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UNICO AMERICAN CORP
Form DEF 14A
April 15, 2005

SCHEDULE 14A

(RULE 14A-101)

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the registrant [X]
Filed by a party other than the registrant []

Check the appropriate box:

- [] Preliminary proxy statement.
- [] Confidential, for use of the Commission only (as permitted by Rule 14a-6(e)(2)).
- [X] Definitive proxy statement.
- [] Definitive additional materials.
- [] Soliciting material pursuant to Rule 14a-11(c) or Rule 14a-12.

UNICO AMERICAN CORPORATION

(Name of Registrant as Specified in Its Charter)

Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of filing fee (check the appropriate box):

- [X] No fee required.
- [] Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

UNICO AMERICAN CORPORATION
23251 Mulholland Drive
Woodland Hills, California 91364-2732

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Be Held Thursday, May 26, 2005

Dear Shareholder:

You are cordially invited to attend the Annual Meeting of shareholders of Unico American Corporation (the "Company") to be held at the Woodland Hills Hilton and Towers at Warner Center, 6360 Canoga Avenue, Woodland Hills, California 91367, at 2:00 p.m. local time, to consider and act upon the following matters:

1. The election of seven (7) directors to hold office until the next annual meeting of shareholders and thereafter until their successors are elected and qualified; and
2. The transaction of such other business as may properly be brought before the meeting.

The Board of Directors has fixed the close of business on April 8, 2005, as the record date for the determination of shareholders who will be entitled to notice of and to vote at the meeting. The voting rights of the shareholders are described in the Proxy Statement.

IT IS IMPORTANT THAT ALL SHAREHOLDERS BE REPRESENTED AT THE ANNUAL MEETING. SHAREHOLDERS WHO DO NOT PLAN TO ATTEND THE MEETING IN PERSON ARE REQUESTED TO VOTE, DATE, AND RETURN THE ENCLOSED PROXY IN THE ACCOMPANYING POSTAGE-PAID AND ADDRESSED RETURN ENVELOPE. PROXIES ARE REVOCABLE AT ANY TIME, AND SHAREHOLDERS WHO ARE PRESENT AT THE MEETING MAY WITHDRAW THEIR PROXIES AND VOTE IN PERSON IF THEY SO DESIRE.

By Order of the Board of Directors,

/s/ Erwin Cheldin

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

Woodland Hills, California
April 15, 2005

UNICO AMERICAN CORPORATION

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PROXY STATEMENT

ANNUAL MEETING OF SHAREHOLDERS

May 26, 2005

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of Unico American Corporation, a Nevada corporation (the "Company"), for use at the Annual Meeting of Shareholders of the Company to be held at the Woodland Hills Hilton and Towers at Warner Center, 6360 Canoga Avenue, Woodland Hills, California 91367 on May 26, 2005, at 2:00 p.m. local time. Accompanying this Proxy Statement is a proxy card, which you may use to indicate your vote as to each of the proposals described in this Proxy Statement.

All proxies that are properly completed, signed, and returned to the Company prior to the Annual Meeting, and which have not been revoked, will be voted. A shareholder may revoke his or her proxy at any time before it is voted either by filing with the Secretary of the Company at its principal executive offices a written notice of revocation or a duly executed proxy bearing a later date, or by appearing in person at the Annual Meeting and expressing a desire to vote his or her shares in person.

The close of business on April 8, 2005, has been fixed as the record date for the determination of shareholders entitled to notice of and to vote at the Annual Meeting or any adjournment thereof. As of the record date, the Company had outstanding 5,496,315 shares of common stock, the only outstanding voting securities of the Company. For each share held on the record date, a shareholder is entitled to one vote on all matters to be considered at the Annual Meeting. The Company's Articles of Incorporation do not provide for cumulative voting. Directors are elected by a plurality of the votes cast and abstentions and broker non-votes are counted for the purposes of determining the existence of a quorum at the meeting, but not for purposes of determining the results of the vote.

The Company will bear the cost of the Annual Meeting and the cost of soliciting proxies, including the cost of preparing, assembling and mailing the proxy material. In addition to solicitation by mail, officers and other employees of the Company may solicit proxies by telephone, facsimile, or personal contact without additional compensation.

The Company's principal executive offices are located at 23251 Mulholland Drive, Woodland Hills, California 91364-2732. The approximate mailing date of this Proxy Statement and the Company's proxy card is April 15, 2005.

