time in order to enforce collection of premiums, commissions, or fees for the services rendered to customers or to their agents. These routine items of litigation do not materially affect the Company's operations and are handled on a routine basis through independent counsel.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The Company's common stock is traded on the Nasdaq Global Market under the symbol "UNAM." As of March 30, 2020, the number of shareholders of record of the Company's common stock was 188. That number does not include beneficial owners of the Company's common stock held in the name of nominees.

There were no cash dividends declared or paid by the Company in the years ending December 31, 2019 and 2018, respectively. The Company considers its profitability, cash requirements, capital requirements, general business conditions and other factors prior to the declaration of cash dividends.

On December 19, 2008, the Board of Directors authorized a stock repurchase program to acquire from time to time up to an aggregate of 500,000 shares of the Company's common stock. This program has no expiration date and may be terminated by the Board of Directors at any time. As of December 31, 2019, and December 31, 2018, the Company had remaining authority under the 2008 program to repurchase up to an aggregate of 188,242 and 188,625 shares of its common stock, respectively. The 2008 program is the only program under which there is authority to repurchase shares of the Company's common stock. The Company repurchased 383 shares of stock during the year ended December 31, 2019, in unsolicited transactions at a cost of $2,296 of which $188 was allocated to capital and $2,108 was allocated to retained earnings. The Company repurchased 30 shares of stock during the year ended December 31, 2018, in unsolicited transactions at a cost of $216 of which $15 was allocated to capital and $201 was allocated to retained earnings. The Company has retired or will retire all stock repurchased.

Item 6. Selected Financial Data.

As a smaller reporting company, the Company has elected to comply with certain scaled disclosure reporting obligations, and therefore does not have to provide the information required by this Item.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Forward-Looking Statements

This Management's Discussion and Analysis ("MD&A") is intended to provide an understanding of the Company's financial condition and results of operations by focusing on changes in certain key measures from year to year. This MD&A should be read in conjunction with the Company's consolidated financial statements and notes thereto. This discussion contains forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed elsewhere in this Annual Report on Form 10-K, particularly in Item 1A – "Risk Factors."

Overview

General

Unico American Corporation is an insurance holding company. Currently, the Company's subsidiary Crusader Insurance Company ("Crusader") underwrites commercial property and casualty insurance, the Company's subsidiaries Unifax Insurance Systems, Inc. ("Unifax") and American Insurance Brokers, Inc. ("AIB") provide marketing and various underwriting support services related to property, casualty, health and life insurance, the Company's subsidiary American Acceptance Company ("AAC") provides insurance premium financing, and the Company's subsidiary Insurance Club, Inc., dba AAQHC, an Administrator ("AAQHC") provides membership association services.

Total revenues for the year ended December 31, 2019, were $31,372,814 compared to $33,612,796 for the year ended December 31, 2018, a decrease of $2,239,982. The Company's net loss for the year ended December 31, 2019, was $3,115,703 compared to net loss of $3,169,559 for the year ended December 31, 2018.

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 the management discussion and analysis, the Company's consolidated financial statements and notes thereto, and all other items contained within this Annual Report on Form 10-K.

The Company's financial performance has suffered in recent years, and the Company has reported net losses for each fiscal year beginning with the year ended December 31, 2015. While losses in recent years have been driven primarily by losses from Crusader's policies and Crusader's high loss ratios, management believes that other contributing factors include (1) flat or declining revenues due to intense competition, (2) the somewhat-fixed nature of many of the Company's expenses relative to flat or declining revenues, (3) the failure to have replaced or upgraded the Company's legacy IT system in order to process Crusader's smaller premium accounts more efficiently, and (4) the failure to have shifted focus to larger premium accounts and fee-for-service operations.

In light of the challenges that the Company has faced and the consequent effect on its results of operations, the Company has taken several steps to improve its operating and financial performance. To improve Crusader's loss ratios, beginning in January 2017, the Company made significant changes in its staffing and in its pricing and risk selection practices. To improve revenues, the Company is working to improve its sales in the markets that it has historically served, to gain access to markets that it has not previously served, and to generate new sources of revenue on a fee-for-service basis. For example, Unifax is seeking opportunities to transact admitted and non-admitted business with non-affiliated insurers, where Crusader will not be underwriting the risk, providing Unifax with a wider range of possible customers for Unifax products and services. The Company also re-activated its U.S. Risk Managers, Inc. subsidiary so that it can provide claims adjustment services to non-affiliated insurers and to self-insurers on a fee-for-service basis (i.e., where Crusader will not be underwriting the risk), providing the potential for an alternative revenue source to the Company. In addition, the Company plans to execute a "fronting" agreement with a non-admitted, non-affiliated insurer that is rated "A-" or better by A.M. Best Company thereby providing Unifax with a wider range of products and services to offer to customers.

In 2018, the Company determined that the cost to replace its legacy IT system would be between $4,000,000 and $8,000,000, and the installation of such a system would take between two to four years. After weighing the time and expense involved against the anticipated benefit from such an investment, the Company opted for what it then perceived to be a less expensive upgrade to its legacy system, an upgrade that then seemed to offer more incremental benefits in a shorter timeframe. While initially expected to be completed by the end of 2019, at a cost of approximately $300,000, excluding costs of Unico's employees involved in the upgrade, the system upgrade is now expected to be completed by the end of 2020, at a cost of approximately $1,200,000, excluding costs of Unico's employees involved in the upgrade, due to unexpected technical challenges. In light of the significant delays and increases in cost associated with its legacy upgrade project, the Company has deployed additional resources toward the management of this project and has renegotiated the relationship that it has with the non-affiliated vendor working on this project.

Revenue and Income Generation

The Company receives its revenues primarily from earned premium derived from the insurance company operation, commission and fee income generated from the insurance agency operations, finance fee income from the premium finance operations, and investment income from cash generated primarily from the insurance company operation. The insurance company operation generated approximately 92% of the Company’s total revenue for the years ended December 31, 2019 and 2018. None of the Company’s other operations is individually material to consolidated revenues.

Insurance Company Operation

As of December 31, 2019, Crusader was licensed as an admitted insurance carrier in the states of Arizona, California, Nevada, Oregon, and Washington. From 2004 until June 2014, all of Crusader’s business was written in the state of California. Crusader’s business remains concentrated in California (99.9% and 99.8% of direct written premium, which represents written premium before cession to reinsurers, in 2019 and 2018, respectively). During the years ended December 31, 2019 and 2018, 98% of Crusader’s business was CMP policies.

Crusader’s total direct written premium, as reported on Crusader’s statutory financial statements, was produced geographically as follows:

	Year ended December 31	
	2019	2018
California	$35,773,506	$32,361,916
Arizona	31,593	61,375
Washington	(1,149)	6,444
Total direct written premium	$35,803,950	$32,429,735

Crusader believes that it can grow its sales and profitability through improved specialization and sales incentives. Crusader currently focuses in four underwriting verticals: (1) Transportation, (2) Food, Beverage & Entertainment, (3) Garage & Mercantile, and (4) Apartments & Commercial Buildings. Crusader also is evaluating the possibility of expanding its operations geographically, on an admitted or non-admitted basis, so as to offer similar products in other states, but the timing of any such expansion is not yet determined.

Written premium is a non-GAAP financial measure that is defined, under SAP, as the contractually determined amount charged by the insurance 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. Written premium is a required statutory measure. Written premium is defined under GAAP in Accounting Standards Codification Topic 405, "Liabilities," as "premiums on all policies an entity has issued in a period." Earned premium, the most directly comparable GAAP measure to written premium, represents the portion of written premium that is recognized as income in the financial statements for the period presented and earned on a pro-rata basis over the terms of the policies. Written premium is intended to reflect production levels and is meant as supplemental information and not intended to replace earned premium. Such information should be read in connection with the Company's GAAP financial results

The following is a reconciliation of direct written premium to net earned premium (after premium ceded to reinsurers):

	Year ended December 31	
	2019	2018
Direct written premium	$35,803,950	$32,429,735
Less: written premium ceded to reinsurers	(7,153,130)	(6,555,715)
Net written premium	28,650,820	25,874,020
Change in direct unearned premium	(1,845,748)	2,803,675
Change in ceded unearned premium	(67,604)	77,215
Net earned premium	$26,737,468	$28,754,910

The insurance company operation's underwriting profitability is defined by pre-tax underwriting gain or loss which is calculated as net earned premium less losses and loss adjustment expenses and policy acquisition costs.

Crusader's underwriting gain (loss) before income taxes is as follows:

	Year ended December 31	
	2019	2018
Net written premium	$28,650,820	$25,874,020
Change in net unearned premium	(1,913,352)	2,880,890
Net earned premium	26,737,468	28,754,910
Less:		
Losses and loss adjustment expenses	22,576,127	23,557,743
Policy acquisition costs	4,960,846	5,908,831
Total underwriting expenses	27,536,973	29,466,574
Underwriting gain (loss) before income taxes	$(799,505)	$(711,664)

Underwriting gain or loss before income taxes is a non-GAAP financial measure. Underwriting gain or loss before income taxes represents one measure of the pretax profitability of the insurance company operation and is derived by subtracting losses and loss adjustment expenses, and policy acquisition costs from net earned premium, which are all GAAP financial measures. Management believes disclosure of underwriting profit or loss before income taxes is useful supplemental information that helps align the reader's understanding with management's view of insurance company operations profitability. Each of these captions is presented in the Consolidated Statements of Operations but is not subtotaled.

The following is a reconciliation of Crusader's underwriting gain (loss) before income taxes to the Company's loss before taxes:

	Year ended December 31	
	2019	2018
Underwriting gain (loss) before income taxes	$(799,505)	$(711,664)
Insurance company operation revenues:		
Investment income	2,097,942	1,907,544
Net realized investment gains (losses)	(12,661)	148
Other income (loss)	123,050	365,898
Other insurance operations revenues:		
Gross commissions and fees	2,176,658	2,429,382
Investment income	14	229
Finance charges and fees earned	239,524	144,925
Other income	10,819	9,760
Less expenses:		
Salaries and employee benefits	4,067,852	4,592,841
Commissions to agents/brokers	173,796	176,701
Other operating expenses	2,844,083	3,303,472
Loss before taxes	$(3,249,890)	$(3,926,792)

Unearned premiums represent premium applicable to the unexpired terms of policies in force. The Company evaluates its unearned premiums periodically for premium deficiencies by comparing the sum of expected claim costs, unamortized deferred policy acquisition costs, and maintenance costs partially offset by net investment income to related unearned premiums. To the extent that any of the Company's programs become unprofitable, a premium deficiency reserve may be required. The Company did not carry a premium deficiency reserve as of December 31, 2019 and 2018.

The insurance company operation combined ratio is the sum of (1) the ratio of net losses and loss adjustment expenses incurred (including a provision for IBNR) to net earned premium (loss ratio) and (2) the ratio of policy acquisition costs to net earned premium (expense ratio). If the combined ratio is below 100%, an insurance company has an underwriting profit; if it is above 100%, the company has an underwriting loss.

The following table shows the loss ratios, expense ratios, and combined ratios of Crusader as derived from data prepared in accordance with GAAP:

	Year ended December 31	
	2019	2018
Loss ratio	84%	82%
Expense ratio	19%	21%
Combined ratio	103%	103%

The following table provides an analysis of losses and loss adjustment expenses:

	Year ended December 31	
	2019	2018
Losses and loss adjustment expenses		
Provision for insured events of current year	$19,384,942	$20,635,786
Development of insured events of prior years	3,191,185	2,921,957
Total losses and loss adjustment expenses	$22,576,127	$23,557,743

On January 17, 2019, A.M. Best Company downgraded Crusader's Financial Strength Rating to B++ (Good) from A- (Excellent) and its Long-Term Issuer Credit Rating (Long-Term ICR") to bbb+ from a-. The outlook of the Financial Strength Rating was revised at that time to stable from negative while the outlook of the Long-Term Issuer Credit Rating remained negative. The rating downgrades reflected a revision in A.M. Best's assessment of Crusader's operating performance to adequate from strong.

On January 30, 2020, A.M. Best Company affirmed Crusader's Financial Strength Rating of B++ (Good) and further downgraded Crusader's Long-Term Issuer Credit Rating ("Long-Term ICR") to "bbb" from "bbb+". The outlook of the FSR of Crusader remains stable while the outlook of the Long-Term ICR of Crusader was revised to stable from negative. Also on January 30, 2020, A.M Best downgraded the Long-Term ICR of Unico to "bb" from "bb+". The outlook of the Long-Term ICR of Unico was revised to stable from negative.

The January 30, 2020, ratings reflect Crusader's balance sheet strength, which A.M. Best categorizes as very strong, as well as its marginal operating performance, limited business profile and marginal enterprise risk management. The downgrade of the Long-Term ICR reflects a revision in A.M. Best's assessment of Crusader's operating performance to marginal from adequate. According to A.M. Best, (i) the downgrades consider a material decline in Crusader's operating performance, resulting from sub-par underwriting results in a relatively compact time frame, (ii) Crusader's adverse performance has been amplified by increased frequency and severity of apartment building insurance related claims, (iii) multiple operating metrics of Crusader trail the commercial casualty composite on a five-year and 10-year basis, and (iv) the consequential business changes being implemented to address these conditions lead to significant execution risk in returning Crusader's operational results to historical levels.

Some of Crusader's policyholders, or the lenders, landlords or clients of Crusader's policyholders, require insurance from a company that has an A.M. Best Company Financial Strength Rating of "A-" or higher, and the A.M. Best Company's changed ratings of Crusader may also have a negative impact on Crusader's reputation. Therefore, Crusader's and Unico's changed ratings may have a negative impact on the Company's revenue and results of operations. The Company cannot quantify the impact that the rating changes will have on its revenue and results of operations, and the Company cannot determine if or when Crusader might regain the "A-" Financial Strength Rating from the A.M. Best Company. The Company does not expect Crusader to regain the A.M. Best Company "A-" Financial Strength Rating prior to January of 2021 at the earliest.

The property and casualty insurance business is cyclical in nature. The conditions of a "soft market" include premium rates that are stable or falling and insurance is readily available. Contrarily, "hard market" conditions occur during periods in which premium rates rise and coverage may be more difficult to find. The Company believes that the California property and casualty insurance market is relatively mature and intensely competitive, with different products in different stages of the soft/hard market cycle at any given time.

Other Insurance Operations

The Company's revenues from other insurance operations consist of commissions, fees, investment and other income. Excluding investment and other income, these operations accounted for approximately 8% of total revenues for the years ended December 31, 2019 and 2018.

Investments

The Company generated revenues from its total invested assets of $84,997,226 (at amortized cost) and $90,119,542 (at amortized cost) as of December 31, 2019 and 2018, respectively.

Net investment income (net of investment expenses) included in insurance company operation and other insurance operations revenues, increased $190,183 (10%) for the year ended December 31, 2019, as compared to the year ended December 31, 2018. This increase in net investment income was due primarily to increase in the yield on average invested assets.

Due to the current interest rate environment, the current target effective duration for the Company's investment portfolio is between 3.25 and 4.75 years. As of December 31, 2019, all of the Company's investments are in U.S. Treasury securities, corporate fixed maturity securities, agency mortgage-backed securities, Federal Deposit Insurance Corporation ("FDIC") insured certificates of deposit, money market funds, and a savings account. The Company's investments in U.S. Treasury securities, corporate fixed maturity securities, agency mortgage-backed securities, and money market funds are readily marketable. As of December 31, 2019, the weighted average maturity of the Company's investments was approximately 7.7 years, and the effective duration for available-for-sale investments (investments managed under the investment guidelines) was 2.7 years.

Liquidity and Capital Resources

The most significant liquidity risk faced by the Company is adverse development of the insurance company's loss and loss adjustment expense reserves. Based on the Company's current loss and loss expense reserves and expected current and future payments, the Company believes that there are no current liquidity issues. However, no assurance can be given that the Company's estimate of ultimate loss and loss adjustment expense reserves will be sufficient.

Crusader has a significant amount of cash, cash equivalents and investments as a result of its holdings of unearned premium reserves, its reserves for loss and loss adjustment expense 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. Cash, cash equivalents, and investments (at amortized cost) of the Company at December 31, 2019, were $90,778,865 compared to $95,037,304 at December 31, 2018. Crusader's cash, cash equivalents, and investments were 99% and 98% of the total cash, cash equivalents, and investments (at amortized cost) held by the Company as of December 31, 2019 and 2018, respectively.

As of December 31, 2019, all of the Company's investments are in U.S. Treasury securities, corporate fixed maturity securities, agency mortgage-backed securities, Federal Deposit Insurance Corporation ("FDIC") insured certificates of deposit, money market funds, and a savings account. The Company's investments in U.S. Treasury securities, corporate fixed maturity securities, agency mortgage-backed securities, and money market funds are readily marketable.

The Company's investments, at amortized cost, were as follows:

	December 31 2019	December 31 2018
Fixed maturities:		
U.S. Treasury securities	$15,105,795	$16,746,832
Corporate securities	41,953,378	40,804,425
Agency mortgage-backed securities	24,943,238	20,751,331
Certificates of deposit	798,000	7,126,000
Total fixed maturities	82,800,411	85,428,588
Short-term investments	2,196,815	4,690,954
Total investments	$84,997,226	$90,119,542

The short-term investments include U.S. Treasury bills and certificates of deposit that are all highly rated and have initial maturities between three and twelve months. Amortized costs of the short-term investments approximate their fair values.

The Company is required to classify its investment securities into one of three categories: held-to-maturity, available-for-sale, or trading securities. Although part of the Company's investments in fixed maturity securities is classified as available-for-sale and, while the Company may sell investment securities from time to time in response to economic, regulatory and market conditions, its investment guidelines place primary emphasis on buying and holding high-quality investments to maturity.

The Company's Board of Directors approved investment guidelines which are similar to what the Company believes are general investment guidelines used by Crusader's peers.

