UNICO AMERICAN CORP
Form 10-K
April 02, 2018

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, 2017 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:

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

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

None

(Title of Class)

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

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

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

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

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

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

Large accelerated filer __ Accelerated filer __

Non-accelerated filer __ Smaller reporting company X 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 30, 2017, the last business day of Registrant's most recently completed second fiscal quarter, was $22,693,683.

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 April 2, 2018
Common Stock, no par value per share	5,307,133

Portions of the definitive proxy statement that Registrant intends to file pursuant to Regulation 14(a) by a date no later than 120 days after December 31, 2017, 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,” “ 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;

· a change 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 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;

· 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 shareholders;

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

Descriptions of the Company's operations in the following paragraphs are categorized between the Company's major segment, the insurance company operation, and other insurance operations. The insurance company operation is conducted through Crusader Insurance Company ("Crusader"), Unico's property and casualty insurance company. Revenues from insurance company operation and other insurance operations for the years ended December 31, 2017 and 2016 are as follows:

	2017 Total Revenues	Percent of Total Company Revenues		2016 Total Revenues	Percent of Total Company Revenues	
Insurance company operation	$33,972,236	92.3	%	$32,453,601	92.0	%
Other Insurance operations						
Gross commissions and fees:						
Health insurance program commission income	1,047,593	2.8	%	959,810	2.7	%
Policy fee income	1,622,032	4.5	%	1,691,655	4.9	%
Daily automobile rental insurance program commission	4,375	—		8,819	—	
Association operations membership and fee income	70,016	0.2	%	78,019	0.2	%
Total gross commission and fee income	2,744,016	7.5	%	2,738,303	7.8	%
Investment income	331	—		359	—	
Finance fees earned	74,834	0.2	%	68,900	0.2	%
Other income	65	—		6,561	—	
Total other insurance operations	2,819,246	7.7	%	2,814,123	8.0	%
Total revenues	$36,791,482	100.0	%	$35,267,724	100.0	%

INSURANCE COMPANY OPERATION

General

The insurance company operation is conducted through Crusader. Crusader is a multiple line property and casualty insurance company that began transacting business on January 1, 1985. From 2004 until June 2014, all of Crusader's business was written in the state of California. Crusader's business remains concentrated in California (99.7% and 99.5% of direct written premium (before reinsurance ceded) in 2017 and 2016 respectively. Crusader underwrites four statutory annual statement lines of business: (1) commercial multiple peril ("CMP"), (2) liability other than automobile and products, (3) fire, and (4) allied lines. During the years ended December 31, 2017 and 2016, CMP policies comprised 99% and 98% 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, 2017, 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, promotion, and distribution. Crusader believes that rate adequacy is more important than premium growth and that underwriting profit (net earned premium less losses and loss adjustment expenses and policy acquisition costs) is its primary goal. Nonetheless, Crusader believes that it can grow its sales and profitability by focusing upon four areas of its operations: (1) product development, (2) improved service to highly-specialized retail brokers, (3) appointment of highly-specialized independent retail agents, and (4) use of alternative marketing channels.

The Company continues working to improve its use of technology, particularly in areas of internet commerce and in its policy administration system (“PAS”). The Company believes that it will need to make substantial future cash expenditures to replace its existing PAS but it is unable to estimate the amount at this time. While the Company’s existing PAS continues to support the Company’s current operations, the Company believes it would realize more competitive parity with respect to product and service by replacing its existing PAS with a more contemporary platform. The Company is currently evaluating its alternatives.

Adjusting of Claims

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

Reinsurance

A reinsurance transaction occurs when an insurance company transfers (cedes) a portion of its exposure on policies written to a reinsurer that assumes that risk for a premium (ceded premium). Reinsurance does not legally discharge Crusader from primary liability under its policies. If the reinsurer fails to meet its obligations, Crusader must nonetheless pay its policy obligations. Crusader’s primary excess of loss reinsurance agreements, or treaties, during the years ended December 31, 2017 and 2016 are as follows:

Loss Year	Reinsurers	A.M. Best Rating	Retention
2017			$500,000

	Renaissance Reinsurance U.S. Inc.	A	
	& Hannover Ruck SE	A+	
	Renaissance Reinsurance U.S. Inc.	A	
2016	& Hannover Ruck SE	A+	$500,000
	& TOA Reinsurance Company of America	A+	

Reinsurance treaties are generally structured in layers, with different negotiated economic terms and retention of participation, or liability in each layer. In calendar years 2017 and 2016, Crusader retained a participation in its excess of loss reinsurance treaties of 10% in its 1^{st} layer (reinsured losses between $500,000 and $1,000,000), 0% in its 2^{nd} 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 2017 and 2016, Crusader retained a participation in its catastrophe excess of loss reinsurance treaties of 5% in its 1^{st} layer (reinsured losses between $1,000,000 and $10,000,000) and 0% in its 2^{nd} 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, 2017, all such ceded contracts are accounted for as risk transfer reinsurance.

The aggregate amount of ceded earned premium to the reinsurers was $6,656,508 and $6,097,248 for the years ended December 31, 2017 and 2016, respectively.

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

Unpaid Losses and Loss Adjustment Expenses

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

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

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

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:	2017	2016
Net written premium	$31,628,111	$32,624,522
Statutory surplus	$50,446,888	$59,120,443
Ratio	0.6 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 California Department of Insurance ("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 insurance company shareholders. 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.

In December 1993, the NAIC adopted 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, 2017, was 716% 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 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 %

Crusader was outside IRIS ratios 5, 7, and 8 due primarily to Crusader's $6,207,351 net loss for the year ended December 31, 2017. Crusader was outside 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 2017 and 2016 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, 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 December 14, 2017, A.M. Best Company reaffirmed Crusader’s Financial Strength Rating of A- (Excellent) and Long-Term Issuer Credit Rating of a- (Excellent), and revised the rating outlook to “negative” from “stable.” The negative outlook reflects A.M. Best’s concerns with Crusader’s recent declining underwriting performance as well as some of its recent underwriting and marketing leadership changes, as previously disclosed, and the execution risk that comes with such changes.

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 and 2017, and is set to expire on December 31, 2020. 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	
2016	84	%
2017	83	%
2018	82	%
2019	81	%
2020	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 a target 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 $111,773, and $105,302 in terrorism coverage premium from approximately 5% of its policyholders during the years ended December 31, 2017 and 2016, respectively. Crusader’s terrorism deductible was $7,490,724, and $6,980,486, during the years ended December 31, 2017 and 2016, respectively. Crusader’s 2018 terrorism deductible is $7,799,966.

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.

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”) (formally 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.

INVESTMENTS

On March 24, 2017, the Company’s Board of Directors approved new investment guidelines. Those guidelines are similar to what the Company believes are general investment guidelines used by Crusader’s peers.

Under the new 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 new 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-US dollar denominated securities.
- Any security that would not be in compliance with the regulations of Crusader’s state of domicile.

The Company’s old investment guidelines on equity securities limited investments in equity securities to an aggregate maximum of $2,000,000. The Company’s old investment guidelines on fixed maturities limited those investments to high-grade obligations with a maximum term of eight years. The maximum investment authorized in any one issuer was $2,000,000. This dollar limitation excluded bond premium paid in excess of par value and U.S. government or U.S. government guaranteed issues. Investments in municipal securities were primarily pre-refunded and secured by U.S. treasury securities. The short-term investments were either U.S. government obligations, Federal Deposit Insurance Corporation (“FDIC”) insured, or were in an institution with a Moody's rating of at least P2 and/or a Standard & Poor's rating of A1. All of the Company's fixed maturity investment securities were rated, readily marketable and could be liquidated without any materially adverse financial impact.

Historically, the Company managed Crusader’s investments in-house. Effective April 1, 2017, an outside investment advisor started managing Crusader’s investments. The advisor’s role is limited to maintaining Crusader’s portfolio within the new investment guidelines and providing investment accounting services to the Company. The investments are held by Crusader’s 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 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. Since July 2010, AAC has offered 0% financing on policies produced by Unifax for Crusader. Effective March 1, 2018, the annual percentage rate charged by AAC on new loans increased to 4.99% from 0%. The Company believes the new interest rate is 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 provides a variety of health and life insurance products to individuals and groups. These same products are offered by most of our competitors; thus service, reliability and stability are important to obtain and retain customers.

EMPLOYEES

As of April 2, 2018, the Company employed 79 persons of which 78 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.

On March 23, 2018, the Company entered into amendment of amended and restatement employment agreement effective March 17, 2015, between the Company and Cary L. Cheldin. A complete copy of the amendment is attached to this Form 10-K as Exhibit 10.22.

CONCENTRATION OF RISKS

99.7%, and 99.5% of Crusader's direct written premium was derived from California during the years ended December 31, 2017 and 2016, 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. In 2016, approximately 40% and 41% of the $959,810 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	Amount Recoverable as of December 31, 2017	Amount Recoverable as of December 31, 2016
Renaissance Reinsurance U.S. Inc.	A	$4,464,980	$5,392,811
Hannover Ruck SE	A+	3,384,341	2,720,850

TOA Reinsurance Company of America	A	670,337	1,667,336
Other	A	574	717
Total		$8,520,232	$9,781,714

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.

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. 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.

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 training, experience, and skill of the Company's claims representatives, continued access to independent or outside adjusters, the extent of and ability to recognize and respond to fraudulent or inflated claims, the claims organization's culture and the effectiveness of its management, the 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 $7,113,279 which Crusader experienced in 2017. 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. The Tax Cuts & Jobs Act ("TCJA"), signed into law on December 22, 2017, reduced the corporate Federal income tax rate from 34% to 21%, effective for years beginning after December 31, 2017. As a result of the TCJA, the Company had recognized a decrease to its net deferred asset as of December 31, 2017 in the amount of $2,176,862 and a one-time income tax charge of $2,137,385 for the year ended December 31, 2017.

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'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. In either event, 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 to 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.

The NAIC recently has undertaken a Solvency Modernization Initiative focused on updating the U.S. insurance solvency regulation framework, including capital requirements, governance and risk management, group supervision, accounting and financial reporting and reinsurance. 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.

A downgrade in the financial strength rating of the insurance company 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. 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 December 14, 2017, A.M. Best Company reaffirmed Crusader's Financial Strength Rating of A- (Excellent) and Long-Term Issuer Credit Rating of a- (Excellent), and revised the rating outlook to "negative" from "stable." The negative outlook reflects A.M. Best's concerns with Crusader's recent declining underwriting performance as well as some of its recent underwriting and marketing leadership changes, as previously disclosed, and the execution risk that comes with such changes.

The Company's earnings may be affected by changes in interest rates.

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.

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

The Company's new 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.

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

The Company's insurance business is concentrated in California (99.7% and 99.5% of direct written premium (before reinsurance ceded) in 2017 and 2016, 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.

The Company relies on independent insurance agents and brokers.

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 to manage many aspects of its business; and any failure of these systems to function properly or any interruption in their operation could result in a materially adverse effect on the Company’s business, financial condition and results of operations.

The Company depends on the security, accuracy, reliability, and proper functioning of its information technology systems. The Company relies on these information technology systems to effectively manage many aspects of its business, including underwriting, policy acquisition, claims processing and handling, accounting, reserving and actuarial processes and policies, 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. In addition, substantial costs may be incurred to remedy the damages caused by these disruptions. 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 would adversely impact the Company’s results of operation.

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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 it 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 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.

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.

Messrs. Erwin Cheldin, Cary L. Cheldin, and George C. Gilpatrick, who hold approximately 50.16% of the voting power of the Company, have agreed to vote the shares of common stock held by each of them so as to elect each of them to the Board of Directors and to vote on all other matters as they may agree. As a result of this agreement, the Company is a "Controlled Company" as defined in the NASDAQ Stock Market (NASDAQ) Listing Rules. A Controlled Company is exempt from the requirements of the NASDAQ Listing Rules requiring that (i) the Company have a majority of independent directors on the Board of Directors, (ii) the Compensation Committee be composed solely of independent directors, (iii) the compensation of the executive officers be determined by a majority of the independent directors or a compensation committee comprised solely of independent directors and (iv) director nominees be elected or recommended either by a majority of the independent directors or a nominating committee comprised solely of independent directors.

Accordingly, Messrs. Erwin Cheldin, Cary L. Cheldin, and George C. Gilpatrick have the ability to exert significant influence on the actions the Company may take in the future, including change of control 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.