ELECTION OF DIRECTORS

The Company's By-Laws provide for a range of three to eleven directors and allow the Board of Directors to set the exact number of authorized directors within that range. The current number of authorized directors established by the Board of Directors is seven (7). Directors are elected at each Annual Meeting of Shareholders to serve thereafter until their successors have been duly elected and qualified. Each nominee is currently a director, having served in that capacity since the date indicated in the following table. All nominees have advised the Company that they are able and willing to serve as directors. If any nominee refuses or is unable to serve (an event which is not anticipated), the persons named in the accompanying proxy card will vote for another person nominated by the Board of Directors. Unless otherwise directed in the accompanying proxy card, the persons named therein will vote FOR the election of the seven nominees listed in the following table.

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The following table provides certain information as of April 8, 2005, for each person named for election as a director, which includes all executive officers of the Company:

| Name | Age | Present Position with Company or Principal Occupation and Prior History | First Elected Director |
|----------------------|-----|--|------------------------|
| ---- | --- | ----- | ----- |
| Erwin Cheldin | 73 | President and Chief Executive Officer since 1969. Chairman of the Board since 1987. | 1969 |
| Cary L. Cheldin | 48 | Executive Vice President since 1991. Vice President 1986 to 1991 and Secretary 1987 to 1991. | 1983 |
| Lester A. Aaron, CPA | 59 | Treasurer and Chief Financial Officer since 1985. Secretary 1991 to 1992. | 1985 |
| George C. Gilpatrick | 60 | Vice President, Management Information Systems, since 1981. Secretary since 1992. | 1985 |
| David A. Lewis, CPCU | 83 | Retired insurance executive with over 40 years' insurance experience. The last 27 years were with the Transamerica Group of insurance companies. | 1989 |
| Warren D. Orloff | 70 | Retired actuary with over 40 years' experience specializing in retirement plans. From 1990 until retiring in 1997, he was an independent actuarial consultant for pension administration firms. He is a Fellow of Society of Actuaries, Fellow of Conference of Consulting Actuaries, and member of Academy of Actuaries. | 2001 |
| Donald B. Urfrig | 63 | Consulting engineer in the areas of project management and integrated product development since 1996. In addition, he is also a private investor and owner of commercial and agricultural businesses for the past 33 years. From 1963 to 1996 worked in the aerospace industry in both technical and management positions. | 2001 |

Except for Cary Cheldin, who is the son of Erwin Cheldin, none of the executive officers or directors of the Company are related to any other officer or director of the Company. The executive officers of the Company are elected by the Board of Directors and serve at the pleasure of the Board.

Messrs. Erwin Cheldin, Cary L. Cheldin, Lester A. Aaron and George C. Gilpatrick who hold approximately 51.0% 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 National Association of Securities Dealers ("NASD") Marketplace Rule 4350(c)(5). A Controlled Company is exempt from the requirements of NASD

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Marketplace Rule 4350(c) 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.

During the year ended December 31, 2004, the Company's Board of Directors held one meeting. Non-employee directors met without any management directors or employees present four times during the year ended December 31, 2004.

Non-employee directors receive \$2,000 each quarter as compensation for the committee meetings they attend and \$1,000 for each board meeting they attend. All incumbent directors attended 75% or more of the combined total meetings of the Board of Directors and the committees on which they served.

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The Board of Directors has established an Audit Committee presently consisting of David A. Lewis, Warren D. Orloff and Donald B. Urfrig. The Audit Committee of the Board of Directors oversees the accounting and financial reporting processes of the Company and audits of its financial statements. The Audit Committee which has a written charter met four times during the year ended December 31, 2004, and held one meeting subsequent to the year ended December 31, 2004, to discuss accounting and financial statement matters related to the year ended December 31, 2004. Mr. Lewis, Mr. Orloff and Mr. Urfrig are independent as defined in the NASD listing standards. The Board of Directors has determined that the Company does not have an "Audit Committee Financial Expert", as defined by the SEC, serving on the Audit Committee. The Board of Directors believes that the members of the Audit Committee are able to read and understand financial statements of the Company, are familiar with the Company and its business, and are capable of fulfilling the duties and responsibilities of an Audit Committee without the necessity of having an "Audit Committee Financial Expert" as a member.

The Board of Directors has also established a Compensation Committee presently consisting of Messrs. Cary Cheldin, Aaron, and Orloff. This Committee considers and recommends to the Board of Directors compensation for executive officers. The Compensation Committee held one meeting during the year ended December 31, 2004.

