

INDEPENDENCE HOLDING CO
Form 10-Q
May 09, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the quarterly period ended **March 31, 2014**.

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

For the transition period from: _____ to _____

Commission File Number: **0-10306**

INDEPENDENCE HOLDING COMPANY

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

58-1407235

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

96 CUMMINGS POINT ROAD, STAMFORD, CONNECTICUT

06902

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(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: **(203) 358-8000**

NOT APPLICABLE

Former name, former address and former fiscal year, if changed since last report.

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 No

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 definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Class
Common stock, \$ 1.00 par value

Outstanding at May 1, 2014
17,491,712 Shares

INDEPENDENCE HOLDING COMPANY

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Copies of the Company's SEC filings can be found on its website at www.ihcgroup.com.

Forward-Looking Statements

This report on Form 10-Q contains certain “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which are intended to be covered by the safe harbors created by those laws. We have based our forward-looking statements on our current expectations and projections about future events. Our forward-looking statements include information about possible or assumed future results of our operations. All statements, other than statements of historical facts, included or incorporated by reference in this report that address activities, events or developments that we expect or anticipate may occur in the future, including such things as the growth of our business and operations, our business strategy, competitive strengths, goals, plans, future capital expenditures and references to future successes may be considered forward-looking statements. Also, when we use words such as anticipate, believe, estimate, expect, intend, probably or similar expressions, we are making forward-looking statements.

Numerous risks and uncertainties may impact the matters addressed by our forward-looking statements, any of which could negatively and materially affect our future financial results and performance. We describe some of these risks and uncertainties in greater detail in Item 1A, Risk Factors, of IHC’s annual report on Form 10-K as filed with Securities and Exchange Commission.

Although we believe that the assumptions underlying our forward-looking statements are reasonable, any of these assumptions, and, therefore, also the forward-looking statements based on these assumptions, could themselves prove to be inaccurate. In light of the significant uncertainties inherent in the forward-looking statements that are included in this report, our inclusion of this information is not a representation by us or any other person that our objectives and plans will be achieved. Our forward-looking statements speak only as of the date made, and we will not update these forward-looking statements unless the securities laws require us to do so. In light of these risks, uncertainties and assumptions, any forward-looking event discussed in this report may not occur.

PART I - FINANCIAL INFORMATION**Item 1.****Financial Statements**

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	March 31, 2014	December 31,
	(Unaudited)	2013
ASSETS:		
Investments:		
Short-term investments	\$ 50	\$ 50
Securities purchased under agreements to resell	34,971	22,594
Trading securities	10,594	7,125
Fixed maturities, available-for-sale	535,094	542,287
Equity securities, available-for-sale	11,995	11,803
Other investments	25,344	25,123
Total investments	618,048	608,982
Cash and cash equivalents	23,081	24,229
Deferred acquisition costs	29,857	29,777
Due and unpaid premiums	62,272	59,435
Due from reinsurers	380,002	380,229
Premium and claim funds	38,262	37,353
Goodwill	50,318	50,318
Other assets	86,178	78,712
TOTAL ASSETS	\$ 1,288,018	\$ 1,269,035
LIABILITIES AND STOCKHOLDERS EQUITY:		
LIABILITIES:		
Policy benefits and claims	\$ 236,656	\$ 237,754
Future policy benefits	287,309	287,449
Funds on deposit	274,090	274,826
Unearned premiums	13,833	12,423
Other policyholders' funds	25,014	25,129
Due to reinsurers	39,528	37,113
Accounts payable, accruals and other liabilities	80,867	71,889
Debt	6,000	6,000
Junior subordinated debt securities	38,146	38,146
TOTAL LIABILITIES	1,001,443	990,729

STOCKHOLDERS EQUITY:

IHC STOCKHOLDERS' EQUITY:

Preferred stock (none issued)	--	-
Common stock \$1.00 par value, 23,000,000 shares authorized;		
18,523,733 shares issued; 17,563,618 and 17,660,390 shares outstanding	18,524	18,524
Paid-in capital	126,335	126,239
Accumulated other comprehensive loss	(4,954)	(10,472)
Treasury stock, at cost; 960,115 and 863,343 shares	(9,432)	(8,169)
Retained earnings	146,357	142,669
TOTAL IHC STOCKHOLDERS EQUITY	276,830	268,791
NONCONTROLLING INTERESTS IN SUBSIDIARIES	9,745	9,515
TOTAL EQUITY	286,575	278,306
TOTAL LIABILITIES AND EQUITY	\$ 1,288,018	\$ 1,269,035

See the accompanying Notes to Condensed Consolidated Financial Statements.