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.

None.

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." The high and low sales prices for each quarterly period in the two most recent fiscal years are as follows:

Quarter Ended	High Price	Low Price
March 31, 2016	$10.92	$ 9.15
June 30, 2016	$12.39	$ 8.64
September 30, 2016	$11.93	$ 10.17
December 31, 2016	$11.50	$ 9.65
March 31, 2017	$10.75	$ 8.90
June 30, 2017	$10.25	$ 9.00
September 30, 2017	$11.30	$ 9.00
December 31, 2017	$10.20	$ 8.55

As of April 2, 2018, the number of shareholders of record of the Company's common stock was 207. 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, 2017 and 2016, respectively. The Company considers its profitability, cash requirements and other factors prior to the declaration of cash dividends. Because the Company is a holding company and operates through its subsidiaries, its cash flow and, consequently, its ability to pay dividends are dependent upon the earnings and cash requirements of its subsidiaries and the distribution of those earnings to the Company. Also, the ability of Crusader to pay dividends to the Company is subject to certain regulatory restrictions under the Holding Company Act (see Item 1 – “Business - Insurance Company Operation - Holding Company Act”). 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, 2017, the maximum dividend that could be made by Crusader to Unico without prior regulatory approval in 2018 is $5,044,689.

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, 2017 and 2016, the Company had remaining authority under the 2008 program to repurchase up to an aggregate of 188,655 shares of its common stock. The 2008 program is the only program under which there is authority to repurchase shares of the Company's common stock. The Company did not repurchase any stock during the year ended December 31, 2017. The Company repurchased 8,812 shares of stock at an average price of $10.17 per share during the year ended December 31, 2016, in unsolicited transactions at a cost of $89,582 of which $4,331 was allocated to capital and $85,251 was allocated to retained earnings. The Company has retired and intends to retire all repurchased stock, as applicable.

Performance Graph.

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 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.

Overview

General

Unico American Corporation is an insurance holding company that underwrites property and casualty insurance through its insurance company subsidiary, Crusader Insurance Company ("Crusader"); provides property, casualty, health and life insurance through its agency subsidiaries, Unifax Insurance Systems, Inc. ("Unifax") and American Insurance Brokers, Inc. ("AIB"); provides insurance premium financing through its subsidiary American Acceptance Company ("AAC"); and provides membership association services through its subsidiary Insurance Club, Inc., dba AAQHC, an Administrator ("AAQHC").

The Company's net loss was $8,724,984 and $1,404,277 for the years ended December 31, 2017 and 2016, respectively.

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.

Revenue and Income Generation

The Company receives its revenue 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, 2017 and 2016. The Company’s remaining operations constitute a variety of specialty insurance services, each with unique characteristics and individually not material to consolidated revenues.

Insurance Company Operation

As of December 31, 2017, 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 (99.7% and 99.5% of direct written premium (before reinsurance ceded) in 2017 and 2016, respectively). During the years ended December 31, 2017 and 2016, 99% and 98% of Crusader's business was CMP policies, respectively. On December 14, 2017, A.M. Best Company reaffirmed Crusader's Financial Strength Rating of A- (Excellent) and Long-Term Issuer Credit Rating of a- (Excellent), and revised the rating outlook to "negative" from "stable." The negative outlook reflects A.M. Best's concerns with Crusader's recent declining underwriting performance as well as some of its recent underwriting and marketing leadership changes, as previously disclosed, and the execution risk that comes with such changes.

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.

Written premium is a 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, 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.

The following is a reconciliation of net written premium to net earned premium:

	Year ended December 31,	
	2017	2016
Net written premium	$31,628,111	$32,624,522
Change in net unearned premium	715,208	(1,268,151)
Net earned premium	$32,343,319	$31,356,371

For the year ended December 31, 2017, direct written premium as reported on Crusader's statutory financial statement was $38,393,351 compared to $38,749,097, for the year ended December 31, 2016, a decrease of $355,746, or 0.9%. The decrease in direct written premium in 2017 compared to 2016 is not attributable to any material single event.

The following table shows the direct written premium production by state:

	Year ended December 31	
	2017	2016
California	99.7 %	99.5 %
Arizona	0.3 %	0.5 %
Washington	0.0 %	0.0 %
Total	100.0 %	100.0 %

The insurance company operation underwriting profitability is defined by pre-tax underwriting (loss) profit which is calculated as net earned premium less losses and loss adjustment expenses and policy acquisition costs. Crusader's underwriting (loss) profit (before income taxes) is as follows:

	Year ended December 31,	
	2017	2016
Net earned premium	$32,343,319	$31,356,371
Less:		
Losses and loss adjustment expenses	30,490,507	22,826,878
Policy acquisition costs	6,463,681	6,895,149
Total underwriting expenses	36,954,188	29,722,027
Underwriting (loss) profit (before income taxes)	$(4,610,869)	$1,634,344

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	
	2017	2016
Loss ratio	94 %	73%
Expense ratio	20 %	22%
Combined ratio	114%	95%

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

	Year ended December 31	
	2017	2016
Losses and loss adjustment expenses		
Provision for insured events of current year	$23,377,228	$22,850,408
Development of insured events of prior years	7,113,279	(23,530)
Total losses and loss adjustment expenses	$30,490,507	$22,826,878

<u>Other Insurance Operations</u>

The Company’s other insurance operations generate commissions and fees from various insurance products. The events that have the most significant economic impact are as follows:

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. Policy fee income for the year ended December 31, 2017, decreased $69,623 (4%) as compared to the year ended December 31, 2016. The policy fee income is earned ratably over the life of related insurance policies.

AIB is contracted with non-affiliated insurance carriers to provide a variety of health and life insurance products to individuals and groups. These same products are offered by most of our competitors; thus, service, reliability and stability are important to obtain and retain customers. AAQHC, as a membership association and third party administrator, has negotiated group dental, vision, and life insurance premiums for its members with several carriers and receives fees and dues from its members for access to these benefits. AIB underwrites these risks and receives a commission from the insurance carriers.

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, 2017, increased $87,783 (9%) compared to the year ended December 31, 2016. The increase in commission income is primarily a result of a cumulative commission correction of $68,971 by the non-affiliated insurance carriers received during the three months ended March 31, 2017.

AAQHC's fee income decreased $8,003 (10%) for the year ended December 31, 2017, as compared to the year ended December 31, 2016, as a result of a decrease in the number of association members enrolled in AAQHC.

The finance fees earned by AAC for the year ended December 31, 2017, increased $5,934 (9%) as compared to the year ended December 31, 2016. The increase in fees earned during the year presented compared to the prior year period is primarily a result of increase in late fees over comparable periods. AAC issued 2,914 and 3,087 loans in 2017 and 2016, respectively. Revenue earned in 2017 and 2016 consisted entirely of late fees and other miscellaneous fees charged. The average policy premium financed by AAC was $4,535 and $4,334 in 2017 and 2016, respectively.

The daily automobile rental insurance program was produced by Bedford. Bedford received commission income from non-affiliated insurance companies based on written premium. Bedford stopped selling and servicing daily automobile rental policies in 2015. Accordingly, since 2016, all Bedford's commission income is comprised of commission on previous business written. As a result, the daily automobile rental insurance program commission income for the year ended December 31, 2017, decreased $4,444 (50%) compared to the year ended December 31, 2016.

Investments and Liquidity

The Company generates investment income from its total invested assets of $96,691,616 and $90,576,445 (at amortized cost) as of December 31, 2017 and 2016, respectively, and from two cash deposits placed with the Los Angeles Superior Court by Crusader in lieu of appeal bonds. These deposits, totaling $13,373,793, were made on December 28, 2015, for $7,924,178 and on March 21, 2016, for $5,449,615, and their respective balances were included in "Cash and restricted cash" on the Consolidated Balance Sheet and were not a part of the total invested assets as of December 31, 2016. In September 2017, two judgments associated with the two cash deposits in lieu of appeal bonds were settled for a total of $7,000,000 which was paid from the two deposits, and the remaining funds on deposit with the Los Angeles Superior Court were returned to Crusader.

Investment income included in insurance company operation and other insurance operations, excluding realized investment losses, for the year ended December 31, 2017, increased $408,921 (46%) as compared to the year ended December 31, 2016. The increase in the investment income was primarily a result of a change in the investment guidelines and an increase in interest rates. The Company's yield on average invested assets increased to 1.24% in 2017 from 0.81% in 2016 (the interest on the two cash deposits in lieu of appeal bonds is excluded from the yield computation).

The weighted average maturity of the Company's fixed maturity investments was 6.8 years and 1.0 years as of December 31, 2017 and 2016, respectively.

Liquidity and Capital Resources

The Company reported net cash used by operating activities for each of the years ended December 31, 2017 and 2016. Cash used by operating activities in 2017 was $7,022,232 compared to $1,409,242 in 2016.

Fluctuations in cash flows from operating activities relate to the timing of the collection and the payment of insurance-related receivables and payables. 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, 2017 and 2016, the Company does not anticipate future liquidity problems, and the Company believes that it continues to be well capitalized and adequately reserved.

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 generates a significant amount of cash 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, restricted cash, and investments (at amortized cost) of the Company at December 31, 2017, were $97,465,842 compared to $104,072,824 at December 31, 2016. Crusader's cash, restricted cash, and investments were 98% and 99% of the total cash, restricted cash, and investments held by the Company as of December 31, 2017 and 2016, respectively.

As of December 31, 2017, all of the Company’s investments are in US. Treasury securities, FDIC insured certificates of deposit, other fixed maturity securities, and short-term investments. All of the Company’s investments, except for the certificates of deposit, are readily marketable. The weighted average maturity of the Company’s investments is approximately 6.8 years.

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 and market conditions, its investment guidelines place primary emphasis on buying and holding high-quality investments to maturity.

On March 24, 2017, the Company’s Board of Directors approved new investment guidelines. Those guidelines are similar to what the Company believes are general investment guidelines used by Crusader’s peers.

Under the new 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 new 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-US dollar denominated securities.
- Any security that would not be in compliance with the regulations of Crusader’s state of domicile.

The Company’s old investment guidelines on equity securities limited investments in equity securities to an aggregate maximum of $2,000,000. The Company’s old investment guidelines on fixed maturities limited those investments to high-grade obligations with a maximum term of eight years. The maximum investment authorized in any one issuer was $2,000,000. This dollar limitation excluded bond premium paid in excess of par value and U.S. government or U.S. government guaranteed issues. Investments in municipal securities were primarily pre-refunded and secured by

U.S. treasury securities. The short-term investments were either U.S. government obligations, Federal Deposit Insurance Corporation (“FDIC”) insured, or were in an institution with a Moody's rating of at least P2 and/or a Standard & Poor's rating of A1. All of the Company's fixed maturity investment securities were rated, readily marketable, and could be liquidated without any materially adverse financial impact.

Historically, the Company managed Crusader’s investments in-house. Effective April 1, 2017, an outside investment advisor started managing Crusader’s investments. The advisor’s role is limited to maintaining Crusader’s portfolio within the new investment guidelines and providing investment accounting services to the Company. The investments are held by Crusader’s custodian, Union Bank Global Custody Services.

Crusader's statutory capital and surplus as of December 31, 2017, was $50,446,888, a decrease of $8,673,555 (15%) from December 31, 2016. In the years ending December 31, 2017 and 2016, Crusader issued cash dividends of $3,000,000 and $2,000,000 to Unico, its parent and sole shareholder, respectively. These dividends were used primarily for general corporate purposes. Based on Crusader’s statutory surplus for the year ended December 31, 2017, the maximum dividend that could be made by Crusader to Unico without prior regulatory approval in 2018 is $5,044,689.

During the years ended December 31, 2017 and 2016, no cash dividends were declared or issued by the Company to its shareholders. Declaration of future cash dividends will be subject to the Company’s profitability and its cash requirements.

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, 2017 and 2016, the Company had remaining authority under the 2008 program to repurchase up to an aggregate of 188,655 shares of its common stock. The 2008 program is the only program under which there is authority to repurchase shares of the Company’s common stock. The Company did not repurchase any stock during the year ended December 31, 2017. The Company repurchased 8,812 shares of stock at an average price of $10.17 per share during the year ended December 31, 2016, in unsolicited transactions at a cost of $89,582 of which $4,331 was allocated to capital and $85,251 was allocated to retained earnings. The Company has retired and intends to retire all repurchased stock, as applicable.