The Company does not have a Nominating Committee of the Board of Directors. The Board of Directors presently consists of only seven members and has not added a new member since 2001. Since the executive officers control approximately 51% of the voting power of the outstanding common stock of the Company and occupy four of the seven seats on the Board of Directors, the Board of Directors believes that it is appropriate not to have a Nominating Committee. If there were a new nominee for Director to be considered, it is expected that all of the Directors would participate in the process. The Board of Directors does not have a formal policy with regard to the consideration of any director candidates recommended by shareholders. The Board of Directors, however, would consider qualified nominees recommended by shareholders. Shareholders who wish to recommend a qualified nominee should submit complete information as to the identity and qualifications of the person recommended to the Secretary of the Company at 23251 Mulholland Drive, Woodland Hills, California 91364-2732. Absent special circumstances, the Board of Directors will continue to nominate qualified incumbent Directors whom the Board of Directors believes will continue to make important contributions to the Board of Directors. The Board generally requires that nominees be persons of sound ethical character, be able to represent all shareholders fairly, have no material conflicts of interest, have demonstrated

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professional achievement, have meaningful experience and have a general appreciation of the major business issues facing the Company. The Board of Directors does not have a formal process for identifying and evaluating nominees for Director.

Communications with the Board of Directors

The Company provides a process for shareholders to send communications to the Board of Directors or any of the Directors. Shareholders may send written communications to the Board of Directors or any Director, c/o Secretary, Unico American Corporation, 23251 Mulholland Drive, Woodland Hills, California 91364. All communications will be compiled by the Secretary of the Company and submitted to the members of the Board of Directors or to the individual Director to whom it was addressed on a periodic basis. The Company does not have a policy with regard to Directors' attendance at the Annual Meeting of Shareholders. Four of the Directors attended the 2003 Annual Meeting of Shareholders.

Code of Ethics

The Company has adopted a Code of Ethics that applies to its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. A copy of the Code of Ethics may be obtained, without charge, upon written request to the Secretary, Unico American Corporation, 23251 Mulholland Drive, Woodland Hills, California 91364.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of April 8 2005, the names and holdings of all persons who are known by the Company to own beneficially more than 5% of its outstanding common stock, its only class of outstanding voting securities, and the beneficial ownership of such securities held by each Director, nominee for Director, and all Executive Officers and Directors as a group. Unless otherwise indicated, the Company believes that each of the persons and entities set forth below has the sole power to vote and dispose of the shares listed opposite his or its name as beneficially owned by him or it.

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| Name of Beneficial Owner | Amount Beneficially Owned | | | (1) Percent Of Class |
|--|---------------------------|--|-----------|-------------------------------|
| | Without Options | (1) Options Currently Exercisable | Total | |
| Certain Beneficial Owners | | | | |
| Erwin Cheldin (2) 23251 Mulholland Drive Woodland Hills, CA 91364 | 2,339,850 | 0 | 2,339,850 | 42.6% |
| Schwartz Investment Counsel, Inc., and Schwartz Investment Trust, on behalf of its series Funds, | 535,145 | | 535,145 | 9.7% |

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Schwartz Value Fund, and Ave Maria
Catholic Values Fund (3)

| | | | | |
|--|---------|--|---------|------|
| General Re Corporation (4) 695 East Main Street Stamford, CT 06904 | 289,552 | | 289,552 | 5.3% |
|--|---------|--|---------|------|

| | | | | |
|--|---------|--|---------|------|
| Dimensional Fund Advisors, Inc. (5) 1299 Ocean Avenue Santa Monica, CA 90401 | 373,143 | | 373,143 | 6.8% |
|--|---------|--|---------|------|

| | | | | |
|---|---------|--|---------|------|
| FMR Corp. (6) 82 Devonshire Street Boston, MA 02109 | 309,000 | | 309,000 | 5.6% |
|---|---------|--|---------|------|

Executive Officers, Directors, and
Nominees for Director

| | | | | |
|--------------------------|-----------|---|-----------|-------|
| Erwin Cheldin (2) | 2,339,850 | 0 | 2,339,850 | 42.6% |
| Cary L. Cheldin (2) | 204,860 | 0 | 204,860 | 3.7% |
| Lester A. Aaron (2) | 150,567 | 0 | 150,567 | 2.7% |
| George C. Gilpatrick (2) | 104,717 | 0 | 104,717 | 1.9% |
| David A. Lewis | 3,000 | 0 | 3,000 | 0.1% |
| Warren D. Orloff | 0 | 0 | 0 | 0.0% |
| Donald B. Urfrig | 25,000 | 0 | 25,000 | 0.5% |

| | | | | |
|--|-----------|---|-----------|-------|
| All executive officers & directors as a group (7 persons) | 2,827,994 | 0 | 2,827,994 | 51.5% |
|--|-----------|---|-----------|-------|