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
(In thousands, except per share data)

	Three Months Ended	
	March 31,	
	2014	2013
REVENUES:		
Premiums earned	\$ 123,270	\$ 117,368
Net investment income	5,801	8,001
Fee income	9,339	6,542
Other income	1,111	1,352
Net realized investment gains	1,551	4,619
	141,072	137,882
EXPENSES:		
Insurance benefits, claims and reserves	85,309	85,460
Selling, general and administrative expenses	48,135	42,880
Amortization of deferred acquisitions costs	1,282	1,440
Interest expense on debt	481	487
	135,207	130,267
Income before income taxes	5,865	7,615
Income taxes	1,860	2,575
Net income	4,005	5,040
Less: Income from noncontrolling interests in subsidiaries	(304)	(339)
NET INCOME ATTRIBUTABLE TO IHC	\$ 3,701	\$ 4,701
Basic income per common share	\$.21	\$.26
WEIGHTED AVERAGE SHARES OUTSTANDING	17,623	17,919
Diluted income per common share	\$.21	\$.26
WEIGHTED AVERAGE DILUTED SHARES OUTSTANDING	17,763	18,040

See the accompanying Notes to Condensed Consolidated Financial Statements.

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)
(In thousands)

	Three Months Ended	
	March 31,	
	2014	2013
Net income	\$ 4,005	\$ 5,040
Other comprehensive income (loss):		
Available-for-sale securities:		
Unrealized gains (losses) on available-for-sale securities, pre-tax	8,017	(2,107)
Tax expense (benefit) on unrealized gains (losses) on available-for-sale securities	2,378	(580)
Unrealized gains (losses) on available-for-sale securities, net of taxes	5,639	(1,527)
Cash flow hedge:		
Unrealized gains on cash flow hedge, pre-tax	17	23
Tax expense on unrealized gains on cash flow hedge	7	9
Unrealized gains on cash flow hedge, net of taxes	10	14
Other comprehensive income (loss), net of tax	5,649	(1,513)
COMPREHENSIVE INCOME, NET OF TAX	9,654	3,527
Comprehensive income, net of tax, attributable to noncontrolling interests:		
Income from noncontrolling interests in subsidiaries	(304)	(339)
Other comprehensive (income) loss, net of tax, attributable to noncontrolling interests:		
Unrealized (income) loss on available-for-sale securities, net of tax	(131)	91
Other comprehensive (income) loss, net of tax, attributable to noncontrolling interests	(131)	91
COMPREHENSIVE INCOME, NET OF TAX, ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(435)	(248)
COMPREHENSIVE INCOME, NET OF TAX, ATTRIBUTABLE TO IHC	\$ 9,219	\$ 3,279

See the accompanying Notes to Condensed Consolidated Financial Statements.

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)
THREE MONTHS ENDED MARCH 31, 2014 (In thousands)

	COMMON STOCK	PAID-IN CAPITAL	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TREASURY STOCK, AT COST	RETAINED EARNINGS	TOTAL IHC STOCKHOLDERS' EQUITY	NON- CONTROLLING INTERESTS SUBSIDIARIES
BALANCE AT DECEMBER 31, 2013	18,524\$	126,239\$	(10,472)\$	(8,169)\$	142,669 \$	268,791 \$	
Net income					3,701	3,701	
Other comprehensive loss, net of tax			5,518			5,518	
Repurchases of common stock				(1,263)		(1,263)	
Share-based compensation expenses and related tax benefits		85				85	
Distributions to noncontrolling interests							-
Other capital transactions		11			(13)	(2)	
BALANCE AT MARCH 31, 2014	18,524\$	126,335\$	(4,954)\$	(9,432)\$	146,357 \$	276,830 \$	

See the accompanying Notes to Condensed Consolidated Financial Statements.

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(In thousands)

	Three Months Ended March 31,	
	2014	2013
CASH FLOWS PROVIDED BY (USED BY) OPERATING ACTIVITIES:		
Net income	\$ 4,005	\$ 5,040
Adjustments to reconcile net income to net change in cash from operating activities:		
Amortization of deferred acquisition costs	1,282	1,440
Net realized investment gains	(1,551)	(4,619)
Equity income from equity method investments	(433)	(906)
Depreciation and amortization	1,005	1,163
Share-based compensation expenses	16	128
Deferred tax expense	824	3,225
Other	1,275	1,906
Changes in assets and liabilities:		
Net (purchases) sales of trading securities	(2,889)	764
Change in insurance liabilities	2,552	21,207
Additions to deferred acquisition costs	(1,383)	(1,387)
Change in amounts due from reinsurers	227	(5,676)
Change in premium and claim funds	(909)	(14,741)
Change in current income tax liability	522	640
Change in due and unpaid premiums	(2,837)	(485)
Change in other assets	(1,777)	5,006
Change in other liabilities	4,125	(1,422)
	Net change in cash from operating activities	11,283
	4,054	11,283
CASH FLOWS PROVIDED BY (USED BY) INVESTING ACTIVITIES:		
Net (purchases) sales of securities under resale and repurchase agreements	(12,377)	20,538
Sales of equity securities	250	7,500
Purchases of equity securities	(250)	-
Sales of fixed maturities	83,746	88,859
Maturities and other repayments of fixed maturities	17,344	14,663
Purchases of fixed maturities	(94,159)	(149,871)
Other investing activities	3,018	5,246
	Net change in cash from investing activities	(13,065)
	(2,428)	(13,065)
CASH FLOWS PROVIDED BY (USED BY) FINANCING ACTIVITIES:		

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Repurchases of common stock	(1,120)	(565)
Cash paid in acquisitions of noncontrolling interests	-	(1,199)
Withdrawals of investment-type insurance contracts	(816)	(787)
Dividends paid	(620)	-
Other financing activities	(218)	(583)
Net change in cash from financing activities	(2,774)	(3,134)
Net change in cash and cash equivalents	(1,148)	(4,916)
Cash and cash equivalents, beginning of year	24,229	23,945
Cash and cash equivalents, end of period	\$ 23,081	\$ 19,029

See the accompanying Notes to Condensed Consolidated Financial Statements.