Under the Company's investment guidelines, investments may only include U.S. Treasury notes, U.S. government agency notes, mortgage-backed securities (including pass through securities and collateralized mortgage obligations) that are backed by agency and non-agency collateral, commercial mortgage-backed securities, U.S. corporate obligations, asset backed securities (including but not limited to credit card, automobile and home equity backed securities), tax-exempt bonds, preferred stocks, common stocks, commercial paper, repurchase agreements (treasuries only), mutual funds, exchange traded funds, bank certificates of deposits and time deposits. The investment guidelines provide for certain investment limitations in each investment category.

Unless agreed to in advance in writing by Crusader, investments in the following types of securities are prohibited:

- Mortgage loans, except for mortgage backed securities issued by an agency of the U.S. government.
- Derivative mortgage-backed securities including interest only, principal only and inverse floating rate securities.
- All fixed maturity real estate securities, except mortgage-backed securities (including pass through securities and collateralized mortgage obligations) that are backed by agency and non-agency collateral and commercial mortgage-backed securities.
- Options and futures contracts.
- All non-U.S. dollar denominated securities.
- Any security that would not be in compliance with the regulations of Crusader's state of domicile.

An independent investment advisor manages Crusader's investments. The advisor's role currently is limited to maintaining Crusader's portfolio within the investment guidelines and providing investment accounting services to the Company. The investments continue to be held by Crusader's current custodian, Union Bank Global Custody Services.

On December 19, 2008, the Board of Directors authorized a stock repurchase program to acquire from time to time up to an aggregate of 500,000 shares of the Company's common stock. This program has no expiration date and may be terminated by the Board of Directors at any time. As of December 31, 2019, and December 31, 2018, the Company had remaining authority under the 2008 program to repurchase up to an aggregate of 188,242 and 188,625 shares of its common stock, respectively. The 2008 program is the only program under which there is authority to repurchase shares of the Company's common stock. The Company repurchased 383 shares of stock during the year ended December 31, 2019, in unsolicited transactions at a cost of $2,296 of which $188 was allocated to capital and $2,108 was allocated to retained earnings. The Company repurchased 30 shares of stock during the year ended December 31, 2018, in unsolicited transactions at a cost of $216 of which $15 was allocated to capital and $201 was allocated to retained earnings. The Company has retired or will retire all stock repurchased.

The Company reported net cash used by operating activities for each of the years ended December 31, 2019 and 2018. Cash used by operating activities in 2019 was $3,163,209 compared to $2,130,260 in 2018. Fluctuations in cash flows from operating activities relate to changes in loss and loss adjustment expense payments, unearned premium holdings, and the timing of the collection and the payment of insurance-related receivables and payables. The increase in net cash used by operating activities during the year ended December 31, 2019, was due primarily to increase in reinsurance recoverables associated with several large losses which were incurred during the year ended December 31, 2019. The variability of the Company's losses and loss adjustment expenses is primarily due to its small population of claims which may result in greater fluctuations in claim frequency and/or severity. Although the Consolidated Statements of Cash Flows reflect net cash used by operating activities for the years ended December 31, 2019 and 2018, the Company does not anticipate future liquidity problems, and the Company believes that it continues to be well capitalized and adequately reserved.

While material capital expenditures may be funded through borrowings, the Company believes that its cash, cash equivalents, and short-term investments at December 31, 2019, net of statutory deposits of $710,000 and California insurance company statutory dividend restrictions applicable to Crusader plus the cash to be generated from operations, should be sufficient to meet its operating requirements during the next 12 months without the necessity of borrowing funds.

Crusader's statutory capital and surplus as of December 31, 2019, was $46,498,960, a decrease of $3,649,298 (7%) from December 31, 2018. During the year ended December 31, 2019, Crusader issued cash dividends of $2,000,000 to Unico, its parent and sole shareholder. These dividends were used primarily for general corporate purposes. No cash dividends were declared or issued by Crusader to Unico during the year ended December 31, 2018. Based on Crusader's statutory surplus for the year ended December 31, 2019, the maximum dividend that could be made by Crusader to Unico without prior regulatory approval in 2020 is $4,649,896.

During the years ended December 31, 2019 and 2018, no cash dividends were declared or issued by the Company to its shareholders. Declaration of future cash dividends, if any, will be subject to the Company's profitability, cash requirements, capital requirements, and general business conditions, among other factors.

As a California insurance company, Crusader is obligated to pay a premium tax on direct written premium in all states that Crusader is admitted. Premium taxes are deferred and amortized as the related premium is earned. The premium tax is in lieu of state franchise taxes and is not included in the provision for state taxes.

Results of Operations

General

Total revenues for the year ended December 31, 2019, were $31,372,814, a decrease of $2,239,982 (7%) compared to $33,612,796 for the year ended December 31, 2018. For the year ended December 31, 2019, the Company had loss before taxes of $3,249,890 compared to loss before taxes of $3,926,792 for the year ended December 31, 2018. For the year ended December 31, 2019, the Company had net loss of $3,115,703 compared to net loss of $3,169,559 for the year ended December 31, 2018.

The decrease in total revenues for the year ended December 31, 2019, compared to the year ended December 31, 2018, was due primarily to a decrease in net earned premium of $2,017,442 (7%).

The variance in income before tax for the year ended December 31, 2019, compared to the year ended December 31, 2018, was due primarily to decreases in losses and loss adjustment expenses of $981,616 (4%), policy acquisition costs of $947,985 (16%), salaries and employee benefits of $524,989 (11%), and other operating expenses of $459,389 (8%), partially offset by the decrease in net earned premium.

The effect of inflation on the Company’s net loss during the years ended December 31, 2019 and 2018 was not significant.

Revenues

Crusader Premium

Written premium

Written premium is a required statutory measure. Direct written premium (written premium before reinsurance) reported on Crusader’s statutory financial statements increased $3,374,215 (10%) to $35,803,950 for the year ended December 31, 2019, compared to $32,429,735 for the year ended December 31, 2018.

The property casualty insurance marketplace continues to be intensely competitive. While Crusader attempts to meet such competition with competitive prices, its emphasis is on service, innovation, 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. The Company believes that it can grow its sales and profitability through improved specialization and sales incentives, currently focused in four underwriting verticals: (1) Transportation, (2) Food, Beverage & Entertainment, (3) Garage & Mercantile, and (4) Apartments & Commercial Buildings. The increase in direct written premium for the year ended December 31, 2019, is due to growth in the Company’s Transportation underwriting vertical partially offset by declines in the other three underwriting verticals.

Crusader’s primary line of business is CMP policies. This line of business represented approximately 98% of Crusader’s total written premium for the years ended December 31, 2019 and 2018.

Direct earned premium

Direct earned premium (earned premium before reinsurance) decreased $1,275,208 (4%) to $33,958,202 for the year ended December 31, 2019, compared to $35,233,410 for the year ended December 31, 2018. Crusader writes annual policies. Earned premium represents a portion of written premium that is recognized as income in the financial statements for the period presented and earned daily on a pro-rata basis over the terms of the policies, and, therefore, premiums earned in the current year are related to policies written during both the current year and immediately preceding year. The decrease in the direct earned premium was due primarily to decrease in the direct written premium during the year ended December 31, 2018.

Ceded earned premium

Ceded earned premium (premium ceded to reinsurers under reinsurance treaties) increased $742,234 (11%) to $7,220,734 for the year ended December 31, 2019, compared to $6,478,500 for the year ended December 31, 2018. Ceded earned premium as a percentage of direct earned premium was 21% for the year ended December

31, 2019, and 18% for the year ended December 31, 2018. The increase in the ceded earned premium as a percentage of direct earned premium for the year ended December 31, 2019, compared to the year ended December 31, 2018, was due primarily to higher rates on Crusader's excess of loss reinsurance treaties.

Reinsurance treaties are generally structured in layers, with different negotiated economic terms and retention of participation, or liability, in each layer. In calendar year 2019, Crusader retained a participation in its excess of loss reinsurance treaties of 0% in its 1st layer (reinsured losses between $500,000 and $1,000,000), 0% in its 2nd layer (reinsured losses between $1,000,000 and $4,000,000), and 0% in its property and casualty clash treaty. In calendar year 2018, Crusader retained a participation in its excess of loss reinsurance treaties of 5% in its 1st layer (reinsured losses between $500,000 and $1,000,000), 0% in its 2nd layer (reinsured losses between $1,000,000 and $4,000,000), and 0% in its property and casualty clash treaty.

Crusader also has catastrophe reinsurance treaties from various highly rated California authorized and California unauthorized reinsurance companies. These reinsurance treaties help protect Crusader against losses in excess of certain retentions from catastrophic events that may occur on property risks which Crusader insures. In calendar years 2019 and 2018, Crusader retained a participation in its catastrophe excess of loss reinsurance treaties of 5% in its 1st layer (reinsured losses between $1,000,000 and $10,000,000) and 0% in its 2nd layer (reinsured losses between $10,000,000 and $46,000,000).

Crusader has no reinsurance recoverable balances in dispute.

Crusader evaluates each of its ceded reinsurance treaties at its inception to determine if there is sufficient risk transfer to allow the contract to be accounted for as reinsurance under current accounting literature. As of December 31, 2019, all such ceded contracts are accounted for as risk transfer reinsurance.

A tabular presentation of Crusader's direct, ceded and net earned premium is as follows:

	Year ended December 31	
	2019	2018
Direct earned premium	$33,958,202	$35,233,410
Ceded earned premium	(7,220,734)	(6,478,500)
Net earned premium	$26,737,468	$28,754,910
Ratio of ceded earned premium to direct earned premium	21%	18%

Investment Income and Net Realized Gains

Net investment income increased $190,183 (10%) to $2,097,956 for the year ended December 31, 2019, compared to $1,907,773 for the year ended December 31, 2018. This increase in net investment income was due primarily to an increase in the yield on average invested assets. The Company had net realized investment losses of $12,661 for the year ended December 31, 2019, compared to net realized investment gains of $148 for the year ended December 31, 2018.

Net investment income, excluding net realized investment losses/gains, and yields on Company's average invested assets are as follows:

	Year ended December 31	
	2019	2018
Average invested assets (1) – at amortized cost	$89,350,796	$89,109,220
Net investment income from:		
Invested assets (2)	$2,051,428	$1,854,019
Cash equivalents	46,528	53,754
Total	$2,097,956	$1,907,773
Yield on average invested assets (3)	2.3%	2.1%

(1) The average is based on the beginning and ending balances of the amortized cost of the invested assets for each respective year.

(2) Investment income from invested assets included $129,842 of investment expense for the year ended December 31, 2019, compared to $114,232 for the year ended December 31, 2018.

(3) Yield on average invested assets did not include the investment income from cash equivalents.

The par value, amortized cost, fair value and weighted average yield of fixed maturity investments at December 31, 2019, by contractual maturity are as follows:

Maturities by Calendar Year	Par Value	Amortized Cost	Fair Value	Weighted Average Yield
Due in one year	$10,070,000	$10,063,975	$10,087,478	2.31%
Due after one year through five years	42,936,754	42,944,463	43,654,657	2.60%
Due after five years through ten years	9,982,374	9,996,830	10,529,528	3.33%
Due after ten years and beyond	19,336,385	19,795,143	20,026,047	2.75%
Total	$82,325,513	$82,800,411	$84,297,710	2.69%

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

The weighted average maturity of the Company's investments was approximately 7.7 years as of December 31, 2019, and 6.5 years as of December 31, 2018.

As of December 31, 2019, all of the Company's investments are in U.S. Treasury securities, FDIC insured certificates of deposit, other fixed maturity securities, and short-term investments. The investments in the certificates of deposit are classified as held-to-maturity investments, and all other fixed maturity investments are classified as available-for-sale. All of the Company's investments, except for the certificates of deposit, are readily marketable. The following table sets forth the composition of the investment portfolio of the Company at the dates indicated:

	December 31, 2019		December 31, 2018	
Type of Security	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available-for-sale fixed maturity investments:				
U.S. Treasury securities	$15,105,795	$15,235,332	$16,746,832	$16,619,619
Corporate securities	41,953,378	43,029,333	40,804,425	40,003,723
Agency mortgage-backed securities	24,943,238	25,235,045	20,751,331	20,286,795
Held-to-maturity fixed maturity				
Certificates of deposit	798,000	798,000	7,126,000	7,126,000
Total fixed maturity investments	82,800,411	84,297,710	85,428,588	84,036,137
Short-term cash investments:				
U.S. Treasury bills	1,996,815	1,996,815	4,490,954	4,490,954
Certificates of deposit	200,000	200,000	200,000	200,000
Short-term cash investments	2,196,815	2,196,815	4,690,954	4,690,954
Total investments	$84,997,226	$86,494,525	$90,119,542	$88,727,091

A summary of estimated fair value and gross unrealized losses in a gross unrealized loss position by the length of time in which the securities have continually been in that position is shown below:

	Less than 12 Months			12 Months or Longer		
	Estimated Fair Value	Gross Unrealized Losses	Number of Securities	Estimated Fair Value	Gross Unrealized Losses	Number of Securities
December 31, 2019						
U.S. Treasury securities	$1,996,562	$(253)	1	$1,002,031	$(775)	1
Corporate securities	999,818	(56)	1	-	-	-
Agency mortgage-backed securities	750,058	(1,950)	2	-	-	-
Total	$3,746,438	$(2,259)	4	$1,002,031	$(775)	1

	Less than 12 Months			12 Months or Longer		
		Gross			Gross	
	Estimated	Unrealized	Number of	Estimated	Unrealized	Number of
	Fair Value	Losses	Securities	Fair Value	Losses	Securities
December 31, 2018						
U.S. Treasury securities	$1,760,491	$(20,181)	2	$8,496,069	$(123,101)	6
Corporate securities	10,878,381	(272,515)	17	21,189,487	(578,609)	27
Agency mortgage-backed securities	-	-	-	17,034,086	(472,293)	15
Total	$12,638,872	$(292,696)	19	$46,719,642	$(1,174,003)	48

The Company closely monitors its investments. 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, and whether the debtor is current on its contractually obligated interest and principal payments. The unrealized losses as of December 31, 2019, and December 31, 2018, were determined to be temporary.

Although the Company does not intend to sell its fixed maturity investments prior to maturity, the Company may sell investment securities from time to time in response to cash flow requirements, economic and/or market conditions or investment securities may be called by their issuers prior to the securities' maturity. The Company sold three securities with amortized cost of $2,997,098, and had one call of an investment security with amortized cost of $999,982 during the year ended December 31, 2019. The Company realized net investment losses of $12,661 on these sales and call for the year ended December 31, 2019. Two securities were called prior to their maturity during the year ended December 31, 2018. These securities had amortized cost of $1,269,852. The Company realized a net investment gain of $148 on these calls for the year ended December 31, 2018. The unrealized gains or losses from fixed maturities are reported as "Accumulated other comprehensive income or loss," which is a separate component of stockholders' equity, net of any deferred tax effect.

Other Income

Other income included in insurance company operation and other insurance operations decreased $241,789 (64%) to $133,869 for year ended December 31, 2019, compared to $375,658 for the year ended December 31, 2018. The decrease during the year ended December 31, 2019, is due primarily to decreases in rental income of $169,496 and Crusader's share of California FAIR Plan Equity of $107,729.

Gross commissions and fees

Gross commissions and fees decreased $252,724 (10%) to $2,176,658 for the year ended December 31, 2019, compared to $2,429,382 for the year ended December 31, 2018.

The comparison of gross commission and fees for the year ended December 31, 2019, to the year ended December 31, 2018, is as follows:

	Year ended December 31	
	2019	2018
Policy fee income	$1,146,420	$1,408,592
Health insurance program	939,689	944,755
Membership and fee income	90,549	76,035
Gross commissions and fees	$2,176,658	$2,429,382

Unifax 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 Company's consolidated financial statements. Unifax also receives non-refundable policy fee income that is directly related to the Crusader policies it sells. For financial statement reporting purposes, policy fees are earned ratably over the life of the related insurance policy and are proportionate to premium earned. The unearned portion of the policy fee is recorded as a liability on the Consolidated Balance Sheet under "Accrued expenses and other liabilities." The earned portion of the policy fee charged to the policyholder by Unifax is recognized as income in the Company's consolidated financial statements. Policy fee income for the year ended December 31, 2019, decreased $262,172 (19%) as compared to the year ended December 31, 2018. This decrease in policy fee income in 2019 compared to 2018 was primarily the result of a 994 (14%) decrease in the number of policies issued of 6,227 during 2019 compared to 7,221 policies issued during 2018.

AIB markets health insurance in California through non-affiliated insurance companies for individuals and groups. For these services, AIB receives commission based on the premium that it writes. Commission income for the year ended December 31, 2019, decreased $5,066 (1%) compared to the year ended December 31, 2018. The decrease in commission income is primarily a result of the timing of commission receipts.

In 2019, approximately 39% and 49% of the commission income from health insurance sales was from Guardian Life Insurance Company of America dental and group life plan programs and the Blue Shield Care Trust health and life insurance programs, respectively. In 2018, approximately 37% and 46% of the commission income from health insurance sales was from Guardian Life Insurance Company of America dental and group life plan programs and the Blue Shield Care Trust health and life insurance programs, respectively.

AAQHC is a third party administrator for contracted insurance companies and is a membership association that provides various consumer benefits to its members, including participation in group health care insurance policies that AAQHC negotiates for the association. For these services, AAQHC receives membership and fee income from its members. Membership and fee income for the year ended December 31, 2019, increased $14,514 (19%) compared to the year ended December 31, 2018. The increase is a result of an increase in administration fees.