- (1) Includes for each person or group, shares issuable upon exercise of presently exercisable options or options exercisable within 60 days held by such person or group.
- (2) Messrs. Erwin Cheldin, Cary L. Cheldin, Lester A. Aaron and George C. Gilpatrick have agreed to vote all of the shares of common stock owned by them aggregating 2,799,994 shares or approximately 50.9% of the outstanding common stock so as to elect each of them to the Board of Directors and to vote on all other matters as they may agree. The agreement terminates upon the earlier of such time as the group owns less than 50% of the outstanding shares of the common stock of the Company or April 15, 2019.
- (3) Per Schedule 13G dated February 22, 2005.
- (4) Per Schedule 13G dated February 14, 2005. Of the 289,552 shares beneficially owned, General Re Corporation does not have sole voting power over the shares, has shared voting power over 289,552 shares, and has shared power to dispose or to direct the disposition of 289,552 shares.
- (5) Per Schedule 13G dated February 9, 2005.
- (6) Per Schedule 13G dated February 14, 2000. Of the 309,000 shares beneficially owned, FRM Corp. does not have sole or shared voting power over the shares, and has sole power to dispose or to direct the disposition of 309,000 shares.

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EXECUTIVE COMPENSATION AND OTHER INFORMATION

Summary of Executive Compensation

The following table sets forth information for years ended December 31, 2004, 2003, and 2002 as to executive compensation paid to the chief executive officer and the other executive officers of the Company.

SUMMARY COMPENSATION TABLE

| Name and Principal Position | Year | Annual Compensation | | All Other Compensation |
|---|------|---------------------|------------|------------------------|
| | | Salary (\$) | Bonus (\$) | |
| Erwin Cheldin President, Chief Executive Officer and Chairman of the Board | 2004 | 300,000 | - | 39,294 |
| | 2003 | 300,000 | - | 35,294 |
| | 2002 | 300,000 | - | 30,000 |
| Cary L. Cheldin Executive Vice President | 2004 | 275,000 | 32,500 | 39,294 |
| | 2003 | 275,000 | 25,000 | 35,294 |
| | 2002 | 275,000 | 25,000 | 30,000 |
| Lester A. Aaron Treasurer and Chief Financial Officer | 2004 | 184,500 | 50,000 | 39,294 |
| | 2003 | 180,000 | 45,000 | 35,294 |
| | 2002 | 180,000 | 40,000 | 30,000 |
| George C. Gilpatrick Vice President and Secretary | 2004 | 174,250 | 47,500 | 39,294 |
| | 2003 | 170,000 | 40,000 | 35,294 |
| | 2002 | 170,000 | 40,000 | 30,000 |

(*) Represents amounts contributed or accrued to the person's account under the Company's Profit Sharing Plan and the Company's Money Purchase Plan, all of which are vested. During the year 2002, the amount contributed to each executive officer's account under the Profit Sharing Plan and Money Purchase Plan was \$17,000 and \$13,000, respectively. During the year 2003, the amount contributed to each executive officer's account under the Profit Sharing Plan and Money Purchase Plan was \$20,000 and \$15,294, respectively. During the year 2004, the amount contributed to each executive officer's account under the Profit Sharing Plan and Money Purchase Plan was \$24,000 and \$15,294, respectively. The Company's Profit Sharing Plan and Money Purchase Plan both have a March 31 fiscal year end (see "Retirement Plans").

Option/SAR Grants in Last Fiscal Year

No stock options or stock appreciation rights were granted to any executive officer during the year ended December 31, 2004.

Options/SAR Exercises in Last Fiscal Year and Unexercised Options/SAR at Fiscal Year End

No stock options or stock appreciation rights were exercised by any executive officer during the year ended December 31, 2004, and no options or stock appreciation rights were held by any executive officer at December 31, 2004.

Omnibus Stock Plan

The Company's 1999 Omnibus Stock Plan (the "1999 Plan") that covers 500,000

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shares of the Company's common stock (subject to adjustment in the case of stock splits, reverse stock splits, stock dividends, etc.) was adopted by the Board of Directors in March 1999 and approved by shareholders on June 4, 1999. The 1999 Plan is divided into a Stock Option Program under which eligible persons may be granted options to purchase shares of common stock, a Stock Appreciation Program under which eligible persons may be granted the right to receive a payment in the form of cash, stock or a combination of the foregoing, and a Restricted Stock Program under which eligible persons may be issued shares of common stock directly either through an immediate purchase or as a bonus. The 1999 Plan and each Program are administered by the Board of Directors or a committee authorized by the Board and consisting of at least two directors each of whom is not an officer or employee of the Company and meets the qualifications set forth in Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended. Presently, the 1999 Plan is being administered by the Board of Directors.