One of the Company’s agents, which was appointed in 2008 to assist the Company in implementing its Trucking Program, failed to pay the net premium and policy fees due Unifax, the exclusive general agent for Crusader. The agent was initially late in paying its February 2009 production that was due to Unifax on April 15, 2009. In May 2009, as a result of the agent’s failure to timely pay its balance due to Unifax, the Company terminated its agency agreement and assumed ownership and control of that agent’s policy expirations written with the Company. The Company subsequently commenced legal proceedings against the agent corporation, its three principals (who personally guaranteed the agent’s obligations) and another individual for the recovery of the balance due and any related recovery costs incurred. All related recovery costs have been expensed as incurred. The agent corporation and two of its principals filed bankruptcy. The corporation was adjudicated bankrupt. The Company obtained judgments, non-dischargeable in bankruptcy, for the full amount due from the two principals who filed bankruptcy. The other principal stipulated to a judgment of $1,200,000. The claim against the fourth individual was resolved. The Company collected $0 during the years ended December 31, 2017 and 2016. As of December 31, 2017 and 2016, the agent’s balance due to Unifax was $1,181,272. As of December 31, 2017 and 2016, the Company’s bad debt reserve associated with this matter was $1,181,272 which represents approximately 100% of the balance due to Unifax. Although the receivable is fully reserved for financial reporting purposes at December 31, 2017, the Company continues to pursue collection of the judgments from the three principals. Bad debt expense was $16,222 and $5,833 for the years ended December 31, 2017 and 2016, respectively.

While material capital expenditures may be funded through borrowings, the Company believes that its cash and short-term investments at December 31, 2017, net of statutory deposits of $700,000 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. Trust restrictions on cash and short-term investments were $0 at December 31, 2017 and December 31, 2016.

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.

Contractual Obligations

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.

Results of Operations

General

Total revenue was $36,791,482 and $35,267,724 for the years ended December 31, 2017 and 2016, respectively. This represents an increase of $1,523,758 (4%) for the 2017 year compared to the 2016. The Company had net loss of $8,724,984 and $1,404,277 for the years ended December 31, 2017 and 2016, respectively. This represents an increase in net loss of $7,320,707 (521%) for the 2017 year compared to the 2016 year due primarily to the adverse development of insured events of prior years during the year ended December 31, 2017, primarily on long-tail claims in accident years 2016, 2015, and 2014.

For the year ended December 31, 2017, the Company had a loss before taxes of $9,880,221 compared to a loss before taxes of $2,114,238 for the year ended December 31, 2016, an increase in the loss before taxes of $7,765,983 (367%). This increase in the loss before taxes was due primarily to increased losses and loss adjustment expenses partially offset by an increase in total revenues.

The effect of inflation on the Company's net income during the years ended December 31, 2017 and 2016 was not significant.

The Company derives revenue from various sources as discussed below.

Insurance Company Operation

Premium and loss information of Crusader are as follows:

	Year ended December 31	
	2017	2016
Direct written premium (before reinsurance ceded)	$38,393,351	$38,749,097
Net written premium (net of reinsurance ceded)	$31,628,111	$32,624,522
Direct earned premium (before reinsurance ceded)	$38,999,827	$37,453,619
Net earned premium (net of reinsurance ceded)	$32,343,319	$31,356,371
Losses and loss adjustment expenses	$30,490,507	$22,826,878
Gross unpaid losses and loss adjustment expenses	$49,076,991	$47,055,787
Net unpaid losses and loss adjustment expenses	$40,683,441	$37,534,817

Crusader's primary line of business is CMP policies. This line of business represented approximately 99% and 98% of Crusader's total written premium for the years ended December 31, 2017 and 2016, respectively.

Crusader Premium

For the year ended December 31, 2017, direct written premium, as reported on Crusader's statutory financial statement, was $38,393,351 compared to $38,749,097 for the year ended December 31, 2016, a decrease of ($355,746) (0.9%). The decrease in direct written premium in 2017 compared to 2016 is not attributable to any material single event.

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.

Crusader's direct, ceded and net earned premium are as follows:

	Year ended December 31	
	2017	2016
Direct earned premium	$38,999,827	$37,453,619
Ceded earned premium	(6,656,508)	(6,097,248)
Net earned premium	$32,343,319	$31,356,371
Ratio of ceded earned premium to direct earned premium	17 %	16 %

Direct earned premium for the year ended December 31, 2017, increased $1,546,208 (4%) compared to the year ended December 31, 2016. The increase in the direct earned premium was due primarily to growth in the direct written premium during the year ended December 31, 2016.

Ceded earned premium for the year ended December 31, 2017, increased $559,260 (9%) compared to the year ended December 31, 2016.

The ratio of ceded earned premium to direct earned premium for the year ended December 31, 2017, is relatively unchanged compared to the year ended December 31, 2016, as there were no major modifications to Crusader's excess of loss treaties.

Reinsurance treaties are generally structured in layers, with different negotiated economic terms and retention of participation, or liability in each layer. In calendar years 2017 and 2016, Crusader retained a participation in its excess of loss reinsurance treaties of 10% 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 2017 and 2016, 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).

The Company evaluates each of its ceded reinsurance contracts at its inception to determine if there is a sufficient risk transfer to allow the contract to be accounted for as reinsurance under current accounting literature. As of December 31, 2017, all such ceded contracts are accounted for as risk transfer reinsurance.

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, 2017 and 2016 were $30,490,507 and $22,826,878, respectively.

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

	Year ended December 31			
	2017	2017 Loss Ratio	2016	2016 Loss Ratio
Net earned premium	$32,343,319		$31,356,371	
Losses and loss adjustment expenses:				
Provision for insured events of current year	23,377,228	72 %	22,850,408	73 %
Development of insured events of prior years	7,113,279	22 %	(23,530)	0 %
Total losses and loss adjustment expenses	$30,490,507	94 %	$22,826,878	73 %

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 adverse development of insured events of prior years during the year ended December 31, 2017, was due primarily to higher than expected incurred losses and loss adjustment expenses on long-tail claims in accident years 2016, 2015, and 2014. The development of insured events of prior years in the above table is not necessarily indicative of the results that may be expected in future periods.

The variability of Crusader's losses and loss adjustment expenses for the periods presented is due primarily to the small size and diverse nature of populations that represent Crusader's policyholders and claims, which may result in greater fluctuations in claim frequency and/or severity. Also, 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, its targeted ultimate loss ratios, and its goal to minimize ceded premium. The adverse (favorable) development by accident year is as follows:

Accident Year	Year ended December 31 2017 Adverse (Favorable) Development	% of Total	2016 Adverse (Favorable) Development	% of Total
Prior to 2008	$329,240	5 %	$(19,701)	84 %
2008	(18,348)	0 %	60,220	(256 %)
2009	(811,906)	(11 %)	(613,793)	2,609 %
2010	(685,302)	(10 %)	(562,171)	2,389 %
2011	1,085,104	15 %	226,918	(965 %)
2012	(11,860)	0 %	(393,236)	1,671 %
2013	1,166,937	16 %	1,334,578	(5,672 %)
2014	2,844,431	40 %	(501,836)	2,133 %
2015	1,791,782	25 %	445,491	(1,893 %)
2016	1,423,201	20 %	—	—
Total prior accident years	$7,113,279	100 %	$(23,530)	100 %

Crusader sets reserves based on its expected loss ratio and its expected loss and loss adjustment expense development patterns. Crusader’s initial expected loss ratio is based on its historical average loss ratio, 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, 2017, the estimated ultimate loss ratio is within five percentage points of the initial expected loss ratio in 10 of Crusader’s 33 years. Since Crusader’s net earned premium in 2017 was $32,343,319, a difference between the accident year 2017 actual and initial expected loss ratios of only five percentage points will or may ultimately impact losses and loss adjustment expenses by $1,617,166. The estimated ultimate loss ratio is within ten percentage points of the initial expected loss ratio in 12 of Crusader’s 33 years. A ten percentage point difference between the accident year 2017 actual and the initial expected loss ratios will or may ultimately impact losses and loss adjustment expenses by $3,234,332. The estimated ultimate loss ratio is within twenty percentage points of the initial expected loss ratio in 23 of Crusader’s 33 years. A twenty percentage point difference between the accident year 2017 actual and the initial expected loss ratios will or may ultimately impact losses and loss adjustment expenses by $6,468,664.

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	
	2017	2016
Direct reserves:		
Case reserves	$18,948,233	$16,384,081
IBNR reserves	30,128,758	30,671,706
Total direct reserves	$49,076,991	$47,055,787
Reserves net of reinsurance:		
Case reserves	$14,985,639	$12,458,646
IBNR reserves	25,697,802	25,076,171
Total net reserves	$40,683,441	$37,534,817

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	2017		2016	
CMP	$48,003,282	97.8 %	$46,100,751	98.0 %
Other liability	1,060,328	2.2 %	912,014	1.9 %
Other	13,381	0.0 %	43,022	0.1 %
Total	$49,076,991	100.0%	$47,055,787	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	
	2017	2016
Reserve for unpaid losses and loss adjustment expenses at beginning of year – net of reinsurance	$37,534,817	$39,456,610
Incurred losses and loss adjustment expenses:		
Provision for insured events of current year	23,377,228	22,850,408
Development of insured events of prior years	7,113,279	(23,530)
Total incurred losses and loss adjustment expenses	30,490,507	22,826,878
Payments:		
Losses and loss adjustment expenses attributable to insured events of the current year	7,925,460	7,984,562
Losses and loss adjustment expenses attributable to insured events of prior years	19,416,423	16,764,109
Total payments	27,341,883	24,748,671
Reserve for unpaid losses and loss adjustment expenses at end of year – net of reinsurance	40,683,441	37,534,817
Reinsurance recoverable on unpaid losses and loss adjustment expenses at end of year	8,393,550	9,520,970
Reserve for unpaid losses and loss adjustment expenses at end of year per balance sheet, gross of reinsurance	$49,076,991	$47,055,787

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 results in being five percent different than Crusader's 2017 net reserve, $2,034,172 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 results in being ten percent different than Crusader's 2017 net reserve, $4,068,344 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.

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Other Insurance Operations

Health Insurance Program

Commission income from health insurance sales is as follows:

	Year ended December 31	
	2017	2016
Commission income	$1,047,593	$959,810

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, 2017, increased $87,783 (9%) compared to the year ended December 31, 2016. The increase in commission income is primarily a result of a cumulative commission correction of $68,971 by the non-affiliated insurance carriers received during the three months ended March 31, 2017.

In 2017, approximately 42% and 45% 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 2016, approximately 40% and 41% 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.

Association Operation

Membership and fee income from the association program of AAQHC is as follows:

	Year ended December 31	
	2017	2016
Membership and fee income	$70,016	$78,019

Membership and fee income for the year ended December 31, 2017, decreased $8,003 (10%) compared to the year ended December 31, 2016. The decrease is a result of a decrease in the number of association members primarily due to increased competition.

Policy Fee Income

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. Unifax’s policy fee income is as follows:

	Year ended December 31	
	2017	2016
Policy fee income	$1,622,032	$1,691,655
Policies issued	9,036	9,607

Policy fee income for the year ended December 31, 2017, decreased $69,623 (4%) as compared to the year ended December 31, 2016. This decrease in policy fee income in 2017 compared to 2016 was primarily the result of a 571 (6%) decrease in the number of policies issued during 2017 compared to 2016.

Daily Automobile Rental Insurance Program

The daily automobile rental insurance program was produced by Bedford. Bedford received commission income from non-affiliated insurance companies based on written premium and continues to receive contingent commission on previous business written.

Commission income from the daily automobile rental insurance program is as follows:

	Year ended December 31	
	2017	2016
Commission income	$4,375	$8,819

Bedford stopped selling and servicing the daily automobile rental polices in 2015. As a result of this decision, the commission income from the daily automobile rental insurance program for the year ended December 31, 2017, decreased $4,444 (50%) compared to the year ended December 31, 2016.

Since 2016, all Bedford's commission income was comprised of contingent commission on previous business written. The contingent commission Bedford received in 2017 and 2016 was based on profitability of premiums written in prior years for one of the non-affiliated insurance companies it represented.