Finance charges and fees earned

Finance charges and fees earned consist of finance charges, late fees, returned check fees and payment processing fees. These charges and fees earned by AAC increased $94,599 (65%) to $239,524 for the year ended December 31, 2019, compared to $144,925 for the year ended December 31, 2018, due primarily to the increase in earned finance charges as a result of the change in annual percentage rate charged on AAC new loans from a single fixed interest rate to a tiered interest rate structure effective April 1, 2019, partially offset by a decrease in late fees due to a reduction in the number of AAC loans issued. During the year ended December 31, 2019, AAC issued 1,547 loans and had 1,173 loans outstanding as of December 31, 2019. During the year ended December 31, 2018, AAC issued 2,095 loans and had 1,568 loans outstanding as of December 31, 2018. AAC provides premium financing only for Crusader policies produced by Unifax in California. The number of loans issued decreased by 548 (26%) during 2019 when compared to 2018. The average premium financed by AAC was $5,672 and $4,395 in 2019 and 2018, respectively. During 2019, 44% of all Unifax generated policies were financed and 56% of those policies were financed by AAC. During 2018, 39% of all Unifax generated policies were financed and 74% of those policies were financed by AAC.

Expenses

Losses and Loss Adjustment Expenses

Crusader's emerging loss ratios for each accident year are reviewed in detail at the end of each quarter as part of the reserve review process. Losses and loss adjustment expenses for the calendar years ended December 31, 2019 and 2018 were $22,576,127 and $23,557,743, respectively. Loss ratio, which is calculated by dividing losses and loss adjustment expenses by net earned premium, was 85% for the year ended December 31, 2019, compared to 82% for the year ended December 31, 2018.

Losses and loss adjustment expenses and loss ratios are as follows:

	Year ended December 31			
	2019	2019 Loss Ratio	2018	2018 Loss Ratio
Net earned premium	$26,737,468		$28,754,910	
Losses and loss adjustment expenses:				
Provision for insured events of current year	19,384,942	73%	20,635,786	72%
Development of insured events of prior years	3,191,185	12%	2,921,957	10%
Total losses and loss adjustment expenses	$22,576,127	85%	$23,557,743	82%

Some lines of insurance are commonly referred to as "long-tail" lines because of the extended time required before claims are ultimately settled. Lines of insurance in which claims are settled relatively quickly are called "short-tail" lines. It is generally more difficult to estimate loss reserves for long-tail lines because of the long period of time that elapses between the occurrence of a claim and its final disposition and the difficulty of estimating the settlement value of the claim. Crusader's short-tail lines consist of its property coverages, and its long-tail lines consist of its liability coverages. However, Crusader's long-tail liability claims tend to be settled relatively quicker than other long-tail lines not underwritten by Crusader, such as workers' compensation, professional liability, umbrella liability, and medical malpractice. Since trends develop over longer periods of time on long-tail lines of business, the Company generally gives credibility to those trends more slowly than for short-tail or less volatile lines of business.

The $19,384,942 provision for insured events of current year for the year ended December 31, 2019, was $1,250,844 lower than the $20,635,786 provision for insured events of current year for the year ended December 31, 2018, due primarily to lower claims costs related to Crusader's underwriting activities in the Company's Food, Beverage & Entertainment vertical, associated with a reduction in net earned premium for that vertical during the year ended December 31, 2019, and also associated with lower claims frequency and severity in that vertical.

The $3,191,185 adverse development of insured events of prior years for the year ended December 31, 2019, was $269,228 higher than the $2,921,957 adverse development for the year ended December 31, 2018, due primarily to higher claims costs related to Crusader's underwriting activities in the Company's Apartments & Commercial Buildings vertical, associated with higher claims severity in that vertical, partially offset by lower claims costs related to Crusader's underwriting activities in the Company's Transportation vertical, associated with lower claims frequency in that vertical.

The following table breaks out adverse (favorable) development from total losses and loss adjustment expenses by accident year is as follows:

	Year ended December 31			
	2019		2018	
Accident Year	Adverse (Favorable) Development	% of Total	Adverse (Favorable) Development	% of Total
Prior to 2010	$169,069	5%	$88,172	3%
2010	(101,749)	(3)%	(5,092)	0%
2011	60,490	2%	(91,979)	(3)%
2012	117,414	4%	341,348	12%
2013	459,602	14%	(388,716)	(13)%
2014	(139,187)	(4)%	427,233	15%
2015	1,452,170	45%	(723,409)	(25)%
2016	1,547,242	48%	1,400,550	48%
2017	404,322	13%	1,873,850	63%
2018	(778,188)	(24)%	-	-
Total prior accident years	$3,191,185	100%	$2,921,957	100%

Crusader attributes much of its adverse loss development to "Social inflation." Used here, social inflation is a term that encompasses a new adverse trend related to society's application of the law when it comes to insurance. In this context, social inflation is generally described by the rising costs of insurance claims due to societal trends which resulted in increased litigation, broader definitions of liability and contract interpretations, plaintiff friendly legal decisions, larger compensatory jury awards, and larger awards for non-economic damages Crusader has experienced increased costs due to social inflation in all three of its largest market sector niches, Long-haul Transportation, Residential Apartment Buildings, and Bars/Taverns, resulting in higher-than-expected frequency and severity of third-party liability claims which contributed to adverse loss development of 2007, 2012, 2013, 2015, and 2016 accident years.

The variability of Crusader's losses and loss adjustment expenses for the periods presented is due primarily to the small and diverse population of Crusader's policyholders and claims, which may result in greater fluctuations in claim frequency and/or severity. In addition, Crusader's reinsurance retention, which is relatively high in relationship to its net earned premium, can result in increased loss ratio volatility when large losses are incurred in a relatively short period of time. Nevertheless, management believes that its reinsurance retention is reasonable given the amount of Crusader's surplus and its goal to minimize ceded premium.

Crusader sets loss reserves based on its expected loss ratio and its expected loss and loss adjustment expense development patterns. Crusader's initial expected loss ratios are based on its historical average loss ratios, and its expected loss and loss adjustment expense development patterns are based on its historical loss and loss adjustment expense development patterns. Actuarial methods utilizing expected loss ratios tend to be relied on more heavily earlier in the life of an accident year, while actuarial methods that apply development patterns to emerged losses and loss adjustment expenses tend to be relied on more heavily as an accident year develops. For prior accident years, emerging differences between actual and expected losses and loss adjustment expenses are recognized quarterly in the Consolidated Statements of Operations.

Based on the loss and loss adjustment expense reserve estimates as of December 31, 2019, the estimated ultimate loss ratio is within five percentage points of the initial expected loss ratio in 10 of Crusader's 35 years. Since Crusader's net earned premium in 2019 was $26,737,468, a difference between the accident year 2019 actual and initial expected loss ratios of five percentage points will or may ultimately impact losses and loss adjustment expenses by $1,336,873. The estimated ultimate loss ratio is within ten percentage points of the initial expected loss ratio in 13 of Crusader's 35 years. A ten percentage point difference between the accident year 2019 actual and the initial expected loss ratios will or may ultimately impact losses and loss adjustment expenses by $2,673,747. The estimated ultimate loss ratio is within twenty percentage points of the initial expected loss ratio in 27 of Crusader's 35 years. A twenty percentage point difference between the accident year 2019 actual and the initial expected loss ratios will or may ultimately impact losses and loss adjustment expenses by $5,347,494.

Loss and Loss Adjustment Expense Reserves

Crusader's liability for unpaid loss and loss adjustment expense reserves consists of case reserves and reserves for IBNR claims. Case reserves are established by claims personnel based on a review of the facts known at the time the claim is reported and are subsequently revised as more information about a claim becomes known. IBNR is estimated using various actuarial methods and techniques and includes (1) reserves for losses and loss adjustment expenses on claims that have occurred but for which claims have not yet been reported to Crusader, and (2) a provision for expected future development on case reserves for information not currently known.

Crusader's loss and loss adjustment expense reserves are as follows:

	Year ended December 31	
	2019	2018
Direct reserves:		
Case reserves	$23,663,743	$23,648,183
IBNR reserves	31,402,737	28,008,972
Total direct reserves	$55,066,480	$51,657,155
Reserves net of reinsurance:		
Case reserves	$18,128,008	$19,855,301
IBNR reserves	22,212,617	22,270,252
Total net reserves	$40,340,625	$42,125,553

Reserves for losses and loss adjustment expenses before reinsurance for each of Crusader's lines of business are as follows:

	Year ended December 31			
Line of Business	2019		2018	
CMP	$54,270,633	98.6%	$50,459,206	97.7%
Other liability	776,957	1.4%	1,172,331	2.3%
Other	18,890	0.0%	25,618	0.0%
Total	$55,066,480	100.0%	$51,657,155	100.0%

The Company's consolidated financial statements include estimated reserves for both reported and unreported claims. The Company sets these reserves at each quarterly balance sheet date based upon management's best estimate of the ultimate loss and loss adjustment expense payments that it anticipates will be made to settle all reported and unreported claims.

The following table is a roll forward of Crusader's loss and loss adjustment expense reserves, including a reconciliation of the beginning and ending balance sheet liability for the periods indicated:

	Year ended December 31	
	2019	2018
Reserve for unpaid losses and loss adjustment expenses at beginning of year – net of reinsurance	$42,125,553	$40,683,441
Incurred losses and loss adjustment expenses:		
Provision for insured events of current year	19,384,942	20,635,786
Provision for incurred events of prior years	3,191,185	2,921,957
Total incurred losses and loss adjustment expenses	22,576,127	23,557,743
Payments:		
Losses and loss adjustment expenses attributable to insured events of the current year	6,210,475	6,582,377
Losses and loss adjustment expenses attributable to insured events of prior years	18,150,580	15,533,254
Total payments	24,361,055	22,115,631
Reserve for unpaid losses and loss adjustment expenses at end of year – net of reinsurance	40,340,625	42,125,553
Reinsurance recoverable on unpaid losses and loss adjustment expenses at end of year	14,725,855	9,531,602
Reserve for unpaid losses and loss adjustment expenses at end of year per balance sheet, gross of reinsurance	$55,066,480	$51,657,155

Since underwriting profit is a significant part of income, a small percentage change in reserve estimates may result in a substantial effect on future reported earnings. Such changes might result from a variety of factors, including claims costs emerging in a different pattern than the average historical development patterns.

If future development ultimately differs by five percent from Crusader's 2019 net reserve, $2,017,031 would be reflected in future periods as an increase or decrease in the development of insured events of prior years and would be recognized in the Company's Consolidated Statements of Operations in future periods. If future development ultimately differs by ten percent from Crusader's 2019 net reserve, $4,034,062 would be reflected in future periods as an increase or decrease in the development of insured events of prior years and would be recognized in the Company's Consolidated Statements of Operations in future periods.

Policy Acquisition Costs

Policy acquisition costs decreased $947,985 (16%) to $4,960,846 for the year ended December 31, 2019, compared to $5,908,831 for the year ended December 31, 2018. Policy acquisition costs consist of commissions, premium taxes, inspection fees, and certain other underwriting costs that are directly related to and vary with the successful production of Crusader insurance policies. These costs include both Crusader expenses and the 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. No ceding commission is received on ceded premium associated with property facultative excess of loss or catastrophe excess of loss reinsurance treaties. Policy acquisition costs, net of ceding commission, are deferred and amortized as the related premiums are earned. The Company annually reevaluates its acquisition costs to determine that costs related to successful policy acquisition are capitalized and deferred.

Policy acquisition costs and the ratio to net earned premium are as follows:

	Year ended December 31	
	2019	2018
Policy acquisition costs	$4,960,846	$5,908,831
Ratio to net earned premium (GAAP ratio)	19%	21%

Policy acquisition costs decreased in the year ended December 31, 2019, compared to the year ended December 31, 2018, due primarily to relatively higher sales in the Company's Transportation vertical which pays a lower commission rate than the other verticals.

Salaries and Employee Benefits

Total salaries and employee benefits incurred decreased $59,517 (1%) to $7,723,742 for the year ended December 31, 2019, compared to $7,783,259 for the year ended December 31, 2018.

Salaries and employee benefits incurred and charged to operating expenses are as follows:

	Year ended December 31	
	2019	2018
Total salaries and employee benefits incurred	$7,723,742	$7,783,259
Less: charged to losses and loss adjustment expenses	(2,025,088)	(1,793,417)
Less: capitalized to policy acquisition costs	(1,320,792)	(1,397,001)
Less: capitalized to IT system upgrade	(310,010)	-
Net amount charged to operating expenses	$4,067,852	$4,592,841

The decrease in the total salaries and employee benefits incurred for the year ended December 31, 2019, compared to the year ended December 31, 2018, was due primarily to a decrease in the headcount and several managerial vacancies for the year ended December 31, 2019 compared to the year ended December 31, 2018.

Commissions to Agents/Brokers

Commissions to agents/brokers (not including commissions on Crusader policies that are reflected in policy acquisition costs) are generally related to gross commission income from the health insurance program and the daily automobile rental insurance program. Commissions to agents and brokers decreased $2,905 (2%) to $173,796 for the year ended December 31, 2019, as compared to $176,701 for the year ended December 31, 2018. This fluctuation in commissions to agents/brokers was due primarily to timing of payment receipts.

Other Operating Expenses

Other operating expenses decreased $459,389 (14%) to $2,844,083 for the year ended December 31, 2019, compared to $3,303,472 for the year ended December 31, 2018. The decrease in other operating expenses for the year ended December 31, 2019, compared to the year ended December 31, 2018, was due primarily to due to lower costs of temporary help, timing of expenses, and a number of various insignificant fluctuations.

Other operating expenses generally do not change significantly with changes in production. This is true for both increases and decreases in production.

Income Tax Expense/Benefit

Income tax benefit was for $134,187 (4% of pre-tax loss) the year ended December 31, 2019 and income tax benefit was $757,233 (19% of pre-tax loss) for the year ended December 31, 2018. The fluctuation in the income tax rate as a percentage of pre-tax loss for the year ended December 31, 2019, when compared to the year ended December 31, 2018, is primarily due to an increase in the valuation allowance related to deferred tax assets on federal net operating losses.

As of December 31, 2019, the Company has $19,741,828 of federal net operating loss carryforwards that will begin to expire in 2035. In light of the net losses that were generated in recent years, the Company periodically performs an analysis of future income projections to determine the adequacy of the valuation allowance. For the years ended December 31, 2019 and December 31, 2018, a valuation allowance on deferred tax assets generated from federal net operating losses was established in the amount of $600,000 and $0, respectively as the Company does not expect to realize that portion of the tax benefit from its federal net operating losses in the future.

As of December 31, 2019, the Company had deferred tax assets of $1,931,665 generated from state net operating loss carryforwards. For the years ended December 31, 2019 and December 31, 2018 the amount of state net operating losses that expired were $0. The remaining $1,931,665 of state tax carryforwards expire between 2028 and 2039. For the years ended December 31, 2019 and December 31, 2018, a valuation allowance on deferred tax assets generated from state net operating loss carryforwards was established in the amount of $1,931,665 and $1,850,934, respectively as the Company does not expect to realize a tax benefit from its state net operating losses in the future.

As a result of the Company's analysis at December 31, 2019, the Company believes it is more likely than not that it will be able to utilize the net operating loss carryforwards, net of the valuation allowance, before they expire. Additionally, $4,106,936 of the net operating losses generated in 2019 and 2018 is subject to an indefinite carryforward period.

Critical Accounting Policies

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. While every effort is made to ensure the integrity of such estimates, actual results could differ.

Management believes the Company's current critical accounting policies comprise the following:

Losses and Loss Adjustment Expenses

The preparation of the Company's consolidated financial statements requires estimation of certain liabilities, most significantly the liability for unpaid losses and loss adjustment expenses. Management makes its best estimate of the liability for these unpaid claims costs as of the end of each fiscal quarter. Due to the inherent uncertainties in estimating the Company's unpaid claims costs, actual loss and loss adjustment expense payments are expected to vary, perhaps significantly, from any estimate made prior to the settling of all claims. Variability is inherent in establishing loss and loss adjustment expense reserves, especially for a small insurer such as Crusader. For any given line of insurance, accident year, or other group of claims, there is a continuum of possible loss and loss adjustment expense reserve estimates, each having its own unique degree of propriety or reasonableness. Due to the complexity and nature of the insurance claims process, there are potentially an infinite number of reasonably likely scenarios. Management draws on its collective experience to judgmentally determine its best estimate. In addition to applying a variety of standard actuarial methods to the data, extensive series of diagnostic tests are applied to the resultant loss and loss adjustment expense reserve estimates to determine management's best estimate of the unpaid claims liability. Among the statistics reviewed for each accident year are: loss and loss adjustment expense development patterns; frequencies; severities; and ratios of loss to premium, loss adjustment expense to premium, and loss adjustment expense to loss.

When there is clear evidence that the actual claims costs emerged are different than expected for any prior accident year, the claims cost estimates for that year are revised accordingly. If the claims costs that emerge are less favorable than initially anticipated, generally, the Company increases its loss and loss adjustment expense reserves immediately. However, if the claims costs that emerge are more favorable than initially anticipated, generally, the Company reduces its loss and loss adjustment expense reserves over time while it continues to assess the validity of the observed trends based on the subsequent emerged claims costs.

Some lines of insurance are commonly referred to as "long-tail" lines because of the extended time required before claims are ultimately settled. Lines of insurance in which claims are settled relatively quicker are called "short-tail" lines. It is generally more difficult to estimate loss reserves for long-tail lines because of the long period of time that elapses between the occurrence of a claim and its final disposition and the difficulty of estimating the settlement value of the claim. Crusader's short-tail lines consist of its property coverages, and its long-tail lines consist of its liability coverages. However, compared to other long-tail liability lines that are not underwritten by Crusader, such as workers' compensation, professional liability, umbrella liability, and medical malpractice, Crusader's liability claims tend to be settled relatively quicker. Since trends develop over longer periods of time on long-tail lines of business, the Company generally gives credibility to those trends more slowly than for short-tail or less volatile lines of business.

Crusader underwrites three statutory annual statement lines of business: (1) CMP, (2) liability other than automobile and products, and (3) fire. CMP policies comprised 98% of Crusader's 2019 and 2018 direct written premium. CMP policies include both property and liability coverages. For all of Crusader's coverages and lines of business, Crusader's actuarial loss and loss adjustment expense reserving methods require assumptions that can be grouped into two key categories: (1) expected loss and loss adjustment expense development patterns and (2) expected loss and loss adjustment expense per premium dollar.