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Employees, consultants, advisors and directors of the Company are eligible to participate in the 1999 Plan. However, only employees are entitled to receive "incentive stock options" (as provided in Section 422 of the Internal Revenue Code of 1986, as amended) under the Stock Option Program. Under the Stock Option Program, both incentive stock options and options which do not qualify as incentive stock options may be granted. The term of an option may not exceed ten years (or five years in the case of the grant of an incentive stock option to a holder of more than ten percent (10%) of the outstanding common stock). The exercise price per share of common stock under an option may not be less than the fair market value of the common stock on the date of the option grant. In the case of the grant of an incentive stock option to a holder of more than 10% of the outstanding common stock, the exercise price may not be less than 110% of the fair market value of the common stock on the date of the option grant. Under the Stock Appreciation Program, stock appreciation rights may be granted separately or in tandem with a stock option. Stock appreciation rights entitle the holder thereof to receive upon exercise of such right without payment to the Company an amount which is not greater than the fair market value of a share of common stock on the date of exercise of the stock appreciation right over the fair market value of a share of common stock on the date of grant of the stock appreciation right. Under the Restricted Stock Program, the Company may issue shares of its common stock directly to eligible persons for consideration consisting of cash, notes or past services rendered by the recipient. The purchase price of the shares may not be less than the fair market value of the Company's common stock on the date of issue. If a recipient terminates his or her employment or other arrangements with the Company before the shares are fully vested, then the recipient is required to surrender to the Company for cancellation all unvested shares and the Company must repay the recipient cash or cash equivalent consideration paid by him or her for those unvested shares and cancel the unpaid principal balance, if any, on any promissory notes attributable to surrender the shares.

In the event of a "change of control event" as defined in the 1999 Plan, all unvested options, stock appreciation rights and restricted stock issuances will immediately become exercisable or vest, as the case may be. The 1999 Plan administrator may override the acceleration of these rights either in the agreement setting forth those rights or prior to the "change of control event." A "change of control event" occurs if (a) more than twenty percent (20%) of the Company's common stock or combined voting power is acquired by a person or entity other than Mr. Erwin Cheldin, the Company or an employee benefit plan of the Company, but not including any acquisition directly from the Company; (b) a majority of the Company's Board of Directors ceases to consist of the present directors or persons whose election or nomination was approved by a majority of the then incumbent Board of Directors (excluding any director who assumes his or

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her position as a result of an actual or threatened proxy contest); (c) the Company is reorganized, merged or consolidated into another entity; or (d) the shareholders approve the liquidation or dissolution of the Company or the sale of all or substantially all of its assets; unless with respect to (c) or (d), after the event more than eighty percent (80%) of the common stock or the outstanding voting securities of the Company, the surviving company or the company that purchases the Company's assets is still held by persons who were formerly the shareholders of the Company, and no person or entity other than Mr. Erwin Cheldin, the Company, any employee benefit plan of the Company or the resulting company or a twenty percent (20%) shareholder prior to the transaction holds more than twenty percent (20%) of such company's common stock or combined voting power.

All outstanding options, stock appreciation rights and/or unvested stock issuances under the 1999 Plan will terminate upon consummation of (a) a dissolution of the Company or (b) in case no provision has been made for the survival, substitution, exchange or other settlement of any outstanding option, stock appreciation rights and/or unvested stock issuances, a merger or consolidation of the Company with another corporation in which the shareholders of the Company immediately prior to the merger will own less than a majority of the outstanding voting securities of the surviving corporation after the merger, or a sale of all or substantially all of the assets and business of the Company to another corporation.

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EQUITY COMPENSATION PLAN INFORMATION

The following table shows the total number of outstanding options and shares available for other future issuance of options under the Company's equity compensation plans as of December 31, 2004.

| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants, and rights | Weighted-average exercise price of outstanding options, warrants and rights |
|--|---|--|
| ----- | ----- | ----- |
| | (a) | (b) |
| Equity compensation plans approved by security holders: | | |
| 1999 Omnibus Stock Plan | 272,000 | \$5.254 |
| Equity compensation plans not approved by security holders: | 0 | 0 |
| | ----- | ----- |
| Total | 272,000 | \$5.254 |
| | ===== | ===== |

Retirement Plans

Profit Sharing Plan

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During the fiscal year ended March 31, 1986, the Company adopted the Unico American Corporation Profit Sharing Plan. Company employees who are at least 21 years of age and have been employed by the Company for at least two years are participants in such Plan. Pursuant to the terms of such Plan, the Company annually contributes for the account of each participant an amount equal to a percentage of the participant's eligible compensation as determined by the Board of Directors. Participants must be employed by the Company on the last day of the plan year to be eligible for contribution. Participants are entitled to receive distribution of benefits under the Plan upon retirement, termination of employment, death or disability.