Premium Finance Program

AAC 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. Since July 2010, AAC has offered 0% financing on policies produced by Unifax for Crusader. Effective March 1, 2018, the annual percentage rate charged on AAC new loans increased to 4.99% from 0%. The Company believes the new interest rate is competitive and will not have a negative impact on its business. Income generated by AAC consists of late fees, returned check fees and payment processing fees.

Finance fees earned from financing policies are as follows:

	Year ended December 31	
	2017	2016
Finance fees earned	$74,834	$68,900
Loans issued	2,914	3,087

The finance fees earned for the year ended December 31, 2017, increased $5,934 (9%) as compared to the year ended December 31, 2016. The increase in fees earned during the years presented compared to the prior year period is primarily a result of increase in late fees over comparable periods.

The number of loans issued decreased by 173 (6%) during 2017 when compared to 2016. The average premium financed by AAC was $4,535 and $4,334 in 2017 and 2016, respectively. During 2017, 40% of all Unifax policies were financed and 80% of those policies were financed by AAC. During 2016, 39% of all Unifax policies were financed and 82% of those policies were financed by AAC.

Investment Income and Net Realized Losses

Investment income, excluding net realized investment losses, is as follows:

	Year ended December 31	
	2017	2016
Average invested assets (1) – at amortized cost	$93,634,030	$94,209,988
Investment income:		
Insurance company operation (2)	$1,289,736	$880,787
Other insurance operations	331	359
Total investment income	$1,290,067	$881,146
Yield on average invested assets (3)	1.24 %	0.81 %

(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 insurance company operation included $133,160 and $113,394 of interest on the cash deposits in lieu of appeal bonds for the years ended December 31, 2017 and 2016, respectively.

(3) Yield on average invested assets did not include the interest on the cash deposits in lieu of appeal bonds.

In the year ended December 31, 2017, the Company's average invested assets (at amortized cost) decreased $575,958 (1%) compared to the year ended December 31, 2016. The decrease in average invested assets was attributable primarily to usage of funds in operations.

In the year ended December 31, 2017, investment income earned, excluding realized losses and investment income earned on cash deposits in lieu of appeal bonds, increased $408,921 (46%) compared to the year ended December 31, 2016. This increase in investment income was due primarily to increase in the yield on average invested assets as a result of a change in the investment guidelines during 2017 and an increase in interest rates. The weighted average maturity of the Company's fixed maturity investments as of December 31, 2017, was 6.8 years compared to 1.0 years as of December 31, 2016.

The par value, amortized cost, fair value and weighted average yield of fixed maturity investments at December 31, 2017, by contractual maturity are as follows:

Maturities by Calendar Year	Par Value	Amortized Cost	Fair Value	Weighted Average Yield
December 31, 2018	$21,272,000	$21,272,019	$21,271,851	1.11 %
December 31, 2019	9,328,000	9,325,111	9,316,125	1.34 %
December 31, 2020	6,790,000	6,798,625	6,751,157	1.88 %
December 31, 2021	48,205,020	48,855,365	48,608,321	2.54 %
Total	$85,595,020	$86,251,120	$85,947,454	2.00 %

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

As of December 31, 2017, all of the Company's investments are in US. 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, 2017		December 31, 2016	
Type of Security	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available-for-sale fixed maturity investments:				

U.S. treasury securities	$7,517,901	$7,454,225	$19,091,842	$19,103,925
Corporate securities	28,745,223	28,657,640	—	—
Agency mortgage-backed securities	21,889,996	21,737,589	—	—
Held-to-maturity fixed maturity investments:				
Certificates of deposit	28,098,000	28,098,000	61,280,000	61,280,000
Total fixed maturity investments	86,251,120	85,947,454	80,371,842	80,383,925
Short-term cash investments:				
U.S. treasury bills	1,148,395	1,148,395	—	—
Custodial trust	6,275,648	6,275,648	—	—
U.S. treasury money market fund	—	—	8,542,292	8,542,292
Commercial paper	499,383	499,383	—	—
Certificates of deposit	200,000	200,000	1,098,000	1,098,000
Bank money market accounts	2,315,307	2,315,307	562,548	562,548
Bank savings accounts	1,763	1,763	1,763	1,763
Short-term cash investments	10,440,496	10,440,496	10,204,603	10,204,603
Total investments	$96,691,616	$96,387,950	$90,576,445	$90,588,528

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	Estimated Fair Value	Gross Unrealized Losses
December 31, 2017:				
U.S. treasury securities	$7,454,225	$(63,697)	$—	$ —
Corporate securities	20,335,512	(130,787)	—	—
Agency mortgage-backed securities	21,737,589	(152,407)	—	—
Total	$49,527,326	$(346,891)	$—	$ —

	Less than 12 Months		12 Months or Longer	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
December 31, 2016:				
U.S. treasury securities	$—	$ —	$9,097,285	$ (2,122)
Total	$—	$ —	$9,097,285	$ (2,122)

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 Condensed 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, 2017, and December 31, 2016, 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. The Company sold two securities prior to their maturity during the year ended December 31, 2017. These securities had amortized cost of $1,141,338. The Company realized a net investment gain of $554 on these sales for the year ended December 31, 2017. Proceeds of the sales of these securities were used for general corporate purposes. The Company sold three securities prior to their maturity during the year ended December 31, 2016. These securities had amortized cost of $746,000. The Company realized a net investment loss of $1,278 on these sales for the year ended December 31, 2016. Proceeds of the sales of these securities were used for general corporate purposes.

Other Income

Other income from insurance company operation and other insurance operations is comprised primarily of miscellaneous items not relevant to the primary income statement captions.

	Year ended December 31	
	2017	2016
Other income from insurance company operation and other insurance operations	$338,718	$224,282

Other income from insurance company operation and other insurance operations increased $114,436 (51%) in the year ended December 31, 2017, when compared to the year ended December 31, 2016. The increase in the year ended December 31, 2017 from the year ended December 31, 2016, is due primarily to increase in rental income on the Calabasas building.

Operating Expenses

Policy Acquisition Costs are as follows:

	Year ended December 31	
	2017	2016
Policy acquisition costs	$6,463,681	$6,895,149
Ratio to net earned premium (GAAP ratio)	20 %	22 %

Policy acquisition costs consist of commissions, premium taxes, inspection fees, and certain other underwriting costs that are directly related to and vary with the 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 facultative or catastrophe ceded premium. Policy acquisition costs, net of ceding commission, are deferred and amortized as the related premium is earned. Policy acquisition costs decreased $431,468 (6%) in the year ended December 31, 2017, compared to the year ended December 31, 2016, due primarily to lower commission expense as a result of the loss experience and higher ceding commission due to an increase in ceded earned premium for the year ended December 31, 2017.

Salaries and Employee Benefits are as follows:

	Year ended December 31	
	2017	2016
Total salaries and employee benefits incurred	$8,597,641	$7,680,315
Less: Charged to losses and loss adjustment expenses	(1,324,440)	(1,178,001)
Less: Capitalized to policy acquisition costs	(1,429,487)	(1,575,662)
Net amount charged to operating expenses	$5,843,714	$4,926,652

Total salaries and employee benefits incurred for the year ended December 31, 2017, increased $917,326 (12%) compared to the year ended December 31, 2016, due primarily to costs associated with a termination of an employment agreement with an employee; there are no such agreements for any other employees other than those agreements disclosed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

Commissions to Agents/Brokers are as follows:

Year ended December 31	
2017	2016

Commission to agents/brokers	$166,636	$161,545

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 increased $5,091 (3%) for the year ended December 31, 2017, as compared to the year ended December 31, 2016, due primarily to increase in written premium in the health insurance program.

Other Operating Expenses are as follows:

	Year ended December 31	
	2017	2016
Other operating expenses	$3,707,165	$2,571,738

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

Other operating expenses increased $1,135,427 (44%) for the year ended December 31, 2017, compared to the year ended December 31, 2016, due primarily to fees associated with the California Department of Insurance financial examination of Crusader and consulting expenses, which together accounted for approximately 51% of the increase. Other insignificant individual expenses contributed to the remainder of the increase.

Income Taxes

Income Tax Expenses are as follows:

	Year ended December 31	
	2017	2016
Income tax benefit	$1,155,237	$709,961
Effective income tax rate	12 %	34 %

Income tax was a benefit for the year ended December 31, 2017, increased $445,276 (63%) compared to the year ended December 31, 2016. The effective income tax rates for the years ended December 31, 2017 and 2016 were 12% and 34%, respectively. The increase in the income tax benefit is related primarily to the $9,880,221 loss before taxes for the year ended December 31, 2017, compared to the $2,114,238 loss before taxes for the year ended December 31, 2016.

The TCJA, signed into law on December 22, 2017, reduced the corporate Federal income tax rate from 34% to 21%, effective for years beginning after December 31, 2017. As a result of the TCJA, the Company had recognized a decrease to its net deferred asset as of December 31, 2017 in the amount of $2,176,862 and a one-time income tax charge of $2,137,385 for the year ended December 31, 2017. This one-time income tax charge partially offset income tax benefit due to the $9,880,221 loss before taxes for the year ended December 31, 2017.

Significant 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 like 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 the 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 emerged claims costs that have are different than the claims costs that were 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 four statutory annual statement lines of business: (1) CMP, (2) liability other than automobile and products, (3) fire, and (4) allied lines. CMP policies comprised 99% and 98% of Crusader’s 2017 and 2016 direct written premium, respectively. 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, 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 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. 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, legal, 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 2017, Crusader had 587 open claim files. During 2017, 825 new claim files were opened and 820 claim files were closed, leaving 592 open claim files at the end of 2017. 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, 2017 and 2016, adverse or (favorable) development may emerge in the future.

	Year ended December 31	
	2017	2016
Net reserves for unpaid losses and loss adjustment expenses at beginning of year	$37,534,817	$39,456,610
Adverse (favorable) development of insured events of prior years	$7,113,279	$(23,530)
Percentage of adverse (favorable) development to beginning reserves	19.0%	(0.1%)

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.

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, 2017, 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 2017	2016
Ceded losses and loss adjustment expenses recoverable on excess of loss treaties:		
Ceded case loss and loss adjustment expense reserves recoverable	$ 3,962,594	$ 3,925,435
Ceded IBNR loss and loss adjustment expense reserves recoverable	4,430,956	5,595,535
Total ceded loss and loss adjustment expense reserves recoverable	$ 8,393,550	$ 9,520,970

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 2017	2016
Direct earned premium	$38,999,827	$37,453,619
Ceded earned premium	(6,656,508)	(6,097,248)
Net premium earned	$32,343,319	$31,356,371
Ratio of ceded earned premium to direct earned premium	17 %	16 %

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

	Year ended December 31	
	2017	2016
Direct losses and loss adjustment expenses incurred	$43,672,969	$27,383,996
Ceded losses and loss adjustment expenses incurred on excess of loss treaties:		
Ceded paid losses and loss adjustment expenses	(14,309,883)	(4,673,109)
Change in ceded case reserves	(37,159)	(631,227)
Change in ceded IBNR reserves	1,164,580	747,218
Total ceded losses and loss adjustment expenses incurred	(13,182,462)	(4,557,118)
Net losses and loss adjustment expenses incurred	$30,490,507	$22,826,878

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

	Year ended December 31	
	2017	2016
Ceded earned premium	$6,656,508	$6,097,248
Ceded losses and loss adjustment expenses incurred	(13,182,462)	(4,557,118)
Ceded earned premium less ceded losses and loss adjustment expenses incurred	$(6,525,954)	$1,540,130

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	
	2017	2016
Change in reinsurance recoverable on ceded paid and unpaid losses and loss adjustment expenses	$1,261,482	$606,570

There were no catastrophe losses incurred during the years ended December 31, 2017 and 2016.

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, 2017 and 2016, Crusader wrote 99.7% and 99.5% 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, 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.

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.

Related Party Transactions

None.

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

The Company's consolidated balance sheet includes a substantial amount of invested assets whose fair values are subject to various market risk exposures including interest rate risk and equity price risk.