The Company also segregates most of its business into smaller homogeneous categories primarily for management's internal detailed reserve review and analysis. These homogeneous categories used by the Company include various combinations and special groupings of its lines of business, programs types, states and coverages. Some categories exclude certain items and/or others include certain items. Not all categories are defined in the same way. This analysis includes the tracking of historical claims costs and development patterns separately for each of these uniquely defined categories. Generally, neither the liability development patterns nor the property development patterns vary significantly by category.

The establishment of loss and loss adjustment expense reserves is a detailed process as there are many factors that can ultimately affect the final settlement of a claim and, therefore, the reserve that is needed. Estimates are based on a variety of industry data and on Crusader's current and historical accident year claims data, including but not limited to reported claim counts, open claim counts, closed claim counts, closed claim counts with payments, paid losses, paid loss adjustment expenses, case loss reserves, case loss adjustment expense reserves, earned premium and policy exposures, salvage and subrogation, and unallocated loss adjustment expenses paid. Many other factors, including changes in reinsurance, changes in pricing, changes in policy forms and coverage, changes in underwriting and risk selection, legislative changes, results of litigation and inflation are also taken into account.

At the end of each fiscal quarter, the Company's loss and loss adjustment reserves for each accident year (i.e., for all claims incurred within each year) are re-evaluated independently by the Company's president, the Company's chief financial officer, and by an independent consulting actuary. Generally accepted actuarial methods, including the widely used Bornhuetter-Ferguson and loss development methods, are employed to estimate ultimate claims costs. An actuarial central estimate of the ultimate claims costs and IBNR reserves is ultimately determined by management and tested for reasonableness by the independent consulting actuary.

Each year, management compares the actual claims costs that emerge to the claims costs that were expected to emerge and evaluates whether any observed significant differences are due to normal variances in the development process that occur from time to time, particularly in an insurer the size of Crusader, or if they are an indication that changes in the key reserve assumptions or methodologies are appropriate. As of December 31, 2019, management concluded that no changes in Crusader's key reserve assumptions or methodologies are appropriate.

Crusader's actuarially based loss and loss adjustment expense reserve methodology does not include an implicit or explicit provision for uncertainty. Insurance claims costs are inherently uncertain. There is not a precise means of quantifying in advance a provision for uncertainty when determining an appropriate liability for unpaid claims costs. Rather, the potential for claims costs being less than estimated and the potential for claims costs being more than estimated are considered when selecting the parameters to be used in the application of the actuarial methods and when testing the estimates for reasonableness. Management believes that its recorded loss and loss adjustment expense reserves make reasonable provision for its liability for unpaid claims costs.

The differences between actual and expected claims costs are typically not due to one specific factor but to a combination of many factors such as the period of time between the initial occurrence and the final settlement of the claim, current and perceived social and economic inflation, and many other economic, legal, political, and social factors. The information that management uses to arrive at its booked reserve estimate comes from many sources within the Company, including its accounting, claims, and underwriting departments. Informed managerial judgment is applied throughout the reserving process. 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 will tend to be. Accordingly, short-tail claims, such as the emergence of property damage claims costs, tend to be subject to less variability than the emergence of long-tail liability claims costs. 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 should be expected to vary, perhaps 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.

The Company must estimate its ultimate losses and loss adjustment expenses using a very small claim population size. At the beginning of 2019, Crusader had 538 open claim files. During 2019, 692 new claim files were opened and 720 claim files were closed, leaving 510 open claim files at the end of 2019. Due to the small size of Crusader and the related small population of claims, Crusader's losses and loss adjustment expenses for any accident year can vary significantly from the initial expectations. Due to the small number of claims, changes in claim frequency and/or severity can materially affect Crusader's reserve estimate. The potential variability from management's best estimate cannot be measured from any meaningful statistical basis due to the numerous uncertainties in the claims reserving process and the small population of claims.

At each quarterly review, actual claims costs that emerge are compared with the claims costs that were expected to emerge during that development period. Sometimes the previous claims costs estimates prove to have been too high; sometimes they prove to have been too low. The fluctuation in development of insured events of prior years underscores the inherent uncertainty in insurance claims costs, especially for a relatively small insurer, such as Crusader. While the Company believes the reserves were adequate at December 31, 2019 and 2018, adverse or (favorable) development may emerge in the future.

	Year ended December 31	
	2019	2018
Net reserves for unpaid losses and loss adjustment expenses at beginning of year	$42,125,553	$40,683,441
Adverse development of insured events of prior years	$3,191,185	$2,921,957
Percentage of adverse development to beginning reserves	8%	7%

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 make reasonable provision for all unpaid losses and loss adjustment expenses of the Company.

There have been no changes in key assumptions of estimating future loss and loss adjustment expense payments. The changes in estimates of prior accident year incurred losses and loss adjustment expenses are attributed to the passage of time and the greater amount of actual loss data available for each accident year.

The Company applies judgment in determining estimates for reserves associated with anticipated recoveries of salvage and subrogation on paid losses and loss adjustment expenses. During the year ended December 31, 2019, the Company changed that estimate to be in-line with its historic salvage and subrogation recovery success pattern. The impact of that change was a $968,400 reduction in losses and loss adjustment expenses for the year ended December 31, 2019, and in unpaid losses and loss adjustment expenses. The change was accounted for as a change in accounting estimate.

Reinsurance

Crusader's recoverable from reinsurers represents an estimate of the amount of future loss and loss adjustment expense payments that will be recoverable from Crusader's reinsurers. These estimates are based upon estimates of the ultimate losses and loss adjustment expenses that Crusader expects to incur and the portion of those losses that are expected to be allocable to reinsurers based upon the terms of the reinsurance agreements. Given the uncertainty of the ultimate amounts of losses and loss adjustment expenses, the estimates may vary significantly from the eventual outcome. Crusader's estimate of the amounts recoverable from reinsurers is regularly reviewed and updated by management as new data becomes available. Crusader's assessment of the collectability of the recorded amounts recoverable from reinsurers is based primarily upon public financial statements and rating agency data. Any adjustments necessary are reflected in the current operations. Crusader 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. At December 31, 2019, all such ceded contracts are accounted for as risk transfer reinsurance.

The following tables provide the effect of reinsurance on the Company's consolidated financial statements:

The effect of reinsurance on financial position is as follows:

	Year ended December 31 2019	2018
Ceded losses and loss adjustment expenses recoverable on excess of loss treaties:		
Ceded case loss and loss adjustment expense reserves recoverable	$5,535,735	$3,792,882
Ceded IBNR loss and loss adjustment expense reserves recoverable	9,190,120	5,738,720
Total ceded loss and loss adjustment expense reserves recoverable	$14,725,855	$9,531,602

The effect of reinsurance on the results of operations is as follows:

The effect of reinsurance on earned premium is as follows:

	Year ended December 31 2019	2018
Direct earned premium	$33,958,202	$35,233,410
Ceded earned premium	(7,220,734)	(6,478,500)
Net premium earned	$26,737,468	$28,754,910
Ratio of ceded earned premium to direct earned premium	21%	18%

The effect of reinsurance on losses and loss adjustment expenses is as follows:

	Year ended December 31 2019	2018
Direct losses and loss adjustment expenses incurred	$36,712,252	$30,169,562
Ceded losses and loss adjustment expenses incurred on excess of loss treaties:		
Ceded paid losses and loss adjustment expenses	(8,941,872)	(5,473,767)
Change in ceded case reserves	(1,742,853)	169,712
Change in ceded IBNR reserves	(3,451,400)	(1,307,764)
Total ceded losses and loss adjustment expenses incurred	(14,136,125)	(6,611,819)
Net losses and loss adjustment expenses incurred	$22,576,127	$23,557,743

Ceded premium and ceded losses and loss adjustment expenses are as follows:

	Year ended December 31 2019	2018
Ceded earned premium	$7,220,734	$6,478,500
Ceded losses and loss adjustment expenses incurred	(14,136,125)	(6,611,819)
Ceded earned premium less ceded losses and loss adjustment expenses incurred	$(6,915,391)	$(133,319)

The effect of reinsurance on cash flow is the sum of the effect of reinsurance on the results of operations reflected above and the following changes in reinsurance recoverable:

	Year ended December 31 2019	2018
Change in reinsurance recoverable on ceded paid and unpaid losses and loss adjustment expenses	$(5,881,413)	$(1,010,051)

There were no losses subject to catastrophe reinsurance treaties coverage incurred during the years ended December 31, 2019 and 2018.

There have been no changes in key assumptions of estimating future ceded losses and loss adjustment expenses. The changes in estimates of prior accident year ceded incurred losses and loss adjustment expenses are attributed to the passage of time and a greater amount of actual loss data available for each accident year.

Crusader's reinsurance strategy is to 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 it insures. On an annual basis, or sooner if warranted, Crusader evaluates whether any changes to its retention, participation, or retained limits are necessary. Loss and loss adjustment expense reserves are determined separately on both a direct basis and a net of reinsurance basis, and the ceded reserves are determined by subtraction. Therefore, reinsurance recoverable is determined in a manner consistent with the associated loss reserves. There have been no recent changes in key assumptions underlying the estimation of loss and loss adjustment expense reserves, and no changes are anticipated. Ceded paid losses and loss adjustment expenses are determined by the terms of the individual treaties. The Company continually monitors and evaluates the collectability of reinsurance recoverable to determine if any allowance is necessary.

For years ended December 31, 2019 and 2018, Crusader wrote 99.9% and 99.8% of its business in the state of California, respectively. The types of businesses and the coverage limits written by Crusader are not considered difficult lines for obtaining reinsurance. In addition, because the major catastrophe exposure is primarily from riots and from fire following earthquakes, Crusader does not anticipate significant limitations on its ability to cede future losses on a basis consistent with its historical results.

Investments

The Company's fixed maturity investments are classified either as held-to-maturity or available-for-sale and are stated at fair value. Although part of the Company's investments is classified as available-for-sale and the Company may sell investment securities from time to time in response to economic and market conditions, or investment securities may be called by their issuers prior to the securities' maturity, its investment guidelines place primary emphasis on buying and holding high-quality investments to maturity. Short-term investments are carried at cost, which approximates fair value. The unrealized gains or losses from fixed maturities are reported as "Accumulated other comprehensive income (loss)," which is a separate component of stockholders' equity, net of any deferred tax effect. When a decline in the value of a fixed maturity is considered other-than-temporary, a loss is recognized in the Consolidated Statements of Operations. Realized gains and losses are included in the Consolidated Statements of Operations based on the specific identification method.

Deferred Tax Assets

The provision for federal income taxes is computed on the basis of income as reported for financial reporting purposes. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and are measured using the enacted tax rates and laws expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Income tax expense provisions increase or decrease in the same period in which a change in tax rates is enacted.

At each balance sheet date, management assesses the need to establish a valuation allowance that reduces deferred tax assets when it is more-likely-than-not that any portion of the deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependent upon generating sufficient taxable income of the appropriate character within the carryback and carryforward periods available under the tax law. Management considers the reversal of deferred tax liabilities, projected future taxable income of an appropriate nature and tax-planning strategies when making this assessment. Although realization is not assured, management believes that it is more likely-than-not that the Company's deferred tax assets net of the valuation allowance will be realized.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements that are currently material or reasonably likely to be material to its consolidated financial position or results of operations.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

As a smaller reporting company, the Company has elected to comply with certain scaled disclosure reporting obligations, and therefore does not have to provide the information required by this Item.

Item 8. Financial Statements and Supplementary Data.

INDEX TO
CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Unico American Corporation and Subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Unico American Corporation and Subsidiaries (the "Company") as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive loss, changes in stockholders' equity, and cash flows, for each of the years in the two-year period ended December 31, 2019, and the related notes and Schedules II and III (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/JLK Rosenberger LLP

We have served as the Company's auditor since 2015.

Glendale, California
March 30, 2020

UNICO AMERICAN CORPORATION
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31

	2019	2018
ASSETS		
Investments:		
Available-for-sale:		
Fixed maturities, at fair value (amortized cost: $82,002,411 at December 31, 2019, and $78,302,588 at December 31, 2018)	$83,499,710	$76,910,137
Held-to-maturity:		
Fixed maturities, at amortized cost (fair value: $798,000 at December 31, 2019, and $7,126,000 at December 31, 2018)	798,000	7,126,000
Short-term investments, at fair value	2,196,815	4,690,954
Total Investments	86,494,525	88,727,091
Cash and cash equivalents	5,781,639	4,917,762
Accrued investment income	397,302	393,782
Receivables, net	4,019,437	3,933,068
Reinsurance recoverable:		
Paid losses and loss adjustment expenses	685,841	(1,319)
Unpaid losses and loss adjustment expenses	14,725,855	9,531,602
Deferred policy acquisition costs	3,619,594	3,489,728
Property and equipment, net	10,226,595	9,692,325
Deferred income taxes	3,925,432	4,375,484
Other assets	430,305	557,443
Total Assets	$130,306,525	$125,616,966
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Unpaid losses and loss adjustment expenses	$55,066,480	$51,657,155
Unearned premium	17,810,337	15,964,589
Advance premium and premium deposits	219,083	234,442
Accrued expenses and other liabilities	2,130,300	1,845,358
Total Liabilities	$75,226,200	$69,701,544
Commitments and contingencies		
STOCKHOLDERS' EQUITY		
Common stock, no par value – authorized 10,000,000 shares; 5,306,720 and 5,307,103 shares issued and outstanding at December 31, 2019 and 2018, respectively	$3,772,669	$3,772,857
Accumulated other comprehensive income (loss)	1,182,866	(1,100,036)
Retained earnings	50,124,790	53,242,601
Total Stockholders' Equity	$55,080,325	$55,915,422
Total Liabilities and Stockholders' Equity	$130,306,525	$125,616,966

See accompanying notes to consolidated financial statements.

UNICO AMERICAN CORPORATION
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31

	2019	2018
REVENUES		
Insurance company operation:		
Net earned premium	$26,737,468	$28,754,910
Investment income	2,097,942	1,907,544
Net realized investment gains (losses)	(12,661)	148
Other income	123,050	365,898
Total Insurance Company Operation	28,945,799	31,028,500
Other insurance operations:		
Gross commissions and fees	2,176,658	2,429,382
Investment income	14	229
Finance fees earned	239,524	144,925
Other income	10,819	9,760
Total Revenues	31,372,814	33,612,796
EXPENSES		
Losses and loss adjustment expenses	22,576,127	23,557,743
Policy acquisition costs	4,960,846	5,908,831
Salaries and employee benefits	4,067,852	4,592,841
Commissions to agents/brokers	173,796	176,701
Other operating expenses	2,844,083	3,303,472
Total Expenses	34,622,704	37,539,588
Loss before taxes	(3,249,890)	(3,926,792)
Income tax benefit	134,187	757,233
Net Loss	$(3,115,703)	$(3,169,559)
PER SHARE DATA:		
Basic		
Loss per share	$(0.59)	$(0.60)
Weighted average shares	5,306,879	5,307,121
Diluted		
Loss per share	$(0.59)	$(0.60)
Weighted average shares	5,306,879	5,307,121

See accompanying notes to consolidated financial statements.

UNICO AMERICAN CORPORATION
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31

	2019	2018
Net loss	$(3,115,703)	$(3,169,559)
Other changes in comprehensive loss:		
Changes in unrealized gains (losses) on securities classified as available-for-sale arising during the period, net of income tax	2,282,902	(860,140)
Comprehensive Loss	$(832,801)	$(4,029,699)

See accompanying notes to consolidated financial statements.

UNICO AMERICAN CORPORATION
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	Common Shares Issued and Outstanding	Common Shares Amount	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance – December 31, 2017	5,307,133	$3,772,872	$(239,896)	$56,412,361	$59,945,337
Shares repurchased	(30)	(15)	-	(201)	(216)
Change in comprehensive loss, net of deferred income tax	-	-	(860,140)	-	(860,140)
Net loss	-	-	-	(3,169,559)	(3,169,559)
Balance – December 31, 2018	5,307,103	$3,772,857	$(1,100,036)	$53,242,601	$55,915,422
Shares repurchased	(383)	(188)	-	(2,108)	(2,296)
Change in comprehensive gain (loss), net of deferred income tax	-	-	2,282,902	-	2,282,902
Net loss	-	-	-	(3,115,703)	(3,115,703)
Balance – December 31, 2019	5,306,720	$3,772,669	$1,182,866	$50,124,790	$55,080,325

See accompanying notes to consolidated financial statements.

UNICO AMERICAN CORPORATION
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31

	2019	2018
Cash flows from operating activities:		
Net loss	$(3,115,703)	$(3,169,559)
Adjustments to reconcile net loss to net cash from operations:		
Depreciation and amortization, gross of asset retirement	565,876	551,183
Bond amortization, net	(19,874)	201,076
Net realized investment losses (gains)	12,661	(148)
Bad debt expense	7,881	23,903
Changes in assets and liabilities:		
Net receivables and accrued investment income	(97,770)	2,145,590
Reinsurance recoverable	(5,881,413)	(1,010,051)
Deferred policy acquisition costs	(129,866)	673,043
Other assets	127,138	(124,621)
Unpaid losses and loss adjustment expenses	3,409,325	2,580,164
Unearned premium	1,845,748	(2,803,675)
Advance premium and premium deposits	(15,359)	26,634
Accrued expenses and other liabilities	284,942	(455,000)
Income taxes current/deferred	(156,796)	(768,799)
Net Cash Used by Operating Activities	(3,163,210)	(2,130,260)
Cash flows from investing activities:		
Purchase of fixed maturity investments	(10,975,077)	(21,034,427)
Proceeds from maturity of fixed maturity investments	10,137,673	20,385,735
Proceeds from sale or call of fixed maturity investments	3,472,794	1,270,296
Net decrease (increase) in short-term investments	2,494,139	(2,843,176)
Purchases of property and equipment, gross of asset retirement	(1,100,146)	(97,134)
Net Cash Provided (Used) by Investing Activities	4,029,383	(2,318,706)
Cash flows from financing activities:		
Repurchase of common stock	(2,296)	(216)
Net Cash Used by Financing Activities	(2,296)	(216)
Net increase (decrease) in cash and cash equivalents	863,877	(4,449,182)
Cash and cash equivalents at beginning of year	4,917,762	9,366,944
Cash and Cash Equivalents at End of Year	$5,781,639	$4,917,762
Supplemental cash flow information		
Cash paid during the period for income taxes	$8,800	$8,800

See accompanying notes to consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Unico American Corporation (the “Company” or “Unico”) 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. References to Unico or the Company include both the corporation and its subsidiaries, all of which are wholly owned. Unico was incorporated under the laws of Nevada in 1969.