Money Purchase Plan

During the year ended December 31, 1999, the Company adopted the Unico American Corporation Money Purchase Plan. This plan covers the present executive officers of the Company; namely Erwin Cheldin, Cary L. Cheldin, Lester A. Aaron, and George C. Gilpatrick. Pursuant to the terms of such Plan, the Company annually contributes for the account of each participant an amount equal to a percentage of the participant's eligible compensation as determined by the Board of Directors. However, amounts contributed to the Unico American Corporation Profit Sharing Plan will be considered first in determining the actual amount available under the Internal Revenue Service maximum contribution limits. Participants must be employed by the Company on the last day of the plan year to be eligible for contribution. Participants are entitled to receive distribution of benefits under the Plan upon retirement, termination of employment, death or disability.

Compensation Committee Interlocks and Insider Participation in Compensation Decisions

The Compensation Committee consists of the following Company directors: Cary L. Cheldin, Lester A. Aaron, and Warren D. Orloff. Cary Cheldin is the son of Erwin Cheldin, the President, Chief Executive Officer and Chairman of the Board. During the year ended December 31, 2004, Cary Cheldin was the Executive Vice President of the Company and Mr. Aaron was Treasurer and Chief Financial Officer of the Company.

Executive Compensation Committee Report

The Company's compensation package for executive officers primarily consists of a base salary, an annual incentive bonus, long-term incentive or non-cash awards in the form of stock options, and contributions under the Profit Sharing and Money Purchase Plans. The executive compensation program is designed to retain and reward individuals who are capable of leading the Company in achieving its business objectives. The Compensation Committee submits its recommendation to the entire Board of Directors. The philosophy of the Compensation Committee is to maintain a competitive base salary for executive officers and to provide an incentive program that rewards executive officers for achieving certain financial results. Base compensation is determined on a calendar year basis and other incentives are determined when deemed appropriate.

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When determining base compensation for the executive officers, the Committee takes into account competitive pay levels in the industry with its emphasis on the median of the survey data. The Committee recommends adjustments to base compensation when it determines that an executive officer's base compensation is not competitive.

When determining bonuses for the executive officers, the Committee first evaluates, and gives primary weight to, the operational and financial

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performance of the executive management team, including the chief executive officer, as a group. After the team results are determined, individual effectiveness in contributing to the achievement of those results is considered. The financial results, which are reviewed by the Committee, include the Company's net income, revenues and expenses.

The Committee's base compensation review determined that the base salary for the chief executive officer, taking into account the Company contributions under the Profit Sharing Plan and Money Purchase Plan, was within a competitive range of others in the industry and recommended that the 2004 base salary for the chief executive officer remain at \$300,000.

The Committee's bonus review considered and evaluated the operating results for the three years ended December 31, 2003, as well as the improvements in results through the third quarter of 2004. Primarily due to the losses incurred by the Company in 2001 and 2002, the committee determined that no bonus should be paid to the chief executive officer for the year ended December 31, 2004. The Committee also recommended that the total amount of the bonuses to be paid to all other executive officers as a group for the year ended December 31, 2004, be increased by an aggregate of \$20,000 over the prior year.

Section 162(m) of the Internal Revenue Code, enacted as part of the Omnibus Budget Reconciliation Act of 1993 (OBRA) limits to \$1,000,000 the deductibility for any year beginning after December 31, 1993, of compensation paid by a public corporation to the chief executive officer and the next four most highly compensated executive officers unless such compensation is performance based within the meaning of Section 162(m) and the regulations thereunder. For the year ended December 31, 2004, the Company does not contemplate that there will be nondeductible compensation for the executive officers of the Company.

THE COMPENSATION COMMITTEE
OF THE BOARD OF DIRECTORS

/s/ Cary L. Cheldin
/s/ Lester A. Aaron
/s/ Warren D. Orloff

Report of the Audit Committee

Neither the following report of the Audit Committee nor any other information included in this Proxy Statement pursuant to Item 7(d)(3) of Schedule 14A promulgated under the Securities Exchange Act of 1934 or pursuant to Item 306 of Regulation S-K constitutes "soliciting material" and none of such information should be deemed to be "filed" with the Securities and Exchange Commission or incorporated by reference into any other filing of the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the Company specifically incorporates such information by reference in any of those filings.