The Company's invested assets at December 31, 2017 and 2016 consisted of the following (at amortized cost):

	2017	2016
U.S. treasury securities	$7,517,901	$19,091,842
Certificates of deposit – over 1 year	28,098,000	61,280,000
Corporate securities	28,745,223	—
Agency mortgage-backed securities	21,889,996	—
Short-term investments	10,440,496	10,204,603
Total invested assets	$96,691,616	$90,576,445

The Company's interest rate risk is primarily in its fixed maturity bond portfolio. As market interest rates decrease, the value of the portfolio increases with the opposite holding true in rising interest rate environments. In addition, the longer the maturity, the more sensitive the asset is to market interest rate fluctuations. The Company believes that it has limited this risk by investing in securities with shorter term maturities. In addition, although part of fixed maturity bonds is classified as available-for-sale, the Company's investment guidelines place primary emphasis on buying and holding high-quality bonds to maturity. Because fixed maturity bonds are primarily held to maturity, the change in the market value of these bonds resulting from market interest rate movements is not recognized as realized gains or losses in the Consolidated Statements of Operations. Interest rate movements on the Company's investments are not due to credit rating related issues. As of December 31, 2017, the Company's unrealized losses (net of unrealized gains) before income taxes on its fixed maturity bond portfolio were $303,666 compared to unrealized gains (net of unrealized losses) before income taxes of $12,083 as of December 31, 2016. Given a hypothetical parallel increase of 100 basis points in interest rates, the fair value of the fixed maturity bond portfolio as of December 31, 2017, would decrease by approximately $2,730,000. This decrease would not be reflected in the Consolidated Statements of Operations except to the extent that the securities were sold or the decrease was deemed to be other-than-temporary.

The Company's short-term investments and certificates of deposit have only minimal interest rate risk.

The credit risk is minimized by maintaining a high credit quality fixed maturity bond portfolio and holding fixed maturity investments with average duration of five years or less.

The Company did not have any equity price risk since the Company did not hold any equity securities as of December 31, 2017 and 2016.

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, 2017 and 2016, 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, 2017, and the related notes (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, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the two year period ended December 31, 2017, 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

April 2, 2018

UNICO AMERICAN CORPORATION

AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31

	2017	2016
ASSETS		
Investments:		
Available-for-sale:		
Fixed maturities, at fair value (amortized cost: $58,153,120 at December 31, 2017, and $19,091,842 at December 31, 2016)	$57,849,454	$19,103,925
Held-to-maturity:		
Fixed maturities, at amortized cost (fair value: $28,098,000 at December 31, 2017, and $61,280,000 at December 31, 2016)	28,098,000	61,280,000
Short-term investments, at fair value	10,440,496	10,204,603
Total Investments	96,387,950	90,588,528
Cash and restricted cash	774,226	13,496,379
Accrued investment income	490,579	185,916
Receivables, net	6,005,764	6,008,083
Reinsurance recoverable:		
Paid losses and loss adjustment expenses	126,682	260,744
Unpaid losses and loss adjustment expenses	8,393,550	9,520,970
Deferred policy acquisition costs	4,162,771	4,432,299
Property and equipment, net	10,014,869	10,282,532
Deferred income taxes	3,380,806	1,177,346
Other assets	561,561	2,269,408
Total Assets	$130,298,758	$138,222,205
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Unpaid losses and loss adjustment expenses	$49,076,991	$47,055,787
Unearned premium	18,768,264	19,374,740
Advance premium and premium deposits	207,808	224,055
Accrued expenses and other liabilities	2,300,358	2,660,983
Total Liabilities	$70,353,421	$69,315,565

Commitments and contingencies

STOCKHOLDERS' EQUITY		
Common stock, no par value – authorized 10,000,000 shares, issued and outstanding shares 5,307,133 at December 31, 2017 and 2016	$3,772,872	$3,761,320
Accumulated other comprehensive (loss) income	(239,896)	7,975
Retained earnings	56,412,361	65,137,345
Total Stockholders' Equity	$59,945,337	$68,906,640
Total Liabilities and Stockholders' Equity	$130,298,758	$138,222,205

See accompanying notes to consolidated financial statements.

UNICO AMERICAN CORPORATION

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31

	2017	2016
REVENUES		
Insurance company operation:		
Net earned premium	$32,343,319	$31,356,371
Investment income	1,289,736	880,787
Net realized investment gains (losses)	528	(1,278)
Other income	338,653	217,721
Total Insurance Company Operation	33,972,236	32,453,601
Other insurance operations:		
Gross commissions and fees	2,744,016	2,738,303
Investment income	331	359
Finance fees earned	74,834	68,900
Other income	65	6,561
Total Revenues	36,791,482	35,267,724
EXPENSES		
Losses and loss adjustment expenses	30,490,507	22,826,878
Policy acquisition costs	6,463,681	6,895,149
Salaries and employee benefits	5,843,714	4,926,652
Commissions to agents/brokers	166,636	161,545
Other operating expenses	3,707,165	2,571,738
Total Expenses	46,671,703	37,381,962
Loss before taxes	(9,880,221)	(2,114,238)
Income tax benefit	1,155,237	709,961
Net Loss	$(8,724,984)	$(1,404,277)

PER SHARE DATA:

Basic		
Loss per share	$(1.64)	$(0.26)
Weighted average shares	5,307,133	5,307,694
Diluted		
Loss per share	$(1.64)	$(0.26)
Weighted average shares	5,307,133	5,307,694

See accompanying notes to consolidated financial statements.

UNICO AMERICAN CORPORATION

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

FOR THE YEARS ENDED DECEMBER 31

	2017	2016
Net loss	$(8,724,984)	$(1,404,277)
Other changes in comprehensive loss:		
Changes in unrealized gains (losses) on securities classified as available-for-sale arising during the period	(315,749)	53,519
Income tax (expense) benefit related to changes in unrealized gains (losses) on securities classified as available-for-sale arising during the period	67,878	(18,196)
Comprehensive Loss	$(8,972,855)	$(1,368,954)

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, 2017 AND 2016

	Common Shares Issued and Outstanding	Amount	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance – December 31, 2015	5,315,945	$3,742,547	$ (27,348)	$66,626,873	$70,342,072
Shares repurchased	(8,812)	(4,331)	—	(85,251)	(89,582)
Non-cash stock based compensation	—	23,104	—	—	23,104
Change in comprehensive loss, net of deferred income tax	—	—	35,323	—	35,323
Net loss	—	—	—	(1,404,277)	(1,404,277)
Balance – December 31, 2016	5,307,133	$3,761,320	$ 7,975	$65,137,345	$68,906,640
Non-cash stock based compensation	—	11,552	—	—	11,552
Change in comprehensive loss, net of deferred income tax	—	—	(247,871)	—	(247,871)
Net loss	—	—	—	(8,724,984)	(8,724,984)
Balance – December 31, 2017	5,307,133	$3,772,872	$ (239,896)	$56,412,361	$59,945,337

See accompanying notes to consolidated financial statements.

UNICO AMERICAN CORPORATION

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31

	2017	2016
Cash flows from operating activities:		
Net loss	$(8,724,984)	$(1,404,277)
Adjustments to reconcile net loss to net cash from operations:		
Depreciation and amortization	517,199	483,580
Bond amortization, net	(664,258)	(16,115)
Non-cash stock based compensation	11,552	23,104
Net realized investment (gains) losses	(528)	1,278
Bad debt expense	16,222	5,833
Changes in assets and liabilities:		
Net receivables and accrued investment income	(318,566)	(608,556)
Reinsurance recoverable	1,261,482	606,570
Deferred policy acquisition costs	269,528	(198,903)
Other assets	400,471	296,515
Unpaid losses and loss adjustment expenses	2,021,204	(2,037,784)
Unearned premium	(606,476)	1,295,487
Advance premium and premium deposits	(16,247)	11,800
Accrued expenses and other liabilities	(360,625)	217,699
Income taxes current/deferred	(828,206)	(85,473)
Net Cash Used by Operating Activities	(7,022,232)	(1,409,242)
Cash flows from investing activities:		
Purchase of fixed maturity investments	(60,292,407)	(16,772,000)
Proceeds from maturity of fixed maturity investments	53,936,023	17,873,000
Proceeds from sale of fixed maturity investments	1,141,892	744,722
Net (increase) decrease in short-term investments	(235,893)	5,436,200
Additions to property and equipment	(249,536)	(545,392)
Net Cash (Used) Provided by Investing Activities	(5,699,921)	6,736,530
Cash flows from financing activities:		

Repurchase of common stock	—	(89,582)
Net Cash Used by Financing Activities	—	(89,582)
Net (decrease) increase in cash and restricted cash	(12,722,153)	5,237,706
Cash and restricted cash at beginning of year	13,496,379	8,258,673
Cash and Restricted Cash at End of Year	$774,226	$13,496,379
Supplemental cash flow information		
Cash paid during the period for income taxes	$8,800	$8,774

See accompanying notes to consolidated financial statements.

UNICO AMERICAN CORPORATION

AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

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 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.

Short-term investments include U.S. treasury bills, a U.S. treasury money market fund, certificates of deposit and bank money market and savings accounts that are all highly rated and redeemable within one year.

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:

- Fixed maturities:

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

2. Long-term certificates of deposit – The carrying amounts reported at cost in the Consolidated Balance Sheets for these instruments approximate their fair values.

- Cash, restricted cash, and short-term investments – The carrying amounts reported at cost in the Consolidated Balance Sheets approximate their fair values given the short-term nature of these instruments.

- Receivables, net – The carrying amounts reported at cost 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 at cost 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 a 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 2014 and California state income tax authorities for tax returns filed starting at taxable year 2013. There are no ongoing examinations of income tax returns by federal or state tax authorities.

As of December 31, 2017, the Company had no unrecognized tax benefits or liabilities. In addition, the Company had not accrued interest and penalties related to unrecognized tax benefits or liabilities. However, if interest and penalties would need to be accrued related to unrecognized tax benefits or liabilities, such amounts would be recognized as a component of federal income tax expense.

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 due the Company are recognized as income on the effective date of the insurance policies. 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. The Company receives a commission on policies that are ceded to its reinsurers. This commission is considered earned on a pro-rata basis over the terms of the policies.

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.

Restricted Funds

Restricted funds are as follows:

	Year ended December 31	
	2017	2016
Premium trust funds (1)	$—	$—
Assigned to state agencies (2)	700,000	700,000
Total restricted funds	$700,000	$700,000

(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. Trust restrictions on cash and short-term investments were $0 at December 31, 2017 and 2016.

(2) $500,000 and $600,000 included in fixed maturity investments as of December 31, 2017 and 2016, respectively, and $200,000 and $100,000 included in short-term investments as of December 31, 2017 and 2016, 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

Accounting Standards Codification ("ASC") Topic 944, "Financial Services – Insurance," establishes uniformity in the practice of determining costs related to the acquisition of new or renewal insurance contracts that qualify for deferral. 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, 2017, 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, 2017 or 2016.

Segment Reporting

ASC Topic 280, "Segment Reporting," establishes standards for the way information about operating segments are reported in financial statements. The Company has identified its insurance company operation as its primary reporting segment. Revenues from this segment comprised 92% of consolidated revenues for the years ended December 31, 2017 and 2016. The Company's remaining operations constitute a variety of specialty insurance services, each with unique characteristics and individually insignificant to consolidated revenues.

The insurance company operation is conducted through Crusader, which as of December 31, 2017, was licensed as an admitted insurance carrier in the states of Arizona, California, Nevada, Oregon, and Washington. Crusader is a multiple line property and casualty insurance company, which began transacting business on January 1, 1985. For the years ended December 31, 2017 and 2016, 99% and 98% of Crusader's business was commercial multiple peril ("CMP") insurance policies, respectively. CMP policies provide a combination of property and liability coverage for businesses. Commercial property coverage insures against loss or damage to buildings, inventory and equipment from natural disasters, including hurricanes, windstorms, hail, water, explosions, severe winter weather, and other events such as theft and vandalism, fires and 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 operations, such as injuries sustained from products sold or the operation of the insured's premises. 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.

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

	Year ended December 31	
	2017	2016
Revenues		
Insurance company operation	$33,972,236	$32,453,601
Other insurance operations	13,497,345	13,431,802
Intersegment eliminations (1)	(10,678,099)	(10,617,679)
Total other insurance operations	2,819,246	2,814,123
Total revenues	$36,791,482	$35,267,724
Loss before income taxes		
Insurance company operation	$(7,419,040)	$(1,043,318)
Other insurance operations	(2,461,181)	(1,070,920)
Total loss before income taxes	$(9,880,221)	$(2,114,238)
Assets		
Insurance company operation	$117,274,626	$124,325,620
Intersegment eliminations (2)	(2,486,500)	(1,579,820)
Total insurance company operation	114,788,126	122,745,800

Other insurance operations	15,510,632	15,476,405
Total assets	$130,298,758	$138,222,205

(1) Intersegment revenue eliminations reflect rents paid by Unico to Crusader for space leased in the Calabasas building and commissions paid by Crusader to Unifax Insurance Systems, Inc. ("Unifax"), a subsidiary of Unico.