Principles of Consolidation

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

Basis of Presentation

The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (“GAAP”). As described in Note 14, the Company's insurance subsidiary also files financial statements with regulatory agencies prepared on a statutory basis of accounting that differs from GAAP. Certain reclassifications have been made to prior period amounts to conform to the current year’s presentation.

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. The most significant assumptions in the preparation of these consolidated financial statements relate to losses and loss adjustment expenses. While every effort is made to ensure the integrity of such estimates, actual results may differ.

Investments

All of the Company’s fixed maturity investments are classified either as held-to-maturity or available-for-sale. The held-to-maturity investments are recorded at amortized cost, reflecting the ability and intent to hold these investments to maturity. The available-for-sale investments are stated at fair value, with unrealized gains or losses, net of applicable deferred income taxes, excluded from earnings and credited or charged to a separate component of equity. Although part of the Company's investments is classified as available-for-sale and the Company may sell investment securities from time to time in response to economic and market conditions, its investment guidelines place primary emphasis on buying and holding high-quality investments to maturity. Interest income on fixed maturity investments and short-term investments is recognized on an accrual basis at each measurement date and is included in net investment income in the Company’s Consolidated Statements of Operations.

The Company has a comprehensive portfolio monitoring process to identify and evaluate each fixed income security whose carrying value may be other-than-temporarily impaired. For each fixed income security in an unrealized loss position, the Company assesses whether it is more likely than not that the Company will be required to sell the security before recovery of the amortized cost basis for reasons such as liquidity, contractual or regulatory purposes, or the credit quality of the underlying security. If a security meets this criteria, the security's decline in fair value is considered other than temporary and is recorded as a net realized investment loss in the Consolidated Statements of Operations and in the Consolidated Statements of Comprehensive Income (Loss) based on the specific identification method. There were no realized investments gains (losses) from other than temporary impairments for any of the periods presented in the accompanying Consolidated Statements of Operations. For each fixed income security that the Company does not intend to sell or for which it is more likely than not that the Company would not be required to sell before an anticipated recovery in value, the Company separates the credit loss component of the impairment, if any, from the amount related to all other factors and reports the credit loss component in net realized investment gains (losses). There was no credit loss component for any of the periods presented in the accompanying Consolidated Statements of Operations. The unrealized gains or losses from fixed maturities are reported as “Accumulated other comprehensive income (loss),” which is a separate component of stockholders’ equity, net of any deferred tax effect.

The short-term investments include U.S. Treasury bills, certificates of deposit, and commercial paper that are all highly rated and have initial maturity between three and twelve months.

Fair Value of Financial Instruments

The Company employs a fair value hierarchy that prioritizes the inputs for valuation techniques used to measure fair value. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). Financial assets and financial liabilities recorded on the Consolidated Balance Sheets at fair value are categorized based on the reliability of inputs to the valuation techniques. (See Note 5.)

The Company has used the following methods and assumptions in estimating its fair value disclosures for instruments carried at fair value:

- Investment securities, excluding long-term certificates of deposit, and short-term investments – Fair values are obtained from widely accepted third party vendors.

The Company has used the following methods and assumptions for estimating fair value for other financial instruments not carried at fair value:

- Cash and cash equivalents – The carrying amounts reported in the Consolidated Balance Sheets approximate their fair values given the short-term nature of these instruments.
- Long-term certificates of deposit – The carrying amounts reported in the Consolidated Balance Sheets for these instruments are at amortized cost which approximates their fair value
- Receivables, net – The carrying amounts reported in the Consolidated Balance Sheets approximate their fair values given the short-term nature of these instruments.
- Accrued expenses and other liabilities – The carrying amounts reported in the Consolidated Balance Sheets approximate the fair values given the short-term nature of these instruments.

Property and Equipment

All property and equipment is stated at cost less accumulated depreciation and amortization on the Consolidated Balance Sheets.

Depreciation on Crusader Insurance Company (“Crusader”), the Company’s subsidiary, owned building, located at 26050 Mureau Road, Calabasas, California, is computed using the straight line method over 39 years. Improvements to the building structure are amortized over the useful life of the improvements. Depreciation on furniture, fixtures and equipment in the Calabasas building is computed using the straight line method over 3 to 15 years. Amortization of tenant improvements in the Calabasas building is being computed using the shorter of the useful life of the tenant improvements or the remaining years of the lease.

Income Taxes

The Company and its subsidiaries file consolidated federal and state income tax returns. Pursuant to the tax allocation agreement, Crusader and American Acceptance Corporation (“AAC”), a subsidiary of Unico, are allocated taxes or tax credits in the case of losses, at current corporate rates based on their own taxable income or loss. The Company files income tax returns under U.S. federal and various state jurisdictions. The Company is subject to examination by U.S. federal income tax authorities for tax returns filed starting at taxable year 2016 and California state income tax authorities for tax returns filed starting at taxable year 2015. There are no ongoing examinations of income tax returns by federal or state tax authorities.

As a California insurance company, Crusader is obligated to pay a premium tax on direct written premium in all states that Crusader is admitted. Premium taxes are deferred and amortized as the related premium is earned. The premium tax is in lieu of state franchise taxes and is not included in the provision for state taxes.

The provision for federal income taxes is computed on the basis of income as reported for financial reporting purposes. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and are measured using the enacted tax rates and laws expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Income tax expense provisions increase or decrease in the same period in which a change in tax rates is enacted.

At each balance sheet date, management assesses the need to establish a valuation allowance that reduces deferred tax assets when it is more-likely-than-not that any portion of the deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependent upon generating sufficient taxable income of the appropriate character within the carryback and carryforward periods available under the tax law. Management considers the reversal of deferred tax liabilities, projected future taxable income of an appropriate nature and tax-planning strategies when making this assessment. Although realization is not assured, management believes that it is more likely-than-not that the Company's deferred tax assets net of the valuation allowance will be realized.

Earnings Per Share

Basic earnings per share exclude the impact of common share equivalents and are based upon the weighted average common shares outstanding. Diluted earnings per share utilize the average market price per share when applying the treasury stock method in determining common share dilution. When outstanding stock options are dilutive, they are treated as common share equivalents for purposes of computing diluted earnings per share and represent the difference between basic and diluted weighted average shares outstanding. In loss periods, the options are excluded from the calculation of diluted earnings per share, as the inclusion of such options would have an anti-dilutive effect.

Revenue Recognition

a. General Agency Operations

Commissions from sales of health insurance are earned in income based on the satisfaction of a single performance obligation. Marketing, selling, billing, collecting, and administering health insurance policies are a series of distinct services combined as a one performance obligation, which is recognized in income monthly over the policy period. Premiums are collected upon the initial sale of health insurance policies and then monthly upon each subsequent periodic payment. As a result there are limited accounts receivable. Policy fee income is recognized on a pro-rata basis over the terms of the policies.

b. Insurance Company Operation

Premium is earned on a pro-rata basis over the terms of the policies. Premium applicable to the unexpired terms of policies in force are recorded as unearned premium.

c. Insurance Premium Financing Operations

Premium finance interest may be charged to policyholders who choose to finance insurance premium. Interest may be charged at rates that vary with the amount of premium financed. Premium finance interest, if any, is recognized using a method that approximates the interest (actuarial) method. Other charges and fees earned include late fees, returned check fees and payment processing fees that are earned when recorded.

Losses and Loss Adjustment Expenses

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 incurred but unreported losses and loss adjustment expenses.

There is a high level of uncertainty inherent in the evaluation of the required loss and loss adjustment expense reserves for Crusader. The long-tailed nature of liability claims and the volatility of jury awards exacerbate that uncertainty. Crusader records loss and loss adjustment expense reserves at each balance sheet date based upon management's best estimate of the ultimate payments that it anticipates will be made to settle all losses incurred and related expenses incurred as of that date for both reported and unreported losses. The ultimate cost of claims is dependent upon future events, the outcomes of which are affected by many factors. Crusader's claim reserving procedures and settlement philosophy, current and perceived social and economic inflation, current and future court rulings and jury attitudes, improvements in medical technology, and many other economic, scientific, legal, political, and social factors all can have significant effects on the ultimate costs of claims. Changes in Company operations and management philosophy also may cause actual developments to vary from the past. 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.

The Company applies judgment in determining estimates for reserves associated with anticipated recoveries of salvage and subrogation on paid losses and loss adjustment expenses. During the year ended December 31, 2019, the Company changed that estimate to be in-line with its historic salvage and subrogation recovery success pattern. The impact of that change was a $968,400 reduction in losses and loss adjustment expenses for the year ended December 31, 2019, and in unpaid losses and loss adjustment expenses. The change was accounted for as a change in accounting estimate.

Restricted Funds

Restricted funds are as follows:

	Year ended December 31	
	2019	2018
Premium trust funds (1)	$1,758,915	$1,383,451
Assigned to state agencies (2)	710,000	710,000
Total restricted funds	$2,468,915	$2,093,451

(1) As required by law, the Company segregates from its operating accounts the premium collected from insureds that are payable to insurance companies into separate trust accounts. These amounts are included in cash and short-term investments.

(2) $510,000 included in fixed maturity investments as of December 31, 2019 and 2018, and $200,000 and $200,000 included in short-term investments as of December 31, 2019 and 2018, respectively, are statutory deposits assigned to and held by the California State Treasurer and the Insurance Commissioner of the State of Nevada. These deposits are required for writing certain lines of business in California and for admission in states other than California.

Deferred Policy Acquisition Costs

Policy acquisition costs consist of commissions, premium taxes, inspection fees, and certain other underwriting costs, which are related to the successful production of Crusader insurance policies. Policy acquisition costs that are eligible for deferral are deferred and amortized as the related premium is earned and are limited to their estimated realizable value based on the related unearned premium plus investment income less anticipated losses and loss adjustment expenses. Ceding commission applicable to the unexpired terms of policies in force is recorded as unearned ceding commission, which is included in deferred policy acquisition costs.

Reinsurance

Crusader employs reinsurance to provide greater diversification of business allowing management to control exposure to potential losses arising from large risks by reinsuring certain levels of risk in various areas of exposure, to reduce the loss that may arise from catastrophes, and to provide additional capacity for growth. Prepaid reinsurance premium and reinsurance receivables are reported as assets and represent ceded unearned premium and reinsurance recoverable on both paid and unpaid losses and loss adjustment expenses, respectively. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policies. Crusader 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, 2019, all such ceded contracts are accounted for as risk transfer reinsurance.

Crusader evaluates and monitors the financial condition of its reinsurers and factors such as collection periods, disputes, applicable coverage defenses and other factors to assess the need for any allowance against anticipated reinsurance recoveries. No such allowance was considered necessary at December 31, 2019 or 2018.

Concentration of Risks

99.9%, and 99.8% of Crusader's direct written premium was derived from California during the years ended December 31, 2019 and 2018, respectively. In 2019, approximately 39% and 49% of the $939,689 commission income from the Company's health insurance program was from Guardian Life Insurance Company of America dental and group life plan programs and the Blue Shield Care Trust health and life insurance programs, respectively. In 2018, approximately 37% and 46% of the $944,755 commission income from the Company's health insurance program was from Guardian Life Insurance Company of America dental and group life plan programs and the Blue Shield Care Trust health and life insurance programs, respectively.

Crusader's reinsurance recoverable on paid and unpaid losses and loss adjustment expenses is as follows:

		Year ended December 31	
Name of Reinsurer	A.M. Best Rating (1)	2019	2018
Renaissance Reinsurance U.S. Inc.	A+	$8,095,647	$4,911,922
Hannover Ruck SE	A+	6,869,914	4,142,308
TOA Reinsurance Company of America	A	438,308	476,101
Other	A	7,827	(48)
Total		$15,411,696	$9,530,283

(1) A.M. Best ratings are as of December 31, 2019.

Stock-Based Compensation

Share-based compensation expense for all share-based payment awards is based on the grant-date fair value estimated in accordance with the provisions of ASC Topic 718, "Compensation - Stock Compensation" using the modified prospective transition method.

Recently Issued Accounting Standards

Recently adopted standards

In February 2016, the FASB issued ASU 2016-02 "Leases." ASU 2016-02 requires lessees to recognize on the balance sheet the assets and liabilities for the rights and obligations created by all leases, including those historically accounted for as operating leases. The Company adopted ASU 2016-02 effective January 1, 2019. The adoption of ASU 2016-02 did not have a material impact to the Consolidated Statements of Operations and the Consolidated Balance Sheets.

Standards not yet adopted

In June 2016, the FASB issued ASU 2016-13 "Measurement of Credit Losses on Financial Instruments." ASU 2016-13 replaces the current incurred loss methodology for recognizing credit losses with a current expected credit loss model, which requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. ASU 2016-13 also requires enhanced disclosures for better understanding of significant estimates and judgments used in estimating credit losses. The Company is currently evaluating the effect ASU 2016-13 will have on the Company's consolidated financial statements, but expects the primary changes to be (i) the use of the expected credit loss model for its premium receivables and reinsurance recoverables and (ii) the presentation of credit losses within the available-for-sale fixed maturities portfolio through an allowance method rather than as a direct write-down. ASU 2016-13 will primarily impact the Company's available-for-sale fixed maturities portfolio and reinsurance recoverables. In November 2019, the FASB issued ASU 2019-10 "Financial Instruments – Credit Losses, Derivatives and Hedging, and Leases." ASU 2019-10 updated the effective date for implementing ASU 2016-13 for smaller reporting entities, and that effective date will be for fiscal years beginning after December 15, 2022. Since the Company's fixed income portfolio is invested primarily in higher rated bonds and the reinsurance is purchased from financially strong reinsurers, the Company believes the adoption of ASU 2016-13 will not have a material impact to the Consolidated Statements of Operations and the Consolidated Balance Sheets.

In August, 2018, the FASB issued ASU 2018-13 "Fair Value Measurement": Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement." ASU 2018-13 modifies the disclosure requirements for assets and liabilities measured at fair value. The amendments in this ASU require certain existing disclosure requirements to be modified or removed, and certain new disclosure requirements to be added. In addition, this ASU allows entities to exercise more discretion when considering fair value measurement disclosures. This ASU is effective for annual and interim reporting periods beginning after December 15, 2019. As the amendments are only disclosure related, the effect of adoption will not have a material impact on the Company's financial statements.

NOTE 2 – CASH AND CASH EQUIVALENTS

The following table provides a reconciliation of cash and cash equivalents reported within the consolidated balance sheets to the amounts shown in the consolidated statements of cash flows:

	Year ended December 31	
	2019	2018
Cash	$2,490,902	$2,082,131
Cash equivalents	3,290,737	2,835,631
Cash and cash equivalents	$5,781,639	$4,917,762

Cash equivalents were comprised of highly liquid investments with initial maturity of 90 days or less. As of December 31, 2019 and 2018, cash equivalents included custodial trust, bank money market accounts, and a bank savings account.

NOTE 3 – ADVANCE PREMIUM AND PREMIUM DEPOSITS

The insurance company operation records an advance premium liability that represents the deposits on written premium on policies that have been submitted to the Company and are bound, billed, and recorded prior to their effective date of coverage. The advance premium is not included in written premium or in the liability for unearned premium.

Some of the Company's health and life programs require payments of premium prior to the effective date of coverage; and, accordingly, invoices are sent out as early as two months prior to the coverage effective date. Insurance premium received for coverage months effective after the balance sheet date are recorded as advance premium.