Management is responsible for the Company's financial reporting process including its system of internal control and for the preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). The Company's independent auditors are responsible for auditing those financial statements. Our responsibility is to monitor and oversee these processes. It is not our duty or our responsibility to conduct auditing or accounting reviews or procedures. We are not employees of the Company; and we may not be, and we may not represent ourselves to be or to serve as, accountants or auditors by profession or experts in the fields of accounting or auditing. Therefore, we have relied on management's representation that the financial statements have been prepared with integrity and objectivity and in conformity with GAAP and on the representations of the independent

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auditors included in their report on the Company's financial statements. Our oversight does not provide us with an independent basis to determine that management has maintained appropriate accounting and financial reporting principles or policies, or appropriate internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. Furthermore, our considerations and discussions with management and the independent auditors do not assure that the Company's financial statements are presented in accordance with GAAP, that the audit of the Company's

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financial statements has been carried out in accordance with auditing standards generally accepted in the United States of America, or that the Company's independent accountants are in fact "independent."

The Audit Committee has reviewed and discussed the audited financial statements of the Company for the fiscal year ended December 31, 2004, with the Company's management.

The Audit Committee has discussed with KPMG LLP the matters required to be discussed pursuant to Statement on Auditing Standards No. 61 (Codification of Statements on Auditing Standards, AU ss.380). Additionally, the Audit Committee has received from KPMG LLP the written disclosures and the letter required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees). The Audit Committee also has discussed with KPMG LLP matters relating to their independence.

Based on the review and discussions described above, the Audit Committee recommended to the Board of Directors of the Company that the audited financial statements of the Company be included in its Annual Report on Form 10-K for the fiscal year ended December 31, 2004.

Members of the Audit Committee:

/s/ David L. Lewis
/s/ Warren D. Orloff
/s/ Donald B. Urfrig

Performance Graph

The following graph compares the cumulative total shareholder return on the Company's Common Stock with the cumulative total return of equity securities traded on the National Association of Securities Dealers Automated Quotation System (NASDAQ) and a peer group consisting of all NASDAQ property and casualty companies. The comparison assumes \$100.00 was invested on December 31, 1999, in the Company's Common Stock and in each of the comparison groups, and assumes reinvestment of dividends. It should be noted that this graph represents historical stock price performance and is not necessarily indicative of any future stock price performance.

| | 12/31/99 | 12/31/00 | 12/31/01 | 12/31/02 | 12/31/03 | 12/31/04 |
|----------------------|----------|----------|----------|----------|----------|----------|
| Unico American Corp. | 100.0 | 86.1 | 79.1 | 46.9 | 83.2 | 141.6 |
| NASDAQ Market Index | 100.0 | 60.3 | 47.8 | 33.1 | 49.4 | 53.8 |
| Peer Group Index | 100.0 | 130.2 | 132.9 | 136.2 | 162.3 | 203.6 |

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CERTAIN TRANSACTIONS

The Company presently occupies a 46,000 square foot building located at 23251 Mulholland Drive, Woodland Hills, California, under a master lease expiring March 31, 2007. The lease provides for an annual gross rental of \$1,025,952. Erwin Cheldin, the Company's president, chairman and principal shareholder, is the owner of the building. On February 22, 1995, the Company signed an extension to the lease with no increase in rent to March 31, 2007. The Company believes that the terms of the lease at inception and at the time the lease extension was signed were at least as favorable to the Company as could have been obtained from unaffiliated third parties.