(2) Intersegment asset eliminations reflect the elimination of Crusader receivables from Unifax and Unifax payables to Crusader.

Concentration of Risks

99.7%, and 99.5% of Crusader's direct written premium was derived from California during the years ended December 31, 2017 and 2016, 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. In 2016, approximately 40% and 41% of the $959,810 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	Amount Recoverable as of December 31, 2017	Amount Recoverable as of December 31, 2016
Renaissance Reinsurance U.S. Inc.	A	$4,464,980	$5,392,811
Hannover Ruck SE	A+	3,384,341	2,720,850
TOA Reinsurance Company of America	A	670,337	1,667,336
Other	A	574	717
Total		$8,520,232	$9,781,714

Stock-Based Compensation

Share-based compensation expense for all share-based payment awards granted or modified on or after January 1, 2006, 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

In February 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220), Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." ASU 2018-02 was issued as a result of the enactment of the Tax Cuts and Jobs Act of 2017 ("TCJA") on December 22, 2017. Accounting guidance required deferred tax items to be revalued based on the new tax laws (the most significant of which reduced the corporate tax rate to 21% percent from 34% percent) and to include the change in income from continuing operations. ASU 2018-02 is effective for annual and interim reporting periods beginning after December 15, 2018. As early adoption is permitted, the Company has elected to adopt ASU 2018-02 for the year ended December 31, 2017. With the adoption of ASU 2018-02, there is no impact to the consolidated statement of operations and the consolidated balance sheet effect is limited to a reclassification within the equity section, which is an immaterial impact to the consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, "Compensation - Stock Compensation (Topic 718), Scope of Modification Accounting." ASU 2017-09 provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. ASU 2017-09 will be effective for the Company beginning January 1, 2018, with early adoption permitted. The Company does not anticipate that ASU 2017-09 will have a material impact on its consolidated financial statements and related disclosures.

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 become effective for fiscal years beginning after December 31, 2019, but provides for an early adoption for fiscal years beginning after December 31, 2018. The Company has not determined when it will adopt ASU 2016-13.

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 is currently evaluating the effect ASU 2016-02 will have on the Company's consolidated financial statements. The guidance is effective for interim and annual periods beginning after December 31, 2018, and will be applied under a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18 "Statement of Cash Flows: Restricted Cash." ASU 2016-18 requires that a statement of cash flows explain the change during the period of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statements of cash flows. The Company early adopted ASU 2016-18 as of December 31, 2016, and ASU 2016-18 was applied using a retrospective approach for each period presented. Upon adoption of ASU 2016-18, the Company's consolidated statements of cash flows included restricted cash in the beginning-of-period and end-of-period total amounts for cash and restricted cash. ASU 2016-18 did not have a material impact on the Company's consolidated financial statements, but ASU 2016-18 required additional disclosures in "Note 2 – Cash and Restricted Cash" to these consolidated financial statements.

NOTE 2 – CASH AND RESTRICTED CASH

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

	Year ended December 31	
	2017	2016
Cash	$774,226	$122,586
Restricted cash	—	13,373,793
Cash and restricted cash	$774,226	$13,496,379

The restricted cash is represented by two cash deposits placed by Crusader with the Los Angeles Superior Court in lieu of appeal bonds. In December 2015, a judgment was finalized on a Crusader policy liability claim. Crusader appealed the judgment. As a part of the appeal, Crusader deposited $7,924,178 in cash with the Los Angeles Superior Court on December 28, 2015, in lieu of an appeal bond. This cash deposit was required to appeal the judgment. In March 2016, an additional judgment for plaintiff's attorney fees and costs on this Crusader policy liability claim was finalized. The Company also appealed this additional judgment. That additional appeal required an additional $5,449,615 cash deposit which was made on March 21, 2016, in lieu of an appeal bond. In September 2017, both judgments were settled for a total of $7,000,000 which was paid from the two deposits, and the remaining funds on deposit with the Los Angeles Superior Court were returned to Crusader.

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 and losses is as follows:

	Year ended December 31	
	2017	2016
Fixed maturities (1)	$1,281,984	$862,783
Short-term investments	55,907	18,363
Gross investment income	1,337,891	881,146
Less investment expenses	(47,824)	—
Net investment income	1,290,067	881,146
Net realized gains (losses)	528	(1,278)
Net investment income, realized gains and losses	$1,290,595	$879,868

(1) Investment income from fixed maturities included $133,160 and $113,394 of interest on the restricted cash for the years ended December 31, 2017 and 2016, respectively.

The amortized cost and estimated fair value of fixed maturity investments at December 31, 2017, by contractual maturity are as follows:

	Amortized Cost	Estimated Fair Value
Due in one year or less	$21,272,019	$21,271,851
Due after one year through five years	32,213,970	32,052,025
Due after five years and beyond	32,765,131	32,623,578
Total fixed maturities	$86,251,120	$85,947,454

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, 2017				
Available-for-sale fixed maturities:				
U.S. treasury securities	$7,517,901	$ 21	$(63,697)	$7,454,225
Corporate securities	28,745,223	43,204	(130,787)	28,657,640
Agency mortgage-backed securities	21,889,996	—	(152,407)	21,737,589
Held-to-maturity fixed maturities:				
Certificates of deposit	28,098,000	—	—	28,098,000
Total fixed maturities	$86,251,120	$ 43,225	$(346,891)	$85,947,454
December 31, 2016				
Available-for-sale fixed maturities:				
U.S. treasury securities	$19,091,842	$ 14,205	$(2,122)	$19,103,925
Held-to-maturity fixed maturities:				
Certificates of deposit	61,280,000	—	—	61,280,000
Total fixed maturities	$80,371,842	$ 14,205	$(2,122)	$80,383,925

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

	Year ended December 31	
	2017	2016
Gross unrealized gains of fixed maturities	$43,225	$14,205
Gross unrealized (losses) of fixed maturities	(346,891)	(2,122)
Net unrealized (losses) gains on investments	(303,666)	12,083
Deferred federal tax benefit (expense)	63,770	(4,108)
Net unrealized (losses) gains, net of deferred income taxes	$(239,896)	$7,975

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	Estimated Fair Value	Gross Unrealized Losses
December 31, 2017				
U.S. treasury securities	$7,454,225	$(63,697)	$—	$ —
Corporate securities	20,335,512	(130,787)	—	—
Agency mortgage-backed securities	21,737,589	(152,407)	—	—
Total	$49,527,326	$(346,891)	$—	$ —

	Less than 12 Months		12 Months or Longer	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
December 31, 2016				
U.S. treasury securities	$—	$ —	$9,097,285	$ (2,122)
Total	$—	$ —	$9,097,285	$ (2,122)

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, 2017, and December 31, 2016, 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. The Company sold two securities prior to their maturity during the year ended December 31, 2017. These securities had amortized cost of $1,141,338. The Company realized a net investment gain of $554 on these sales for the year ended December 31, 2017. Proceeds of the sales of these securities were used for general corporate purposes. The Company sold three securities prior to their maturity during the year ended December 31, 2016. These securities had amortized cost of $746,000. The Company realized a net investment loss of $1,278 on these sales for the year ended December 31, 2016. Proceeds of the sales of these securities were used for general corporate purposes.

The Company’s investment in certificates of deposit included $27,698,000 and $60,780,000 of brokered certificates of deposit as of December 31, 2017 and 2016, respectively. Brokered certificates of deposit provide the safety and security of a certificate of deposit combined with the convenience gained by one-stop shopping for rates at various institutions. This allows the Company to spread its investments across multiple institutions so that all of its certificates of deposit are insured by the Federal Deposit Insurance Corporation (“FDIC”). Brokered certificates of deposit are purchased through UnionBanc Investment Services, LLC, a registered broker-dealer, investment advisor, member of FINRA/SIPC, and a subsidiary of MUFG Union Bank, N.A. Brokered certificates of deposit are a direct obligation of the issuing depository institution, are bank products of the issuing depository institution, are held by Union Bank Global Custody Services for the benefit of the Company, and are FDIC insured within permissible limits.

The following securities from four 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	
	2017	2016
Certificates of deposit	$400,000	$500,000
Short-term investments	200,000	100,000
Total state held deposits	$600,000	$600,000

All of the Company’s brokered and non-brokered certificates of deposit are within the FDIC insured permissible limits. Due to nature of the Company’s business, certain bank accounts may exceed FDIC insured permissible limits.

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

	Year ended December 31	
	2017	2016
U.S. treasury bills	$1,148,395	$—
U.S. treasury money market fund	—	8,542,292
Custodial trust	6,275,648	—
Certificates of deposit	200,000	1,098,000
Commercial paper	499,383	—
Bank money market accounts	2,315,307	562,548
Bank savings accounts	1,763	1,763
Total short-term investments	$10,440,496	$10,204,603

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, 2017 and 2016:

	Level 1	Level 2	Level 3	Total
December 31, 2017				
Financial instruments:				
Fixed maturities securities:				
U.S. treasury securities	$7,454,225	$—	$ —	$7,454,225
Corporate securities	—	28,657,640	—	28,657,640
Agency mortgage-backed securities	—	21,737,589	—	21,737,589
Certificates of deposit	—	28,098,000	—	28,098,000
Total fixed maturity securities	7,454,225	78,493,229	—	85,947,454
Cash and restricted cash	774,226	—	—	774,226
Short-term investments	10,440,496	—	—	10,440,496
Total financial instruments at fair value	$18,668,947	$78,493,229	$ —	$97,162,176
December 31, 2016				
Financial instruments:				
Fixed maturities securities:				
U.S. treasury securities	$19,103,925	$—	$ —	$19,103,925
Certificates of deposit	—	61,280,000	—	61,280,000
Total fixed maturity securities	19,103,925	61,280,000	—	80,383,925
Cash and restricted cash	13,496,379	—	—	13,496,379
Short-term investments	10,204,603	—	—	10,204,603
Total financial instruments at fair value	$42,804,907	$61,280,000	$ —	$104,084,907

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, 2017 and 2016.

NOTE 6 – PROPERTY AND EQUIPMENT, NET

Property and equipment consist of the following:

	Year ended December 31	
	2017	2016
Building and tenant improvements, located in Calabasas, California	$8,352,181	$8,339,807
Furniture, fixtures, equipment	2,724,775	2,673,670

Accumulated depreciation and amortization	(3,204,806)	(2,687,607)
Land located in Calabasas, California	1,787,485	1,787,485
Computer software under development	355,234	169,177
Property and equipment, net	$ 10,014,869	$ 10,282,532

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, 2017 and 2016 were $517,199 and $483,580, respectively.

For the years ended December 31, 2017 and 2016, the Calabasas building has generated rental revenue in the amount of $1,065,104 and $990,013, and incurred operating expenses in the amount of $796,270 and $722,442, 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, 2017, 14,481 square feet of the Calabasas building was leased to non-affiliated entities. As of December 31, 2017, the Calabasas building was fully occupied.

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.

While the Company’s existing policy acquisition system (“PAS”) continues to support the Company’s current operations, the Company believes it would realize more competitive parity with respect to product and service by replacing its existing PAS with a more contemporary platform. The Company is currently evaluating its alternatives.

NOTE 7 – RECEIVABLES, NET

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

	Year ended December 31	
	2017	2016
Premium and commission receivable	$2,234,166	$1,826,934
Premium finance notes receivable	4,967,671	5,365,667
Total premium and notes receivable	7,201,837	7,192,601
Allowance for doubtful accounts	(1,196,074)	(1,184,518)
Receivables, net	$6,005,764	$6,008,083

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.