NOTE 4 – INVESTMENTS

A summary of total investment income, net of investment expenses, and net realized gains is as follows:

	Year ended December 31	
	2019	2018
Fixed maturities	$2,162,142	$1,956,963
Short-term investments and cash equivalents	65,656	65,042
Gross investment income	2,227,798	2,022,005
Less investment expenses	(129,842)	(114,232)
Net investment income	2,097,956	1,907,773
Net realized gains (losses)	(12,661)	148
Net investment income and realized gains	$2,085,295	$1,907,921

The amortized cost and estimated fair value of fixed maturity investments at December 31, 2019, by contractual maturity are as follows:

	Amortized Cost	Estimated Fair Value
Due in one year or less	$10,063,975	$10,087,478
Due after one year through five years	42,944,463	43,654,657
Due after five years through ten years	9,996,830	10,529,528
Due after ten years and beyond	19,795,143	20,026,047
Total fixed maturities	$82,800,411	$84,297,710

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

The amortized cost and estimated fair values of investments in fixed maturities by category are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2019				
Available-for-sale fixed maturities:				
U.S. Treasury securities	$15,105,795	$130,564	$(1,027)	$15,235,332
Corporate securities	41,953,378	1,076,012	(57)	43,029,333
Agency mortgage-backed securities	24,943,238	293,757	(1,950)	25,235,045
Held-to-maturity fixed maturities:				
Certificates of deposit	798,000	-	-	798,000
Total fixed maturities	$82,800,411	$1,500,333	$(3,034)	$84,297,710
December 31, 2018				
Available-for-sale fixed maturities:				
U.S. Treasury securities	$16,746,832	$16,069	$(143,282)	$16,619,619
Corporate securities	40,804,425	50,422	(851,124)	40,003,723
Agency mortgage-backed securities	20,751,331	7,757	(472,293)	20,286,795
Held-to-maturity fixed maturities:				
Certificates of deposit	7,126,000	-	-	7,126,000
Total fixed maturities	$85,428,588	$74,248	$(1,466,699)	$84,036,137

A summary of the unrealized gains (losses) on investments carried at fair value and the applicable deferred federal income taxes is as follows:

	Year ended December 31 2019	2018
Gross unrealized gains of fixed maturities	$1,500,333	$74,248
Gross unrealized losses of fixed maturities	(3,034)	(1,466,699)
Net unrealized gains (losses) on investments	1,497,299	(1,392,451)
Deferred federal tax benefit (expense)	(314,433)	292,415
Net unrealized gains (losses), net of deferred income taxes	$1,182,866	$(1,100,036)

A summary of estimated fair value and gross unrealized losses in a gross unrealized loss position by the length of time in which the securities have continually been in that position is shown below:

	Less than 12 Months			12 Months or Longer		
	Estimated Fair Value	Gross Unrealized Losses	Number of Securities	Estimated Fair Value	Gross Unrealized Losses	Number of Securities
December 31, 2019						
U.S. Treasury securities	$1,996,562	$(253)	1	$1,002,031	$(775)	1
Corporate securities	999,818	(56)	1	-	-	-
Agency mortgage-backed securities	750,058	(1,950)	2	-	-	-
Total	$3,746,438	$(2,259)	4	$1,002,031	$(775)	1

	Less than 12 Months			12 Months or Longer		
	Estimated Fair Value	Gross Unrealized Losses	Number of Securities	Estimated Fair Value	Gross Unrealized Losses	Number of Securities
December 31, 2018						
U.S. Treasury securities	$1,760,491	$(20,181)	2	$8,496,069	$(123,101)	6
Corporate securities	10,878,381	(272,515)	17	21,189,487	(578,609)	27
Agency mortgage-backed securities	-	-	-	17,034,086	(472,293)	15
Total	$12,638,872	$(292,696)	19	$46,719,642	$(1,174,003)	48

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, and whether the debtor is current on its contractually obligated interest and principal payments. The unrealized losses as of December 31, 2019, and December 31, 2018, were determined to be temporary.

Although the Company does not intend to sell its fixed maturity investments prior to maturity, the Company may sell investment securities from time to time in response to cash flow requirements, economic and/or market conditions or investment securities may be called by their issuers prior to the securities' maturity. The Company sold three securities with amortized cost of $2,997,098, and had one call of an investment security with amortized cost of $999,982 during the year ended December 31, 2019. The Company realized net investment losses of $12,661 on these sales and call for the year ended December 31, 2019. Two securities were called prior to their maturity during the year ended December 31, 2018. These securities had amortized cost of $1,269,852. The Company realized a net investment gain of $148 on these calls for the year ended December 31, 2018.

The Company's investment in certificates of deposit included $598,000 and $6,726,000 of brokered certificates of deposit as of December 31, 2019 and 2018, respectively. All of the Company's certificates of deposit are within the FDIC insured permissible limits. Due to the nature of the Company's business, certain bank accounts may exceed FDIC insured permissible limits.

The following securities from three different banks represent statutory deposits that are assigned to and held by the California State Treasurer and the Insurance Commissioner of the State of Nevada. These deposits are required for writing certain lines of business in California and for admission in the state of Nevada.

	Year ended December 31	
	2019	2018
Certificates of deposit	$200,000	$200,000
Short-term investments	200,000	200,000
Total state held deposits	$400,000	$400,000

Short-term investments have an initial maturity of one year or less and consist of the following:

	Year ended December 31	
	2019	2018
U.S. Treasury bills	$ 1,996,815	$ 4,490,954
Certificates of deposit	200,000	200,000
Total short-term investments	$2,196,815	$4,690,954

NOTE 5 – FAIR VALUE OF FINANCIAL INSTRUMENTS

In determining the fair value of its financial instruments, the Company employs a fair value hierarchy that prioritizes the inputs for the valuation techniques used to measure fair value. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). Financial assets and financial liabilities recorded on the Consolidated Balance Sheets at fair value are categorized based on the reliability of inputs for the valuation techniques as follows:

Level 1 – Financial assets and financial liabilities whose values are based on unadjusted quoted prices in active markets for identical assets or liabilities as of the reporting date.

Level 2 – Financial assets and financial liabilities whose values are based on quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in non-active markets; or valuation models whose inputs are observable, directly or indirectly, for substantially the full term of the asset or liability as of the reporting date.

Level 3 – Financial assets and financial liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect the Company's estimates of the assumptions that market participants would use in valuing the financial assets and financial liabilities as of the reporting date.

The hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the fair value hierarchy level within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. Thus, a Level 3 fair value measurement may include inputs that are observable (Level 1 or Level 2) or unobservable (Level 3). The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

The following table presents information about the Company's financial instruments and their estimated fair values, which are measured on a recurring basis, allocated among the three levels within the fair value hierarchy as of December 31, 2019 and 2018:

	Level 1	Level 2	Level 3	Total
December 31, 2019				
Financial instruments:				
Available-for-sale fixed maturities:				
U.S. Treasury securities	$15,235,332	$ -	$ -	$15,235,332
Corporate securities	-	43,029,333	-	43,029,333
Agency mortgage-backed securities	-	25,235,045	-	25,235,045
Short-term investments	2,196,815	-	-	2,196,815
Total financial instruments at fair value	$17,432,147	$68,264,378	$ -	$85,696,525
December 31, 2018				
Financial instruments:				
Available-for-sale fixed maturities:				
U.S. Treasury securities	$16,619,619	$ -	$ -	$16,619,619
Corporate securities	-	40,003,723	-	40,003,723
Agency mortgage-backed securities	-	20,286,795	-	20,286,795
Short-term investments	4,690,954	-	-	4,690,954
Total financial instruments at fair value	$21,310,573	$60,290,518	$ -	$81,601,091

Fair value measurements are not adjusted for transaction costs. The Company recognizes transfers between levels at either the actual date of the event or a change in circumstances that caused the transfer. The Company did not have any transfers between Levels 1, 2 and 3 of the fair value hierarchy during the years ended December 31, 2019 and 2018.

NOTE 6 – PROPERTY AND EQUIPMENT, NET

Property and equipment consist of the following:

	Year ended December 31	
	2019	2018
Building and tenant improvements, located in Calabasas, California	$8,411,541	$8,398,275
Furniture, fixtures, equipment	2,110,653	2,063,549
Computer software	459,899	363,016
Accumulated depreciation and amortization	(3,617,381)	(3,051,505)
Computer software under development	1,074,398	131,505
Land located in Calabasas, California	1,787,485	1,787,485
Property and equipment, net	$10,226,595	$9,692,325

Depreciation on the Calabasas building is computed using the straight line method over 39 years. Improvements to the building structure are amortized over the useful life of the improvements. Depreciation on furniture, fixtures and equipment in the Calabasas building is computed using the straight line method over 3 to 15 years. Amortization of tenant improvements in the Calabasas building is being computed using the shorter of the useful life of the tenant improvements or the remaining years of the lease. Depreciation and amortization expense on all property and equipment for the years ended December 31, 2019 and 2018 were $565,876 and $551,183, respectively.

For the years ended December 31, 2019 and 2018, the Calabasas building has generated rental revenue from non-affiliated tenants in the amount of $177,596 and $347,091, and incurred operating expenses in the amount of $669,359 and $774,663, which included depreciation, respectively. These amounts are included in "Other income" from insurance company operation and other operating expenses, respectively, in the Company's Consolidated Statements of Operations.

The total square footage of the Calabasas building is 46,884, including common areas. As of December 31, 2019 and 2018, 6,942 and 14,481 square feet of the Calabasas building was leased to non-affiliated entities, respectively. As of December 31, 2019, 7,539 square feet was vacant and available to be leased to non-affiliated entities.

The Company capitalizes certain computer software costs purchased from outside vendors for internal use. These costs also include configuration and customization activities, coding, testing and installation. Training costs and maintenance are expensed as incurred, while upgrade and enhancements are capitalized if it is probable that such expenditure will result in additional functionality. The capitalized costs are not depreciated until the software is placed into production.

NOTE 7 – RECEIVABLES, NET

Receivables, net, include premium, commissions and notes receivable and are as follows:

	Year ended December 31	
	2019	2018
Premium and commission receivable	$2,178,476	$2,001,732
Premium finance notes receivable	3,041,931	3,148,792
Total premium and notes receivable	5,220,407	5,150,524
Allowance for doubtful accounts	(1,200,970)	(1,217,456)
Receivables, net	$4,019,437	$3,933,068

Premium receivable and premium finance notes receivables are substantially secured by unearned premium and funds held as security for performance. Premium finance notes receivable represents the balance due to AAC, the Company's premium finance subsidiary, from policyholders who elected to finance their premium over a nine-month term. These notes are net of unearned finance charges and credit loss reserves.

Bad debt expense was $7,881 and $23,903 for the years ended December 31, 2019 and 2018, respectively.

NOTE 8 – UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

Crusader's loss and loss adjustment expense case and incurred but not reported ("IBNR") reserves are as follows:

	Year ended December 31	
	2019	2018
Direct reserves:		
Case reserves	$23,663,743	$23,648,183
IBNR reserves	31,402,737	28,008,972
Total direct reserves	$55,066,480	$51,657,155
Reserves net of reinsurance:		
Case reserves	$18,128,008	$19,855,301
IBNR reserves	22,212,617	22,270,252
Total net reserves	$40,340,625	$42,125,553

Reserves for losses and loss adjustment expenses before reinsurance for each of Crusader's lines of business are as follows:

	Year ended December 31			
Line of Business	2019		2018	
CMP	$54,270,633	98.6%	$50,459,206	97.7%
Other liability	776,957	1.4%	1,172,331	2.3%
Other	18,890	0.0%	25,618	0.0%
Total	$55,066,480	100.0%	$51,657,155	100.0%

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 based upon management's best estimate of the ultimate payments that it anticipates will be made to settle all losses incurred and all related loss adjustment expenses incurred as of that date for both reported and unreported claims.

The following table provides an analysis of the roll forward of Crusader's loss and loss adjustment expense reserves, including a reconciliation of the ending balance sheet liability for the periods indicated:

	Year ended December 31	
	2019	2018
Reserve for unpaid losses and loss adjustment expenses at beginning of year – net of reinsurance	$42,125,553	$40,683,441
Incurred losses and loss adjustment expenses:		
Provision for insured events of current year	19,384,942	20,635,786
Provision for incurred events of prior years	3,191,185	2,921,957
Total incurred losses and loss adjustment expenses	22,576,127	23,557,743
Payments:		
Losses and loss adjustment expenses attributable to insured events of the current year	6,210,475	6,582,377
Losses and loss adjustment expenses attributable to insured events of prior years	18,150,580	15,533,254
Total payments	24,361,055	22,115,631
Reserve for unpaid losses and loss adjustment expenses at end of year – net of reinsurance	40,340,625	42,125,553
Reinsurance recoverable on unpaid losses and loss adjustment expenses at end of year	14,725,855	9,531,602
Reserve for unpaid losses and loss adjustment expenses at end of year per balance sheet, gross of reinsurance	$55,066,480	$51,657,155

At each review period, actual claims costs that emerge are compared with the claims costs that were expected to emerge during that development period. Sometimes the previous claims costs estimates prove to have been too high; sometimes they prove to have been too low. The fluctuation in development of insured events of prior years underscores the inherent uncertainty in insurance claims costs, especially for a relatively small insurer, such as Crusader. Management reviews claims costs that appear to be different from the historical claims costs to determine whether those differences are a normal part of the process or an indication that a change in reserve assumptions is appropriate. Management concluded that the differences noted above are differences between actual and expected claims costs that emerge from time to time, particularly in an insurer the size of Crusader.

The following table presents loss development information by accident year, including cumulative incurred and paid losses and allocated loss adjustment expenses ("ALAE"), net of reinsurance, as well as cumulative claim frequency and the total of incurred but not reported liabilities plus expected development on reported claims as of December 31, 2019:

Accident Year	Cumulative Incurred	Cumulative Paid	Total of Incurred But Not Reported Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
2010	$16,721,160	$16,721,159	$ -	974
2011	19,156,281	19,133,302	-	1,020
2012	18,355,031	18,001,581	425	967
2013	22,859,132	22,364,215	66,169	849
2014	17,898,306	17,487,722	118,937	759
2015	23,006,844	20,148,880	987,286	744
2016	25,677,378	21,438,785	2,286,224	796
2017	23,876,588	15,289,400	4,081,831	800
2018	18,099,500	9,254,754	6,109,585	595
2019	17,349,941	4,292,275	8,562,160	575
Total	$203,000,161	$164,132,073	$22,212,617	

The following table reconciles the above cumulative incurred and paid data to Crusader's loss and loss adjustment expense reserves:

	Year ended December 31	
	2019	2018
Cumulative incurred losses and ALAE	$203,000,161	$200,539,837
Less cumulative paid losses and ALAE	(164,132,073)	(159,814,942)
Reserve for unpaid losses and ALAE (latest 10 accident years)	38,868,088	40,724,895
Reserves for unpaid losses and ALAE (beyond latest 10 accident years)	126,042	67,227
Reserves for unpaid unallocated loss adjustment expenses	1,346,495	1,333,431
Reserve for unpaid losses and loss adjustment expenses, net of reinsurance	40,340,625	42,125,553
Reinsurance recoverable on unpaid losses and loss adjustment expenses	14,725,855	9,531,602
Reserve for unpaid losses and loss adjustment expenses, gross of reinsurance	$55,066,480	$51,657,155

Crusader's liability for unpaid loss and loss adjustment expense reserves consists of case reserves and reserves for IBNR claims. Case reserves are established by claims personnel based on a review of the facts known at the time the claim is reported and are subsequently revised as more information about a claim becomes known. IBNR is estimated using various actuarial methods and techniques and includes (1) reserves for losses and loss adjustment expenses on claims that have occurred but for which claims have not yet been reported to Crusader, and (2) a provision for expected future development on case reserves for information not currently known.

At the end of each fiscal quarter, Crusader's reserves for each accident year (i.e., for all claims occurring within each year) are re-evaluated independently by the Company's president, the Company's chief financial officer, and an independent consulting actuary. Generally accepted actuarial methods, including the widely used Bornhuetter-Ferguson and loss development methods, are employed to estimate ultimate claims costs. An actuarial central estimate of the ultimate claims costs and IBNR reserves is ultimately determined by management and tested for reasonableness by the independent consulting actuary.

The Company determines the number of reported claims based on the number of loss events. A claim is considered a single loss event, per policy, and it may include multiple claimants and multiple coverages on a single policy. The cumulative number of reported claims is a sum of open claims, closed claims, and claims closed without payment.

NOTE 9 – DEFERRED POLICY ACQUISITION COSTS

The following table provides an analysis of the roll forward of the Company's deferred policy acquisition costs:

	Year ended December 31 2019	2018
Deferred policy acquisition costs at beginning of year	$3,489,728	$4,162,771
Policy acquisition costs deferred during year	5,090,712	5,235,788
Policy acquisition costs amortized during year	(4,960,846)	(5,908,831)
Deferred policy acquisition costs at end of year	$3,619,594	$3,489,728

Deferred policy acquisition costs consist of commissions (net of ceding commission), premium taxes, inspection fees, and certain other underwriting costs, which are related to and vary with the production of Crusader policies. Policy acquisition costs are deferred and amortized as the related premium is earned. Deferred acquisition costs are reviewed to determine if they are recoverable from future income on insurance policies generated from these costs, including investment income. For the years ended December 31, 2019 and 2018, the Company did not recognize a premium deficiency reserve.

NOTE 10 – ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities consist of the following:

	Year ended December 31 2019	2018
Premium payable	$480,078	$314,173
Unearned policy fee income	520,064	595,223
Retirement plans	112,827	112,827
Accrued salaries and employee benefits	501,414	415,396
Commission payable	1,764	81,414
Other	514,153	326,325
Total accrued expenses and other liabilities	$2,130,300	$1,845,358

NOTE 11 – COMMITMENTS AND CONTINGENCIES

The Company, by virtue of the nature of the business conducted by it, becomes involved in numerous legal proceedings as either plaintiff or defendant. The Company is also required to resort to legal proceedings from time to time in order to enforce collection of premium, commissions, or fees for the services rendered to customers or to their agents. These routine items of litigation do not materially affect the Company and are handled on a routine basis by the Company through its counsel.

The Company establishes reserves for lawsuits, regulatory actions and other contingencies for which the Company is able to estimate its potential exposure and believes a loss is probable. For loss contingencies believed to be reasonably possible, the Company discloses the nature of the loss contingency, an estimate of the possible loss, a range of loss, or a statement that such an estimate cannot be made.

Likewise, the Company is sometimes named as a cross-defendant in litigation, which is principally directed against an insured who was issued a policy of insurance directly or indirectly through the Company. Incidental actions related to disputes concerning the issuance or non-issuance of individual policies are sometimes brought by customers or others. These items are also handled on a routine basis by counsel, and they do not generally affect the operations of the Company. Management is confident that the ultimate outcome of pending litigation should not have an adverse effect on the Company's consolidated results of operations or financial position. The Company vigorously defends itself unless a reasonable settlement appears appropriate.