In 2003, Unico made capital contributions totaling \$3,000,000 to its Crusader subsidiary. The contributions were made to ensure that Crusader maintained its A.M. Best Financial Size Category VI rating, which requires capital of a least \$25,000,000. The funding of Unico's capital contribution to Crusader was derived from available cash from the Company's other operations and the proceeds of two notes. On September 29, 2003, the Company borrowed \$1,000,000 from Erwin Cheldin, a director and the Company's principal shareholder, president and chief executive officer, and \$500,000 from The Cary and Danielle Cheldin Family Trust. Cary L. Cheldin is a director and the Company's executive vice president. As of December 31, 2004, the Company repaid the note from The Cary and Danielle Cheldin Family Trust in full and repaid \$500,000 of the Erwin Cheldin note. On January 31, 2005, the Company repaid an additional \$250,000 of the Erwin Cheldin note. The note from Erwin Cheldin is unsecured and it is payable upon demand of lender (on no less than fourteen days' notice) and, if no demand is made, then it is payable in full on September 28, 2007. The note may be prepaid at any time without penalty. The note bears an adjustable interest of 5.5% as of December 31, 2004. The interest is payable monthly and is adjustable every third month by adding a margin of one percentage point to the prime rate.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and executive officers, and persons who own more than 10% of a registered class of the Company's equity securities, to file with the Securities and Exchange Commission (SEC) initial reports of ownership and reports of changes in ownership of Common Stock and other equity securities of the Company. Executive officers, directors, and greater than 10% beneficial owners are required by regulation of the SEC to furnish the Company with copies of all Section 16(a) forms they file. To the Company's knowledge, based solely on review of copies of such reports furnished to the Company and written representations that no other reports were required during the year ended December 31, 2004, all Section 16(a) filing requirements applicable to its executive officers, directors, and greater than 10% beneficial owners were complied with.

APPOINTMENT OF AUDITORS

KPMG LLP has served as the Company's independent auditors since 1996. The Audit Committee has selected them to continue as the Company's auditors and to audit the books and other records of the Company for the year ending December 31, 2005. A representative of KPMG LLP is expected to attend the Annual Meeting of Shareholders. Such representative will have the opportunity to make a statement and will be available to respond to appropriate questions.

Audit Fees

The aggregate fees billed by KPMG LLP for professional services rendered for the audit of the Company's financial statements for the fiscal year ended December

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31, 2004, and for the reviews of the financial statements included in the Company's quarterly reports on Forms 10-Q for the fiscal year ended December 31, 2004, were approximately \$185,000. The aggregate fees billed by KPMG LLP for professional services rendered for the audit of the Company's financial statements for the fiscal year ended December 31, 2003, and for the reviews of the financial statements included in the Company's quarterly reports on Forms 10-Q for the fiscal year ended December 31, 2003, were approximately \$148,000.

Audit Related Fees

The aggregate fees billed by KPMG LLP for professional services related to the audit of the Company's financial statements for the fiscal years ended December 31, 2004 and 2003, exclusive of the of the fees disclosed under the section audit fees above were \$12,000 and \$52,700, respectively. Audit related services in both years included fees for the audit of the Company's Profit Sharing Plan. Audit related services in 2003 also included services with respect to Crusader's actuarial certification (required to be filed with regulatory authorities) and reports filed with the SEC.

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Tax Fees

No fees were billed for tax compliance, consulting and planning services rendered by KPMG LLP for the year ended December 31, 2004. The aggregate fees billed for tax compliance, consulting and planning services rendered by KPMG LLP for the year ended December 31, 2003 were approximately \$22,700. These fees were primarily for the preparation and review of the Company's income tax returns.

All Other Fees

Other than the fees for services described above, there were no additional fees billed by KPMG LLP during the years ended December 31, 2004 and 2003

The policy of the Audit Committee is to pre-approve all audit and non-audit services provided by KPMG, LLP.

OTHER MATTERS

The Board of Directors is not aware of any business to be presented at the Annual Meeting except for the matters set forth in the Notice of Annual Meeting and described in this Proxy Statement. Unless otherwise directed, all shares represented by proxy holders will be voted in favor of the proposals described in this Proxy Statement. If any other matters come before the Annual Meeting, the proxy holders will vote on those matters using their best judgment.

SHAREHOLDERS' PROPOSALS

Shareholders desiring to exercise their right under the proxy rules of the Securities and Exchange Commission to submit proposals for consideration by the shareholders at the 2006 Annual Meeting are advised that their proposals must be received by the Company no later than December 16, 2005, for inclusion in the Company's Proxy Statement and form of proxy relating to that meeting. If a shareholder intends to present a proposal at the 2006 Annual Meeting but does not seek inclusion of that proposal in the Proxy Statement for that meeting, the holders of proxies for that meeting will be entitled to exercise their discretionary authority on that proposal if the Company does not have notice of the proposal by March 1, 2006.

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NOMINEES.

DATED: _____, 2005

(Signature)

(Signature if jointly held)

Please date and sign exactly as your name or names appear herein. If more than one owner, all should sign. When signing as attorney, executor, administrator, trustee or guardian, give your full title as such. If the signatory is a corporation or partnership, sign the full corporate or partnership name by its duly authorized officer or partner.

PLEASE COMPLETE, SIGN, AND RETURN THIS
PROXY PROMPTLY USING THE ENCLOSED ENVELOPE.