One of the Company’s agents, which was appointed in 2008 to assist the Company in implementing its Trucking Program, failed to pay the net premium and policy fees due Unifax, the exclusive general agent for Crusader. The agent was initially late in paying its February 2009 production that was due to Unifax on April 15, 2009. In May 2009, as a result of the agent’s failure to timely pay its balance due to Unifax, the Company terminated its agency agreement and assumed ownership and control of that agent’s policy expirations written with the Company. The Company subsequently commenced legal proceedings against the agent corporation, its three principals (who personally guaranteed the agent’s obligations) and another individual for the recovery of the balance due and any related recovery costs incurred. All related recovery costs have been expensed as incurred. The agent corporation and two of its principals filed bankruptcy. The corporation was adjudicated bankrupt. The Company obtained judgments, non-dischargeable in bankruptcy, for the full amount due from the two principals who filed bankruptcy. The other principal stipulated to a judgment of $1,200,000. The claim against the fourth individual was resolved. The Company collected $0 and $0 during the years ended December 31, 2017 and 2016, respectively. As of December 31, 2017 and 2016, the agent’s balance due to Unifax was $1,181,272. As of December 31, 2017 and 2016, the Company’s bad debt reserve associated with this matter was $1,181,272, which represents 100% of the balance due to Unifax. Although the receivable is fully reserved for financial reporting purposes at December 31, 2017, the Company continues to pursue collection of the judgments from the three principals. Bad debt expense was $16,222 and $5,833 for the years ended December 31, 2017 and 2016, 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	
	2017	2016
Direct reserves:		
Case reserves	$18,948,233	$16,384,081
IBNR reserves	30,128,758	30,671,706
Total direct reserves	$49,076,991	$47,055,787
Reserves net of reinsurance:		
Case reserves	$14,985,639	$12,458,646
IBNR reserves	25,697,802	25,076,171
Total net reserves	$40,683,441	$37,534,817

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	2017		2016	
CMP	$48,003,282	97.8 %	$46,100,751	98.0 %
Other liability	1,060,328	2.2 %	912,014	1.9 %
Other	13,381	0.0 %	43,022	0.1 %
Total	$49,076,991	100.0%	$47,055,787	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	
	2017	2016
Reserve for unpaid losses and loss adjustment expenses at beginning of year – net of reinsurance	$37,534,817	$39,456,610

Incurred losses and loss adjustment expenses:		
Provision for insured events of current year	23,377,228	22,850,408
Decrease in provision for incurred events of prior years	7,113,279	(23,530)
Total incurred losses and loss adjustment expenses	30,490,507	22,826,878
Payments:		
Losses and loss adjustment expenses attributable to insured events of the current year	7,925,460	7,984,562
Losses and loss adjustment expenses attributable to insured events of prior years	19,416,423	16,764,109
Total payments	27,341,883	24,748,671
Reserve for unpaid losses and loss adjustment expenses at end of year – net of reinsurance	40,683,441	37,534,817
Reinsurance recoverable on unpaid losses and loss adjustment expenses at end of year	8,393,550	9,520,970
Reserve for unpaid losses and loss adjustment expenses at end of year per balance sheet, gross of reinsurance	$49,076,991	$47,055,787

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, 2017:

Accident Year	Cumulative Incurred	Cumulative Paid	Total of Incurred But Not Reported Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
2008	$17,497,508	$17,497,105	$—	921
2009	17,622,828	17,568,877	1,208	1,013
2010	16,828,688	16,720,942	5,944	974
2011	19,187,240	19,027,232	107,793	1,021
2012	17,914,837	17,265,513	125,157	965
2013	22,798,398	21,415,490	1,049,748	845
2014	17,640,211	14,556,687	1,616,118	742
2015	22,471,512	14,978,639	4,412,589	717
2016	22,908,016	12,009,273	7,070,782	763
2017	21,914,736	6,405,641	11,308,463	706
Total	$196,783,974	$157,445,399	$25,697,802	

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

	Year ended December 31	
	2017	2016

Cumulative incurred losses and ALAE	$196,783,974	$193,271,387
Less cumulative paid losses and ALAE	(157,445,399)	(156,930,790)
Reserve for unpaid losses and ALAE (latest 10 accident years)	39,338,575	36,340,597
Reserves for unpaid losses and ALAE (beyond latest 10 accident years)	237,800	109,898
Reserves for unpaid unallocated loss adjustment expenses	1,107,066	1,084,322
Reserve for unpaid losses and loss adjustment expenses, net of reinsurance	40,683,441	37,534,817
Reinsurance recoverable on unpaid losses and loss adjustment expenses	8,393,550	9,520,970
Reserve for unpaid losses and loss adjustment expenses, gross of reinsurance	$49,076,991	$47,055,787

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	
	2017	2016
Deferred policy acquisition costs at beginning of year	$4,432,299	$4,233,396
Policy acquisition costs deferred during year	6,194,153	7,094,052
Policy acquisition costs amortized during year	(6,463,681)	(6,895,149)
Deferred policy acquisition costs at end of year	$4,162,771	$4,432,299

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 year ended December 31, 2017, the Company recognized $45,000 premium deficiency reserve; there was no such reserve for the year ended December 31, 2016.

NOTE 10 – ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities consist of the following:

	Year ended December 31	
	2017	2016
Premium payable	$438,571	$614,926
Unearned policy fee income	759,082	811,838
Retirement plans	156,600	184,600
Accrued salaries and employee benefits	381,577	338,029
Commission payable	81,395	180,693
Other	483,133	530,897
Total accrued expenses and other liabilities	$2,300,358	$2,660,983

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, 2017 and 2016 are as follows:

Loss Year	Reinsurers	A.M. Best Rating	Retention
2017	Renaissance Reinsurance U.S. Inc. & Hannover Ruck SE	A A+	$500,000
2016	Renaissance Reinsurance U.S. Inc. & Hannover Ruck SE & TOA Reinsurance of America	A A+ 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 years 2017 and 2016, Crusader retained a participation in its excess of loss reinsurance treaties of 10% 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 2017 and 2016, 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 Consolidate 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	
	2017	2016
Written premium:		
Direct business	$38,393,351	$38,749,097
Reinsurance ceded	(6,765,240)	(6,124,575)
Net written premium	$31,628,111	$32,624,522
Earned premium:		
Direct business	$38,999,827	$37,453,619
Reinsurance ceded	(6,656,508)	(6,097,248)
Net earned premium	$32,343,319	$31,356,371
Incurred losses and loss adjustment expenses:		
Direct	$43,672,969	$27,383,996
Ceded	(13,182,462)	(4,557,118)
Net incurred losses and loss adjustment expenses	$30,490,507	$22,826,878

Ceded earned premium as a percentage of direct earned premium was 17% in 2017 and 16% in 2016. Crusader did not assume any premium or losses during the years ended December 31, 2017 and 2016.

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, 2017	$178,155
Year ended December 31, 2016	$230,485

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, 2017	$50,446,888

As of December 31, 2016	$59,120,443

Crusader’s statutory net loss is as follows:

Year ended December 31, 2017	$(6,207,351)
Year ended December 31, 2016	$(207,503)

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, 2017, the maximum dividend that could be made by Crusader to Unico without prior regulatory approval in 2018 is $5,044,689. In the years ended December 31, 2017 and 2016, Crusader paid to Unico cash dividends in the amount of $3,000,000 and $2,000,000, respectively.

In December 1993, the NAIC adopted 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, 2017, was 716% of authorized control level RBC.

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 annual statements and the financial ratios. The ratios and trends are valuable in pointing to companies likely to experience financial difficulties but the ratios 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 department’s 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 annual statement is performed to confirm that an insurer’s situation calls for increased or close regulatory attention.

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	%

Crusader was outside IRIS ratios 5, 7, and 8 due primarily to Crusader’s $6,207,351 net loss for the year ended December 31, 2017. Crusader was outside IRIS ratio 6 due primarily to Crusader’s relatively conservative investments.

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. 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. As of December 31, 2017, there are no outstanding options under the 2011 Plan.

No options were granted to employees or non-employees during the years ended December 31, 2017 and 2016.

The Company recognized stock-based compensation expense in the amount of $11,552 and $23,104 for all awards issued under the 2011 Plan in the “Salaries and employee benefits” line item in the Consolidated Statements of Operations in each year ended December 31, 2017 and 2016, respectively. As of December 31, 2017, there was no unrecognized compensation cost.

The fair value of each option award is estimated on the date of the grant using the Black-Scholes Option-Pricing Model using a number of complex and subjective variables. These variables include expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behaviors, a risk-free interest rate and expected dividends.

Expected dividend yield is based on the historical dividend behavior as well as the expected dividend behavior of the Company. Expected volatility is based on the historical volatility of the Company's stock. The risk-free rate for periods within the contractual life of the option is based on the U.S. treasury yield curve for a ten-year treasury in effect at the time of grant. The expected term represents an estimate of time the options are expected to remain outstanding. In accordance with ASC Topic 718, "Compensation – Stock Compensation", the Company estimates forfeitures at the time of the grant and revises those estimates in subsequent periods if the actual forfeitures differ from those estimates.

The average assumptions used to value each option award granted during the years ended December 31, 2012 and 2011 are as follows:

	Years ended December 31	
	2012	2011
Weighted-average grant date fair value	$3.21	$2.53
Expected dividend yield	1.91 %	3.12 %
Expected volatility	28.01%	28.74%
Risk-free interest rate	1.94 %	2.02 %
Expected term (years)	10.00	10.00
Expected forfeiture	0.00 %	0.00 %

The following table summarizes stock option activity for year ended December 31, 2017:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Terms	Aggregate Intrinsic Value
Outstanding at December 31, 2016	100,000	$ 10.96	4.72	$ —
Granted	—	—	—	—
Forfeited or expired	100,000	—	—	—
Exercised	—	—	—	—
Outstanding at December 31, 2017	—	—	—	$ —

Exercisable at December 31, 2017	—	—	—	$ —

NOTE 16 – TAXES ON INCOME

The provision for taxes on income consists of the following:

	Year ended December 31	
	2017	2016
Federal expense (benefit):		
Current	$—	$(857,279)
Deferred	(1,327,602)	148,808
Total tax expense (benefit)	$(1,327,602)	$(708,471)
State expense (benefit):		
Current	$8,800	$8,774
Deferred	163,565	(10,264)
Total tax expense (benefit)	$172,365	$(1,490)
Total expense (benefit):		
Current	$8,800	$(848,505)
Deferred	(1,164,037)	138,544
Total tax expense (benefit)	$(1,155,237)	$(709,961)

The income tax provision reflected in the Consolidated Statements of Operations is different than the expected federal income tax rate of 34% on income as shown in the following table:

	Year ended December 31	
	2017	2016
Computed income tax benefit at 34%	$(3,359,275)	$(718,841)
Tax effect of:		
Impact of change in tax law	2,137,385	—
State tax expense (benefit), net of federal tax benefit	1,061	(990)
Expired state net operating losses	117,379	—
Other	(51,787)	9,870
Income tax benefit	$(1,155,237)	$(709,961)

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 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.

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

	Year ended December 31	
	2017	2016
Deferred tax assets:		
Discount on loss reserves	$264,510	$546,195
Unearned premium	794,461	1,340,027
Unearned commission income	360,443	469,730
Unearned policy fee income	212,419	347,792
Net operating loss carryforwards	2,746,927	—
State net operating loss carryforwards	1,258,753	1,463,188
Unrealized losses on investments	63,770	—
Bad debt reserve	334,705	507,448
Other	255,414	301,416
Total gross deferred tax assets	6,291,402	4,975,796

Less valuation allowance	1,258,753	1,264,627
Total deferred tax assets	$5,032,649	$3,711,169
Deferred tax liabilities:		
Policy acquisition costs	$1,036,477	$1,859,491
Unrealized gains on investments	—	4,108
State tax on undistributed insurance company earnings	372,146	337,622
Federal tax liability on state deferred tax assets	96,368	167,585
Depreciation and amortization	146,852	165,017
Total deferred tax liabilities	$1,651,843	$2,533,823
Net deferred tax assets	$3,380,806	$1,177,346

The Company recognizes tax benefits related to positions taken, or expected to be taken, on a tax return only if it is more-likely-than-not that the positions are sustainable. Once this threshold has been met, the Company's measurement of its expected tax benefits is recognized in its consolidated financial statements. If the Company determines after a review of its anticipated future taxable income and all other available evidence, both positive and negative, that it is more-likely-than-not that any of its deferred tax assets will not result in future tax benefits, a valuation allowance is established for the portion of these assets that are not expected to be realized.