NOTE 12 – REINSURANCE

A reinsurance transaction occurs when an insurance company transfers (cedes) a portion of its exposure on policies written to a reinsurer that assumes that risk for a premium (ceded premium). Reinsurance does not legally discharge 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 during the years ended December 31, 2019 and 2018 are as follows:

Loss Year	Reinsurers	A.M. Best Rating	Retention
2019	Renaissance Reinsurance U.S. Inc.	A+	
	& Hannover Ruck SE	A+	$500,000
2018	Renaissance Reinsurance U.S. Inc.	A+	
	& Hannover Ruck SE	A+	$500,000

Reinsurance treaties are generally structured in layers, with different negotiated economic terms and retention of participation, or liability, in each layer. In calendar year 2019, Crusader retained a participation in its excess of loss reinsurance treaties of 0% in its 1st layer (reinsured losses between $500,000 and $1,000,000), 0% in its 2nd layer (reinsured losses between $1,000,000 and $4,000,000), and 0% in its property and casualty clash treaty. In calendar year 2018, Crusader retained a participation in its excess of loss reinsurance treaties of 5% in its 1st layer (reinsured losses between $500,000 and $1,000,000), 0% in its 2nd layer (reinsured losses between $1,000,000 and $4,000,000), and 0% in its property and casualty clash treaty.

Crusader also has catastrophe reinsurance treaties from various highly rated California authorized and California unauthorized reinsurance companies. These reinsurance treaties help protect Crusader against losses in excess of certain retentions from catastrophic events that may occur on property risks which Crusader insures. In calendar years 2019 and 2018, Crusader retained a participation in its catastrophe excess of loss reinsurance treaties of 5% in its 1st layer (reinsured losses between $1,000,000 and $10,000,000) and 0% in its 2nd layer (reinsured losses between $10,000,000 and $46,000,000).

Crusader has no reinsurance recoverable balances in dispute.

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

The effect of reinsurance on written premium, earned premium, and incurred losses and loss adjustment expenses is as follows:

	Year ended December 31	
	2019	2018
Written premium:		
Direct business	$35,803,950	$32,429,735
Reinsurance ceded	(7,153,130)	(6,555,715)
Net written premium	$28,650,820	$25,874,020
Earned premium:		
Direct business	$33,958,202	$35,233,410
Reinsurance ceded	(7,220,734)	(6,478,500)
Net earned premium	$26,737,468	$28,754,910
Incurred losses and loss adjustment expenses:		
Direct	$36,712,252	$30,169,562
Ceded	(14,136,125)	(6,611,819)
Net incurred losses and loss adjustment expenses	$22,576,127	$23,557,743

Ceded earned premium as a percentage of direct earned premium was 21% in 2019 and 18% in 2018. Crusader did not assume any premium or losses during the years ended December 31, 2019 and 2018.

NOTE 13 – PROFIT SHARING PLAN

The Unico American Corporation Profit Sharing Plan ("Plan") covers Company's employees who are at least 21 years of age and have met certain service and eligibility requirements. Unico American Corporation is the Plan sponsor and the Plan administrator. Fidelity Management Trust Company is the Plan trustee. The Plan is intended to be a qualified retirement plan under the Internal Revenue Code. As required by the Plan, on an annual basis, the Company must contribute 3% of participants' eligible compensation to the account of each participant. In addition, pursuant to the terms of the Plan, the Company may contribute to participants an amount determined by the Board of Directors. Under the Plan, participants have the option to make 401(k) and/or Roth 401(k) deferral contributions which are not matched by the Company. Participants must be employed by the Company on the last day of the Plan year and must have met certain service and eligibility requirements to be eligible for a contribution. Participants are eligible to request a distribution of their vested account balance upon death, retirement, minimum required distributions and termination of employment.

Contributions to the Plan are as follows:

Year ended December 31, 2019	$138,670
Year ended December 31, 2018	$132,927

NOTE 14 – STATUTORY CAPITAL AND SURPLUS

Crusader is required to file statutory financial statements with insurance regulatory authorities prepared on an accounting basis prescribed or permitted by such authorities. Statutory accounting practices differ in certain respects from GAAP. The more significant of the differences for statutory accounting practices are (a) policy acquisition and commission costs are expensed when incurred rather than over the periods covered by the policies; (b) fixed maturity securities are reported at amortized cost, or the lower of amortized cost or fair value, depending on the quality of the security as specified by the National Association of Insurance Commissioners (NAIC); (c) non-admitted assets are charged directly against surplus; (d) loss and loss adjustment expense reserves and unearned premium reserves are stated net of reinsurance; (e) federal income taxes are recorded when payable and deferred taxes, subject to limitations, are recognized but only to the extent that they do not exceed a specified percentage of statutory surplus; and (f) changes in deferred taxes are recorded directly to surplus as regards policyholders. Additionally, the cash flow presentation is not consistent with GAAP and reconciliation from net income to cash provided by operations is not presented. Comprehensive income is not presented under statutory accounting practices.

Crusader's statutory capital and surplus are as follows:

As of December 31, 2019	$46,498,960
As of December 31, 2018	$50,148,258

Crusader's statutory net loss is as follows:

Year ended December 31, 2019	$(2,190,703)
Year ended December 31, 2018	$(453,966)

The California Department of Insurance (CA DOI) conducts periodic financial examinations of Crusader. During 2017, the CA DOI completed a financial examination of Crusader's December 31, 2015, statutory financial statements. On June 23, 2017, a report of examination was officially filed and became part of the records of the CA DOI. The Company has complied with all comments and recommendations identified in the report of examination, and none of the issues in that report of examination had any material effect on Crusader.

The Company believes that Crusader's statutory capital and surplus are sufficient to support the written premium guidelines established by the NAIC.

Crusader is restricted in the amount of dividends it may pay to its parent in any 12-month period without prior approval of the CA DOI. Presently, without prior regulatory approval, Crusader may pay a dividend in any 12-month period to Unico up to the greater of (a) 10% of its statutory surplus or (b) its statutory net income for the preceding calendar year. Based on Crusader's statutory surplus for the year ended December 31, 2019, the maximum dividend that could be made by Crusader to Unico without prior regulatory approval in 2020 is $4,649,896. During the year ended December 31, 2019, Crusader issued cash dividends of $2,000,000 to Unico. No cash dividends were declared or issued during the year ended December 31, 2018.

The NAIC uses a Risk-Based Capital ("RBC") Model Law for property and casualty companies. The RBC Model Law is intended to provide standards for calculating a variable regulatory capital requirement related to a company's current operations and its risk exposures (asset risk, underwriting risk, credit risk and off-balance sheet risk). These standards are intended to serve as a diagnostic solvency tool for regulators that establishes uniform capital levels and specific authority levels for regulatory intervention when an insurer falls below minimum capital levels. The RBC Model Law specifies four distinct action levels at which a regulator can intervene with increasing degrees of authority over a domestic insurer if its RBC is equal to or less than 200% of its computed authorized control level RBC. A company's RBC is required to be disclosed in its statutory annual statement. The RBC is not intended to be used as a rating or ranking tool nor is it to be used in premium rate making or approval. Crusader's adjusted capital at December 31, 2019, was 641% of authorized control level RBC.

NOTE 15 – STOCK PLANS

The Unico American Corporation 2011 Incentive Stock Plan ("2011 Plan") covers 200,000 shares of the Company's common stock (subject to adjustment in the case of stock splits, reverse stock splits, stock dividends, etc.) and was approved by shareholders on May 26, 2011. The 2011 Plan terminates on May 13, 2021. Options to purchase 8,760 and 91,240 shares of common stock were granted under the 2011 Plan to one non-executive employee during the years ended December 31, 2012 and 2011, respectively. Due to termination of the employee during 2017, all options granted under the 2011 Plan became null and void.

No options were granted to employees or non-employees during the years ended December 31, 2019 and 2018. As of December 31, 2019 and 2018, there was no unrecognized compensation cost. There were no stock options outstanding at December 31, 2019 and 2018. As of December 31, 2019, 100,000 share of the Company's common stock were available under the 2011 Plan.

NOTE 16 – TAXES ON INCOME

The provision for taxes on income consists of the following:

	Year ended December 31	
	2019	2018
Federal expense (benefit):		
Current	$13,809	$ -
Deferred	(51,809)	(727,333)
Total tax benefit	$(38,000)	$(727,333)
State expense (benefit):		
Current	$8,800	$8,800
Deferred	(104,987)	(38,700)
Total tax benefit	$(96,187)	$(29,900)
Total expense (benefit):		
Current	$22,609	$8,800
Deferred	(156,796)	(766,033)
Total tax benefit	$(134,187)	$(757,233)

The income tax provision reflected in the Consolidated Statements of Operations is different than the expected federal income tax rate of 21% on income as shown in the following table:

	Year ended December 31	
	2019	2018
Computed income tax benefit at 21%	$(682,477)	$(824,626)
Tax effect of:		
State tax expense benefit, net of federal tax benefit	(139,765)	(615,802)
Change in valuation allowance – state net operating losses	63,777	592,181
Change in valuation allowance – federal	600,000	-
Deferred tax true up	289	63,481
Other, including nondeductible expenses	23,989	27,533
Income tax benefit	$(134,187)	$(757,233)

Significant components of the Company's net deferred tax assets and liabilities are as follows:

	Year ended December 31	
	2019	2018
Deferred tax assets:		
Discount on loss reserves	$329,065	$324,346
Unearned premium	747,217	671,792
Unearned commission income	432,969	388,099
Unearned policy fee income	145,533	166,565
Net operating loss carryforwards	4,145,783	3,515,221
State net operating loss carryforwards	1,931,665	1,850,934
Unrealized losses on investments	-	292,415
Bad debt reserve	336,075	340,688
Other	205,292	195,048
Total gross deferred tax assets	8,273,599	7,745,108
Less valuation allowance	2,531,665	1,850,934
Total deferred tax assets	$5,741,934	$5,894,174
Deferred tax liabilities:		
Policy acquisition costs	$892,349	$867,652
State tax on undistributed insurance company earnings	343,735	392,802
Federal tax liability on state deferred tax assets	90,461	81,723
Depreciation and amortization	175,524	176,513
Unrealized gains on investments	314,433	-
Total deferred tax liabilities	$1,816,502	$1,518,690
Net deferred tax assets	$3,925,432	$4,375,484

The Company recognizes deferred income tax assets and liabilities for the expected future tax effects attributable to temporary differences between the financial statement and tax return bases of assets and liabilities, and expected benefits of utilizing net operating loss carryforwards, based on enacted tax rates and other provisions of the tax law. The effect of a change in tax laws or rates on deferred tax assets and liabilities is recognized in income in the period in which such change is enacted. Deferred tax assets are reduced by a valuation allowance if it is more-likely-than-not that any portion of the deferred tax assets may not be realized. The ultimate realization of deferred tax assets is dependent upon generating sufficient taxable income of the appropriate character within the carryback and carryforward periods available under the tax law. Management considers the reversal of deferred tax liabilities, projected future taxable income of an appropriate nature, and tax planning strategies in making this assessment. The Company increased its valuation allowance related to deferred tax assets on federal and state net operating losses. Although realization is not assured, management believes that it is more likely-than-not that the Company's remaining net deferred tax assets will be realized.

As of December 31, 2019, the Company has $19,741,828 of federal net operating loss carryforwards that will begin to expire in 2035. For the years ended December 31, 2019 and December 31, 2018, a valuation allowance on deferred tax assets generated from federal net operating losses was established in the amount of $600,000 and $0, respectively as the Company does not expect to realize that portion of the tax benefit from its federal net operating losses in the future.

As of December 31, 2019, the Company had deferred tax assets of $1,931,665 generated from state net operating loss carryforwards. The state tax carryforwards expire between 2028 and 2039. For the years ended December 31, 2019 and December 31, 2018, a valuation allowance on deferred tax assets generated from state net operating loss carryforwards was established in the amount of $1,931,665 and $1,850,934, respectively as the Company does not expect to realize a tax benefit from its state net operating losses in the future.

As a result of the Company's analysis at December 31, 2019, the Company believes it is more likely than not that it will be able to utilize the net operating loss carryforwards, net of the valuation allowance, before they expire. Additionally, $4,106,936 of the net operating losses generated in 2019 and 2018 is subject to an indefinite carryforward period.

The current federal effected state tax rate is 6.98%.

The Company and its subsidiaries file consolidated federal and state income tax returns. Pursuant to the tax allocation agreement, Crusader and AAC are allocated taxes, or tax credits in the case of losses, at current corporate rates based on their own taxable income or loss. The Company files income tax returns under U.S. federal and various state jurisdictions. The Company is subject to examination by U.S. federal income tax authorities for tax returns filed starting at taxable year 2016 and California state income tax authorities for tax returns filed starting at taxable year 2015. There are no ongoing examinations of income tax returns by federal or state tax authorities.

As a California insurance company, Crusader is obligated to pay a premium tax on direct written premium in all states where Crusader is admitted. Premium taxes are deferred and amortized as the related premium is earned. The premium tax is in lieu of state franchise taxes and is not included in the provision for state taxes.

As of December 31, 2019, the Company had no unrecognized tax benefits, no unrecognized additional liabilities or reduction in deferred tax asset, and no uncertain tax positions. In addition, the Company had not accrued interest and penalties related to unrecognized tax benefits. However, if interest and penalties would need to be accrued related to unrecognized tax benefits, such amounts would be recognized as a component of federal income tax expense.

NOTE 17 – REPURCHASE OF COMMON STOCK – EFFECT ON STOCKHOLDERS' EQUITY

On December 19, 2008, the Board of Directors authorized a stock repurchase program to acquire from time to time up to an aggregate of 500,000 shares of the Company's common stock. This program has no expiration date and may be terminated by the Board of Directors at any time. As of December 31, 2019, and December 31, 2018, the Company had remaining authority under the 2008 program to repurchase up to an aggregate of 188,242 and 188,625 shares of its common stock, respectively. The 2008 program is the only program under which there is authority to repurchase shares of the Company's common stock. The Company repurchased 383 shares of stock during the year ended December 31, 2019, in unsolicited transactions at a cost of $2,296 of which $188 was allocated to capital and $2,108 was allocated to retained earnings. The Company repurchased 30 shares of stock during the year ended December 31, 2018, in unsolicited transactions at a cost of $216 of which $15 was allocated to capital and $201 was allocated to retained earnings. The Company has retired or will retire all stock repurchased.

NOTE 18 – RELATED PARTY TRANSACTIONS

Wish Properties Inc., an office of Wish Sotheby' International Reality, owned by Ernest A. Wish, a member of the Company's Board of Directors, leased 4,189 square feet at the Calabasas building. The lease commenced on July 13, 2017 and had a six month term. Effective January 8, 2018, the lease was amended to extend its termination date until January 11, 2019, and to allow an option to extend the term of the lease for three additional twelve month terms commencing on January 11, 2019. The lease ended on February 11, 2019. The monthly lease payment was $8,378 through February 11, 2019. The Company believes the terms of the lease were at least as favorable to the Company as could have been obtained from other third parties.

NOTE 19 – LOSS PER SHARE

A reconciliation of the numerator and denominator used in the basic and diluted loss per share calculation is presented as follows:

	Year ended December 31	
	2019	2018
Basic Loss Per Share		
Net loss numerator	$(3,115,703)	$(3,169,559)
Weighted average shares outstanding denominator	5,306,879	5,307,121
Per share amount	$(0.59)	$(0.60)
Diluted Loss Per Share		
Net loss numerator	$(3,115,703)	$(3,169,559)
Weighted average shares outstanding	5,306,879	5,307,121
Effect of diluted securities	-	-
Diluted shares outstanding denominator	5,306,879	5,307,121
Per share amount	$(0.59)	$(0.60)

As of December 31, 2019 and 2018, the Company had 0 common share equivalents that were excluded in the diluted loss per share calculation for years ended December 31, 2019 and 2018.

NOTE 20 – SUBSEQUENT EVENTS

The Company evaluated its December 31, 2019 consolidated financial statements for subsequent events through the date the consolidated financial statements were issued. As a result of the spread of the coronavirus pandemic, economic uncertainties have arisen which are likely to impact the fair value of investments, day to day administration of the business and premium volume. While the Company does not believe it is exposed to substantial risk from coronavirus related claims under the insurance policies it has written, it is likely that the fair value of its investment portfolio will be adversely affected by the severe disruption and volatility in the capital markets, as well as general economic conditions as a result of the coronavirus and governmental responses to the pandemic. Additionally, related disruptions to the business of the Company and its customers could adversely affect the demand for the Company's insurance products and otherwise adversely impact the Company's results of operations or financial condition. The financial impact of these uncertainties is unknown at this time.

NOTE 21 – SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized unaudited quarterly financial data for each of the calendar years 2019 and 2018 is as follows:

		Comparable Period by Quarter Ended			
		March 31	June 30	September 30	December 31
Calendar Year 2019					
Total revenues		$7,135,474	$7,795,098	$8,258,966	$8,183,276
Income (loss) before taxes		$(811,732)	$(342,670)	$330,726	$(2,426,214)
Net income (loss)		$(671,074)	$(276,677)	$212,467	$(2,380,419)
Income (loss) per share:	Basic	$(0.13)	$(0.05)	$0.04	$(0.45)
	Diluted	$(0.13)	$(0.05)	$0.04	$(0.45)
Calendar Year 2018					
Total revenues		$8,806,891	$8,643,452	$8,161,034	$8,001,419
Income (loss) before taxes		$(2,811,931)	$287,032	$(812,141)	$(589,752)
Net income (loss)		$(2,207,251)	$168,297	$(661,925)	$(468,680)
Income (loss) per share:	Basic	$(0.42)	$0.03	$(0.12)	$(0.09)
	Diluted	$(0.42)	$0.03	$(0.12)	$(0.09)

NOTE 22 – SUPPLEMENTARY INFORMATION ON LOSS AND ALAE DEVELOPMENT (UNAUDITED)

The following table presents cumulative incurred losses and ALAE, net of reinsurance, for years ended December 31:

Accident Year	2010 (1)	2011 (1)	2012 (1)	2013 (1)	2014 (1)	2015 (1)	2016 (1)	2017	2018	2019
2010	21,418,368	20,437,443	19,883,812	19,326,007	18,639,537	18,075,737	17,641,161	16,828,688	16,822,859	16,721,160
2011		18,120,563	17,900,250	17,605,460	17,014,895	17,879,595	18,224,634	19,187,240	19,094,732	19,156,281
2012			18,511,598	19,532,022	18,895,666	18,344,175	18,050,131	17,914,837	18,235,335	18,355,031
2013				19,570,946	20,118,343	20,323,841	21,742,580	22,798,398	22,397,394	22,859,132
2014					16,884,731	15,394,995	14,930,960	17,640,211	18,034,749	17,898,306
2015						20,452,199	20,840,034	22,471,512	21,707,615	23,006,844
2016							21,646,663	22,908,016	24,126,775	25,677,378
2017								21,914,736	23,453,130	23,876,588
2018									19,048,233	18,099,500
2019										17,349,941

(1) The information for the years 2010 through 2016 is presented as unaudited required supplementary information.