As of December 31, 2017, the Company has $13,080,606 of federal net operating loss carryforwards that will begin to expire in 2035. As of December 31, 2017, the Company had deferred tax assets of $1,258,753 generated from state net operating loss carryforwards. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. For the years ended December 31, 2017 and December 31, 2016, a valuation allowance was established in the amount of $1,258,753 and $1,264,627, respectively, as the Company does not expect to realize a tax benefit from its state net operating losses in future years. For the years ended December 31, 2017 and December 31, 2016 the amount of state net operating losses that expired were $1,209,784 and $802,062, respectively. The remaining $1,258,753 of state tax carryforwards, expire between 2028 and 2037. The current federal effected state tax rate is 6.98%.

TCJA, signed into law on December 22, 2017, reduced the corporate Federal income tax rate from 34% to 21%, effective for years beginning after December 31, 2017. As a result of the TCJA, the Company has recognized a decrease to its net deferred asset as of December 31, 2017 in the amount of $2,176,862. The Company has determined that no other changes are required to the deferred tax asset (liability), and the current income tax expense is unaffected by this change in the law.

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 2014 and California state income tax authorities for tax returns filed starting at taxable year 2013. 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, 2017, 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, 2017 and 2016, the Company had remaining authority under the 2008 program to repurchase up to an aggregate of 188,655 shares of its common stock. The 2008 program is the only program under which there is authority to repurchase shares of the Company's common stock. The Company did not repurchase any stock during the year ended December 31, 2017. The Company repurchased 8,812 shares of stock at an average price of $10.17 per share during the year ended December 31, 2016, in unsolicited transactions at a cost of $89,582 of which $4,331 was allocated to capital and $85,251 was allocated to retained earnings. The Company has retired and intends to retire all repurchased stock, as applicable.

NOTE 18 – LOSS PER SHARE

A reconciliation of the numerator and denominator used in the basic and diluted earnings (loss) per share calculation is presented below:

	Year ended December 31	
	2017	2016
Basic Loss Per Share		
Net loss numerator	$(8,724,984)	$(1,404,277)
Weighted average shares outstanding denominator	5,307,133	5,307,694
Per share amount	$(1.64)	$(0.26)
Diluted Loss Per Share		
Net loss numerator	$(8,724,984)	$(1,404,277)
Weighted average shares outstanding	5,307,133	5,307,694
Effect of diluted securities	—	—
Diluted shares outstanding denominator	5,307,133	5,307,694
Per share amount	$(1.64)	$(0.26)

As of December 31, 2017 and 2016, the Company had 0 and 574 common share equivalents that were excluded in the diluted loss per share calculation for years ended December 31, 2017 and 2016, respectively.

NOTE 19 – SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized unaudited quarterly financial data for each of the calendar years 2017 and 2016 is as follows:

	Comparable Period by Quarter Ended			
	March 31	June 30	September 30	December 31
Calendar Year 2017				
Total revenues	$8,960,497	$9,241,306	$9,293,389	$9,296,290
Loss before taxes	$(3,267,349)	$(1,350,826)	$(4,435,225)	$(826,821)
Net loss	$(2,147,252)	$(890,735)	$(2,927,249)	$(2,759,748)
Loss per share: Basic	$(0.40)	$(0.17)	$(0.55)	$(0.52)
Loss per share: Diluted	$(0.40)	$(0.17)	$(0.55)	$(0.52)
Calendar Year 2016				
Total revenues	$8,529,678	$8,722,632	$8,998,342	$9,017,072

Income (loss) before taxes	$(270,026)	$208,594	$(2,966,721)	$913,915
Net income (loss)	$(198,987)	$151,030	$(1,953,497)	$597,177
Earnings (loss) per share: Basic	$(0.04)	$0.03	$(0.37)	$0.11
Earnings (loss) per share: Diluted	$(0.04)	$0.03	$(0.37)	$0.11

NOTE 20 – 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	2008 (1)	2009 (1)	2010 (1)	2011 (1)	2012 (1)	2013 (1)	2014 (1)	2015 (1)	2016 (1
2008	22,580,220	22,106,937	21,290,931	20,004,073	19,347,265	18,668,518	17,889,384	17,456,810	17,617
2009		21,751,337	21,412,289	21,571,780	21,012,811	20,398,961	19,667,376	19,050,348	18,554
2010			21,418,368	20,437,443	19,883,812	19,326,007	18,639,537	18,075,737	17,641
2011				18,120,563	17,900,250	17,605,460	17,014,895	17,879,595	18,224
2012					18,511,598	19,532,022	18,895,666	18,344,175	18,050
2013						19,570,946	20,118,343	20,323,841	21,742
2014							16,884,731	15,394,995	14,930
2015								20,452,199	20,840
2016									21,646
2017									

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(1) The information for the years 2008 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	2008 (1)	2009 (1)	2010 (1)	2011 (1)	2012 (1)	2013 (1)	2014 (1)	2015 (1)	2016 (1)
2008	6,962,996	9,869,827	13,950,969	15,902,618	16,856,762	17,001,061	17,041,185	17,178,322	17,593,2
2009		4,919,359	9,592,059	13,160,200	16,180,346	17,121,818	17,336,454	17,380,065	17,550,3
2010			7,535,122	10,695,223	12,955,467	14,756,510	15,330,864	16,283,050	16,778,2
2011				4,719,943	8,608,287	11,212,490	14,251,525	16,115,802	17,422,5
2012					6,719,982	11,673,621	13,411,125	15,369,629	16,734,9
2013						7,594,731	10,656,777	14,319,057	19,067,3
2014							3,826,263	6,082,893	9,173,94
2015								6,263,796	11,151,9
2016									7,435,12
2017									

(1) The information for the years 2008 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, 2017:

Years	1	2	3	4	5	6	7	8	9	10
	31.8%	19.9%	17.9%	16.5%	7.6%	3.1%	1.8%	0.7%	0.4%	0.3%

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, 2017. 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, 2017, 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, 2017, are contained herein as listed in the Index to Consolidated Financial Statements on Page 43.

2. Financial schedules:

Independent Registered Public Accounting Firm's Report on Financial Statement 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	Bylaws of Registrant, as amended. (Incorporated herein by reference to Exhibit 3.2 to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.)
3.3	Amended Section 1 of Article V of the Company's Bylaws effective April 1, 2009. (Incorporated herein by reference to Exhibit 3.1 to Registrants Current Report on Form 8-K filed on March 26, 2009.)
10.1	Unico American Corporation Profit Sharing Plan & Trust. (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended March 31, 1985.)*
10.2	The Lease dated July 31, 1986, between Unico American Corporation and Cheldin Management Company. (Incorporated herein by reference to Exhibit 10.5 to Registrant's Annual Report on Form 10-K for the fiscal year ended March 31, 1987.)

10.3	The Lease Amendment #1 dated February 22, 1995, between Unico American Corporation and Cheldin Management Company amending the lease dated July 31, 1986. (Incorporated herein by reference to Exhibit 10.5 to Registrant's Annual Report on Form 10-K for the fiscal year ended March 31, 1995.)
10.4	The Lease Amendment #2 dated March 23, 2007, between Unico American Corporation and Cheldin Management Company amending the lease dated July 31, 1986. (Incorporated herein by reference to Exhibit 10.4 to Registrant's Annual Report on Form 10-K filed on March 31, 2008.)
10.5	Real Estate Lease dated April 1, 2012, between Unico American Corporation and Cheldin Management Company. (Incorporated herein by reference to Exhibit 10.1 of Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012.)
10.6	Standard Offer, Agreement and Escrow Instructions for Purchase of Real Estate at 26050 Mureau Road, Calabasas, CA, as amended. (Incorporated herein by reference to Exhibit 10.1 of Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013.)
10.7	1999 Omnibus Stock Plan of Unico American Corporation. (Incorporated herein by reference to Exhibit A to Registrant's Proxy Statement for its Annual Meeting of Shareholders held June 4, 2000.)*
10.8	Employment Agreement effective December 15, 2007, by and between the Registrant and Cary L. Cheldin. (Incorporated herein by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed on March 21, 2008.)*
10.9	Amendment to Employment Agreement effective April 1, 2009, by and between Registrant and Cary L. Cheldin. (Incorporated herein by reference to Exhibit 10.1 to Amendment to Registrant's Quarterly Report on Form 10-Q/A for the quarter ended June 30, 2009, filed on November 30, 2009.)*
10.10	Amendment to Employment Agreement effective January 1, 2010, by and between Registrant and Cary L. Cheldin. (Incorporated herein by reference to Exhibit 10.1 of Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010.)*
10.11	Amendment to Employment Agreement dated September 21, 2012, by and between Registrant and Cary L. Cheldin. (Incorporated herein by reference to Exhibit 10.1 of Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012.)*
10.12	Employment Agreement effective December 15, 2007, by and between the Registrant and Lester A. Aaron. (Incorporated herein by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K filed on March 21, 2008.)*
10.13	Amendment to Employment Agreement effective April 1, 2009 by and between Registrant and Lester A. Aaron. (Incorporated herein by reference to Exhibit 10.2 to Amendment to Registrant's Quarterly Report on Form 10-Q/A for the quarter ended June 30, 2009, filed on November 30, 2009.)*
10.14	Amendment to Employment Agreement effective January 1, 2010, by and between Registrant and Lester A. Aaron. (Incorporated herein by reference to Exhibit 10.2 of Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010.)*
10.15	Employment Agreement effective April 1, 2009, by and between Registrant and Terry L. Kinigstein. (Incorporated herein by reference to Exhibit 10.3 to Amendment to Registrant's Quarterly Report on Form 10-Q/A for the quarter ended June 30, 2009, filed on November 30, 2009.)*

10.16	Amendment to Employment Agreement effective January 1, 2010, by and between Registrant and Terry L. Kinigstein. (Incorporated herein by reference to Exhibit 10.3 of Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010.)*
10.17	Unico American Corporation Money Purchase Plan & Trust. (Incorporated herein by reference to Exhibit 10.11 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, 2009, filed on March 9, 2011.)*
10.18	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.)*
10.19	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)*
10.20	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.)*
10.21	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.)*
10.22	Amendment, dated March 23, 2018, 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, 2017, 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; and (v) the Condensed Notes to Unaudited 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.

Filed electronically herewith.

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: April 2, 2018

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 by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Cary L. Cheldin Cary L. Cheldin	Chairman of the Board, President and Chief Executive Officer, and Director (Principal Executive Officer)	April 2, 2018

/s/ Michael Budnitsky Michael Budnitsky	Treasurer, Chief Financial Officer, Secretary, and Director (Principal Accounting and Principal Financial Officer)	April 2, 2018
/s/ Erwin Cheldin Erwin Cheldin	Director	April 2, 2018
/s/ George C. Gilpatrick George C. Gilpatrick	Director	April 2, 2018
/s/ Terry L. Kinigstein Terry L. Kinigstein	Director	April 2, 2018
/s/ David T. Russell David T. Russell	Director	April 2, 2018
/s/ Samuel J. Sorich Samuel J. Sorich	Director	April 2, 2018
/s/ Donald B. Urfrig Donald B. Urfrig	Director	April 2, 2018

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Unico American Corporation and subsidiaries:

Under date of April 2, 2018 we reported on the consolidated balance sheets of Unico American Corporation and subsidiaries as of December 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive loss, changes in stockholders' equity, and cash flows for the years then ended, as contained in the Annual Report on Form 10K for the year 2017. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related financial statement schedules as listed under Item 15(a)2. These financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

In our opinion, the financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/ JLK Rosenberger LLP

Glendale, California

April 2, 2018

SCHEDULE II

UNICO AMERICAN CORPORATION

AND SUBSIDIARIES

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

BALANCE SHEETS – PARENT COMPANY ONLY

AS OF DECEMBER 31

	2017	2016
ASSETS		
Investments		
Short-term investments	$1,763	$1,763
Total investments	1,763	1,763
Cash	316,060	14,484
Receivables due from subsidiaries	2,399,653	2,363,344
Investments in subsidiaries	56,297,108	65,272,059
Property and equipment, net	996,371	1,012,103
Other assets	151,667	530,532
Total Assets	$60,162,622	$69,194,285
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Accrued expenses and other liabilities	$217,285	$287,645
Total Liabilities	$217,285	$287,645
Commitments and contingencies		
STOCKHOLDERS' EQUITY		

Common stock	$3,772,872	$3,761,320
Accumulated other comprehensive (loss) income	(239,896)	7,975
Retained earnings	56,412,361	65,137,345
Total Stockholders' Equity	$59,945,337	$68,906,640
Total Liabilities and Stockholders' Equity	$60,162,622	$69,194,285

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