The following table presents cumulative paid losses and ALAE, net of reinsurance, for years ended December 31:

Accident Year	2010 (1)	2011 (1)	2012 (1)	2013 (1)	2014 (1)	2015 (1)	2016 (1)	2017	2018	2019
2010	7,535,122	10,695,223	12,955,467	14,756,510	15,330,864	16,283,050	16,778,214	16,720,942	16,721,059	16,721,159
2011		4,719,943	8,608,287	11,212,490	14,251,525	16,115,802	17,422,583	19,027,232	19,087,866	19,133,302
2012			6,719,982	11,673,621	13,411,125	15,369,629	16,734,967	17,265,513	17,638,646	18,001,581
2013				7,594,731	10,656,777	14,319,057	19,067,334	21,415,490	21,875,978	22,364,215
2014					3,826,263	6,082,893	9,173,947	14,556,687	16,843,128	17,487,722
2015						6,263,796	11,151,955	14,978,639	17,700,688	20,148,880
2016							7,435,120	12,009,273	15,916,432	21,438,785
2017								6,405,641	11,503,228	15,289,400
2018									4,959,689	9,254,754
2019										4,292,275

(1) The information for the years 2010 through 2016 is presented as unaudited required supplementary information.

The following table presents average annual percentage payout of incurred claims by age, net of reinsurance, as of December 31, 2019:

Years	1	2	3	4	5	6	7	8	9	10
	30.4%	20.8%	17.0%	16.7%	8.9%	3.1%	2.1%	0.5%	0.4%	0.4%

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures designed to ensure that information required to be disclosed in the Company's reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives; and, therefore, management was required to apply its judgment in evaluating the cost benefit relationship of possible controls and procedures.

As required by Securities and Exchange Commission rules, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There has been no change in the Company's internal control over financial reporting during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. The Company's process for evaluating controls and procedures is continuous and encompasses constant improvement of the design and effectiveness of established controls and procedures and the remediation of any deficiencies that may be identified during this process.

Management's Report on Internal Control Over Financial Reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system was designed to provide reasonable assurance to the

Company's management and Board of Directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2019. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in "Internal Control – Integrated Framework (2013)." Based upon its assessment, the Company's management believes that as of December 31, 2019, the Company's internal control over financial reporting is effective based on these criteria.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Information in response to Item 10 is incorporated by reference from the Company's definitive proxy statement to be used in connection with the Company's Annual Meeting of Shareholders pursuant to Instruction G(3) of Form 10-K.

Item 11. Executive Compensation.

Information in response to Item 11 is incorporated by reference from the Company's definitive proxy statement to be used in connection with the Company's Annual Meeting of Shareholders pursuant to Instruction G(3) of Form 10-K.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Information in response to Item 12 is incorporated by reference from the Company's definitive proxy statement to be used in connection with the Company's Annual Meeting of Shareholders pursuant to Instruction G(3) of Form 10-K.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Information in response to Item 13 is incorporated by reference from the Company's definitive proxy statement to be used in connection with the Company's Annual Meeting of Shareholders pursuant to Instruction G(3) of Form 10-K.

Item 14. Principal Accountant Fees and Services.

Information in response to Item 14 is incorporated by reference from the Company's definitive proxy statement to be used in connection with the Company's Annual Meeting of Shareholders pursuant to Instruction G(3) of Form 10-K.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) Financial Statements, Schedules and Exhibits:

1. Financial statements:

    The consolidated financial statements for the fiscal year ended December 31, 2019, are contained herein as listed in the Index to Consolidated Financial Statements on Page 47.

2. Financial schedules:

Schedule II - Condensed Financial Information of Registrant
Schedule III - Supplemental Insurance Information

Schedules other than those listed above are omitted, since they are not applicable, not required, or the information required being set forth is included in the consolidated financial statements or notes.

3. Exhibits:

3.1 Articles of Incorporation of Registrant, as amended. (Incorporated herein by reference to Exhibit 3.1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended March 31, 1984.)

3.2 Second Amended and Restated Bylaws, as amended, of Registrant. (Incorporated herein by reference to Exhibit 3.2 to Registrant's Current Report on Form 8-K filed on July 16, 2019.)

3.3 Amendment No. 1 to Second Amended and Restated Bylaws effective December 9, 2019. (Incorporated herein by reference to Exhibit 3.1 to Registrants Current Report on Form 8-K filed on December 11, 2019.)

3.4 Amendment No. 2 to Second Amended and Restated Bylaws effective January 10, 2020. (Incorporated herein by reference to Exhibit 3.1 to Registrants Current Report on Form 8-K filed on January 14, 2020.)

10.1 The 2011 Incentive Stock Option Plan of Unico American Corporation. (Incorporated by reference to Annex A to Registrant's Proxy Statement for the Annual Meeting of Shareholders held on May 26, 2011.)*

10.2 Amended and Restated Employment Agreement effective March 17, 2015, by and between Registrant and Cary L. Cheldin. (Incorporated herein by reference to Exhibit 10.1 of Registrant's Form 8-K filed on March 20, 2015)*

10.3 Job offer to Michael Budnitsky dated August 12, 2014. (Incorporated herein by reference to Exhibit 10.1 of Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2016.)*

10.4 Amendment, dated March 27, 2017, to Amended and Restated Employment Agreement effective March 17, 2015, by and between Registrant and Cary L. Cheldin. (Incorporated herein by reference to Exhibit 10.21 to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2017.)*

10.5 Amendment, dated March 23, 2018, to Amended and Restated Employment Agreement effective March 17, 2015, by and between Registrant and Cary L. Cheldin. (Incorporated herein by reference to Exhibit 10.22 to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2017.)*

10.6 Form of Indemnification Agreement. (Incorporated herein by reference to Exhibit 10.23 to the Registrant's Amendment No. 1 on Form 10-K/A to its Annual Report on Form 10-K for the fiscal year ended December, 31, 2017, filed on April 27, 2018.)*

10.7 Amendment, dated March 27, 2019, to Amended and Restated Employment Agreement effective March 17, 2015, by and between Registrant and Cary L. Cheldin.*

21 Subsidiaries of Registrant. (Incorporated herein by reference to Exhibit 22 to Registrant's Annual Report on Form 10-K for the fiscal year ended March 31, 1984.)

23.1 Consent of Independent Registered Public Accounting Firm – JLK Rosenberger LLP.

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.

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.

101 The following information from the Annual Report on Form 10-K for the fiscal year ended December 31, 2019, formatted in XBRL (Extensible Business Reporting Language) and furnished electronically herewith: (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations; (iii) the Consolidated Statements of Comprehensive Income (Loss); (iv) the Consolidated Statements of Cash Flows; (v) Consolidated Statements of Changes in Stockholder's Equity; and (vi) the Notes to Consolidated Financial Statements.**

* Indicates management contract or compensatory plan or arrangement.

** XBRL information is furnished and deemed not filed as part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act and otherwise is not subject to liability under these sections.

Item 16. Form 10-K Summary

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: March 30, 2020

UNICO AMERICAN CORPORATION

By: /s/ Cary L. Cheldin
Cary L. Cheldin
Chairman of the Board

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on the dates indicated by the following persons on behalf of the Registrant and in the capacities and on the dates indicated, including a majority of the Board of Directors of the Registrant.

Signature	Title	Date
/s/ Cary L. Cheldin Cary L. Cheldin	Chairman of the Board, President and Chief Executive Officer, and Director (Principal Executive Officer)	March 30, 2020
/s/ Michael Budnitsky Michael Budnitsky	Treasurer, Chief Financial Officer, Secretary, and Director (Principal Accounting and Principal Financial Officer)	March 30, 2020
/s/ Erwin Cheldin Erwin Cheldin	Director	March 30, 2020
/s/ Ronald A. Closser Ronald A. Closser	Director	March 30, 2020
/s/ Andrew L. Furgatch Andrew L. Furgatch	Director	March 30, 2020
/s/ John B. Keefe, Sr. John B. Keefe, Sr.	Director	March 30, 2020
/s/ David T. Russell David T. Russell	Director	March 30, 2020
/s/ Samuel J. Sorich Samuel J. Sorich	Director	March 30, 2020

SCHEDULE II

UNICO AMERICAN CORPORATION
AND SUBSIDIARIES

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

BALANCE SHEETS – PARENT COMPANY ONLY
AS OF DECEMBER 31

	2019	2018
ASSETS		
Cash	253,890	346,241
Receivables due from subsidiaries	1,750,869	2,416,033
Investments in subsidiaries	51,463,601	52,339,813
Property and equipment, net	1,688,810	764,464
Other assets	153,576	280,657
Total Assets	$55,310,746	$56,147,208
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Accrued expenses and other liabilities	$230,421	$231,786
Total Liabilities	$230,421	$231,786
Commitments and contingencies		
STOCKHOLDERS' EQUITY		
Common stock	$3,772,669	$3,772,858
Accumulated other comprehensive gain (loss)	1,182,867	(1,100,036)
Retained earnings	50,124,789	53,242,600
Total Stockholders' Equity	$55,080,325	$55,915,422
Total Liabilities and Stockholders' Equity	$55,310,746	$56,147,208

See accompanying notes to condensed financial information.
See accompanying report of independent registered accounting firm.

SCHEDULE II (continued)

UNICO AMERICAN CORPORATION
AND SUBSIDIARIES

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

STATEMENTS OF OPERATIONS – PARENT COMPANY ONLY
FOR THE YEARS ENDED DECEMBER 31

	2019	2018
REVENUES		
Net investment income	$120,193	$139,941
Other income	10,818	16
Total Revenues	131,011	139,957
EXPENSES		
General and administrative expenses	87,600	125,257
Income before equity in net income of subsidiaries	43,411	14,700
Equity in net loss of subsidiaries	(3,159,114)	(3,184,259)
Net Loss	$(3,115,703)	$(3,169,559)

See accompanying notes to condensed financial information.
See accompanying report of independent registered accounting firm.

SCHEDULE II (continued)

UNICO AMERICAN CORPORATION
AND SUBSIDIARIES

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

STATEMENTS OF COMPREHENSIVE LOSS – PARENT COMPANY ONLY
FOR THE YEARS ENDED DECEMBER 31

	2019	2018
Net loss	$(3,115,703)	$(3,169,559)
Other changes in comprehensive gain (loss):		
Changes in unrealized gains (losses) on securities classified as available-for-sale arising during the period, net of income tax	2,282,902	(860,140)
Comprehensive Loss	$(832,801)	$(4,029,699)

See accompanying notes to condensed financial information.
See accompanying report of independent registered accounting firm.

SCHEDULE II (continued)

UNICO AMERICAN CORPORATION
AND SUBSIDIARIES

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

STATEMENTS OF CASH FLOWS - PARENT COMPANY ONLY
FOR THE YEARS ENDED DECEMBER 31

	2019	2018
Cash flows from operating activities:		
Net loss	$(3,115,703)	$(3,169,559)
Adjustments to reconcile net loss to net cash from operations:		
Undistributed equity in net loss of subsidiaries	3,159,114	3,184,259
Depreciation and amortization, gross of asset retirement	294,039	282,947
Accrued expenses and other liabilities	(1,365)	14,501
Other assets	127,081	(128,992)
Net Cash Provided by Operating Activities	463,166	183,156
Cash flows from investing activities:		
Purchases of property and equipment, gross of asset retirement	(1,218,385)	(51,040)
Dividends received from subsidiaries	2,000,000	-
Net change in payables and receivables from subsidiaries	(1,334,836)	(103,482)
Net Cash Used by Investing Activities	(553,221)	(154,522)
Cash flows from financing activities:		
Repurchase of common stock	(2,296)	(216)
Net Cash Used by Financing Activities	(2,296)	(216)
Net increase (decrease) in cash	(92,351)	28,418
Cash at beginning of year	346,241	317,823
Cash at End of Year	$253,890	$346,241

See accompanying notes to condensed financial information.
See accompanying report of independent registered accounting firm.

CONDENSED FINANCIAL INFORMATION OF REGISTRANT
NOTES TO CONDENSED FINANCIAL INFORMATION

The accompanying condensed financial information should be read in conjunction with the Consolidated Financial Statements and Notes to Consolidated Financial Statements included in this report.

Dividends

Unico received cash dividends from Crusader of $2,000,000 and $0 in the years ended December 31, 2019 and 2018, respectively.

Federal Income Taxes

The Company and its wholly owned subsidiaries file consolidated federal and combined California income tax returns. Pursuant to a tax allocation agreement, Crusader and AAC are allocated taxes, or tax credits in the case of losses, at current corporate rates based on their own taxable income or loss. The payable to subsidiaries includes their income tax receivable or liability included in the consolidated return.

Reimbursement of Expenses

Unico was reimbursed certain expenses by its subsidiaries. These expenses included depreciation and amortization of $294,038 and $282,947 for the years ended December 31, 2019 and 2018, respectively.

Profit Sharing Plan

The Unico American Corporation Profit Sharing Plan ("Plan") covers Company's employees who are at least 21 years of age and have met certain service and eligibility requirements. Unico American Corporation is the Plan sponsor and the Plan administrator. Fidelity Management Trust Company is the Plan trustee. The Plan is intended to be a qualified retirement plan under the Internal Revenue Code. As required by the Plan, on an annual basis, the Company must contribute 3% of participants' eligible compensation to the account of each participant. In addition, pursuant to the terms of the Plan, the Company may contribute to participants an amount determined by the Board of Directors. Under the Plan, participants have the option to elect to make 401(k) and Roth 401(k) deferral contributions which are not matched by the Company. Participants must be employed by the Company on the last day of the Plan year to be eligible for a contribution. Participants are eligible to request a distribution of their vested account balance upon death, retirement, minimum required distributions and termination of employment.

Commitments and Contingencies

The Company establishes reserves for lawsuits, regulatory actions, and other contingencies for which the Company is able to estimate its potential exposure and believes a loss is probable. For loss contingencies believed to be reasonably possible, the Company discloses the nature of the loss contingency and an estimate of the possible loss, range of loss, or a statement that such an estimate cannot be made.

SCHEDULE III

UNICO AMERICAN CORPORATION
AND SUBSIDIARIES
SUPPLEMENTARY INSURANCE INFORMATION

	Deferred Policy Acquisition Cost	Future Benefits, Losses, and Loss Adjustment Expenses	Unearned Premium	Premium Revenue	Net Investment Income	Benefits, Claims, Losses and Settlement Expenses	Amortization of Deferred Policy Acquisition Costs	Other Operating Costs	Net Written Premium
Year ended December 31, 2019	$3,619,594	$55,066,480	$17,810,337	$26,737,468	$2,097,956	$22,576,127	$4,960,846	$7,085,731	$28,650,820
Year ended December 31, 2018	$3,489,728	$51,657,155	$15,964,589	$28,754,910	$1,907,773	$23,557,743	$5,908,831	$8,073,014	$25,874,020

DIRECTORS

Cary L. Cheldin*
Chairman of the Board and CEO,
Unico American Corporation

Michael Budnitsky*
Chief Financial Officer, Treasurer and Secretary,
Unico American Corporation

Erwin Cheldin
Retired Chairman of the Board and President,
Unico American Corporation

Ronald A. Closser
Retired Underwriting Officer,
The Zenith Insurance Companies

Rhonda L. Gillenwaters
Retired Senior Vice President,
Willis Re Inc.

Andrew L. Furgatch
President, Special Events Staffing
Former Governor, Property Casualty Insurers Association of America

John B. Keefe, Sr.
President, J. Keefe Insurance, LLC
Chartered Financial Analyst

David T. Russell, Ph.D.
Director, Center for Risk and Insurance
Professor of Insurance and Finance
California State University, Northridge

Samuel J. Sorich
Attorney at Law, Hinshaw & Culbertson, LLP
Retired President, Association of California Insurance Companies

*Executive Officer

CORPORATE HEADQUARTERS:

26050 Mureau Road
Calabasas, CA 91302

STOCKHOLDER INFORMATION:

818-591-9800

TRANSFER AGENCY AND REGISTRAR:

Unico American Corporation
Stock Transfer Department

AUDITORS:

JLK Rosenberger, LLP
Glendale, California

COMMON STOCK LISTING:

Nasdaq GM
Trading Symbol: UNAM

SUBSIDIARIES:

American Acceptance Corporation
American Insurance Brokers, Inc.
Bedford Insurance Services, Inc.
Crusader Insurance Company
Insurance Club, Inc.
dba AAQHC, An Administrator
National Insurance Brokers, Inc.
U. S. Risk Managers, Inc.
Unifax Insurance Systems, Inc.

The Annual Report to the Securities and Exchange Commission on Form 10-K, may be obtained free of charge upon written request to: Chief Financial Officer, Unico American Corporation, 26050 Mureau Road, Calabasas, CA 91302

SAFE HARBOR STATEMENTS UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

The statements contained in the “Letter to Stockholders” and other statements in this Annual Report, including, without limitation, those in the sections entitled “Business” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” that are not historical facts are forward looking statements. These statements, which may be identified by forward looking words or phrases such as “anticipate,” “appear,” “believe,” “estimate,” “expect,” “intend,” “may,” plan”, “should,” and “would” and similar words 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, without limitations, those described under Item 1A – “Risk Factors”

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