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 1.

Organization, Consolidation, Basis of Presentation and Accounting Policies

(A)

Business and Organization

Independence Holding Company, a Delaware corporation (IHC), is a holding company principally engaged in the life and health insurance business through: (i) its insurance companies, Standard Security Life Insurance Company of New York ("Standard Security Life"), Madison National Life Insurance Company, Inc. ("Madison National Life"), Independence American Insurance Company (Independence American); and (ii) its marketing and administrative companies, including IHC Risk Solutions, LLC, IHC Health Solutions, Inc., IHC Specialty Benefits Inc. and IHC Carrier Solutions, Inc. IHC also owns a significant equity interest in a managing general underwriter (MGU) that writes medical stop-loss. Standard Security Life, Madison National Life and Independence American are sometimes collectively referred to as the Insurance Group . IHC and its subsidiaries (including the Insurance Group) are sometimes collectively referred to as the "Company", or IHC , or are implicit in the terms we , us and our .

Geneve Corporation, a diversified financial holding company, and its affiliated entities, held 52.1% of IHC's outstanding common stock at March 31, 2014.

(B)

Consolidation

American Independence Corp.

The Company owned 90.0% of the outstanding common stock of American Independence Corp. ("AMIC") at both March 31, 2014 and December 31, 2013. AMIC is an insurance holding company engaged in the insurance and reinsurance business.

(C)

Basis of Presentation

The Condensed Consolidated Financial Statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP") for interim financial statements and with the instructions to Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The Condensed Consolidated Financial Statements include the accounts of IHC and its consolidated subsidiaries. All significant intercompany transactions have been eliminated in consolidation. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect: (i) the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements; and (ii) the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. IHC's annual report on Form 10-K as filed with the Securities and Exchange Commission should be read in conjunction with the accompanying Condensed Consolidated Financial Statements.

In the opinion of management, all adjustments (consisting only of normal recurring accruals) that are necessary for a fair presentation of the consolidated financial position and results of operations for the interim periods have been included. The condensed consolidated results of operations for the three months ended March 31, 2014 are not necessarily indicative of the results to be anticipated for the entire year.

(D)

Reclassifications

Certain amounts in prior year's Condensed Consolidated Financial Statements and Notes thereto have been reclassified to conform to the 2014 presentation.

(E)

Recent Accounting Pronouncements

Recently Adopted Accounting Standards

In July 2013, the Financial Accounting Standards Board (FASB), issued guidance for the presentation of unrecognized tax benefits to better reflect the manner in which an entity would settle, at the reporting date, any additional income taxes that would result from the disallowance of a tax position when net operating loss carryforwards, similar tax losses, or tax credit carryforwards exist. The adoption of this guidance, effective January 1, 2014, did not have an effect on the Company's consolidated financial statements.

In July 2011, the FASB issued guidance specifying that the liability for the fees paid to the Federal Government by health insurers as a result of recent healthcare reform legislation should be estimated and recorded in full once the entity provides qualifying health insurance in the applicable calendar year in which the fee is payable with a corresponding deferred cost that is amortized to expense using a straight-line method of allocation unless another method better allocates the fee over the calendar year that it is payable. The amendments in this Update became effective January 1, 2014 and in accordance with the provisions, IHC recorded the estimated gross liability for the mandated fees payable to the Federal Government of \$1,500,000 and the corresponding deferred cost in the first quarter of 2014. The amounts were recorded in accounts payable, accruals and other liabilities and in other assets, respectively, on the Condensed Consolidated Balance Sheet. The deferred asset will be amortized ratably over the calendar year to selling, general and administrative expense in the Condensed Consolidated Statement of Income. This is an estimated amount and will be adjusted once the final assessment is received.

Recently Issued Accounting Standards Not Yet Adopted

In April 2014, the FASB issued guidance: (i) improving the definition of discontinued operations by limiting the reporting of discontinued operations to disposals of components that represent strategic shifts that have (or will have) a major effect on an entity's operations and financial results; and (ii) requiring expanded disclosures for discontinued operations. Public entities are required to apply this guidance to: (i) all disposals (or classifications as held for sale) of

components of the entity that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years; and (ii) to all businesses that, on acquisition, are classified as held for sale that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in previously issued financial statements. The adoption of this guidance is not expected to have a material effect on the Company's consolidated financial statements.

Note 2.

Income Per Common Share

Included in the diluted earnings per share calculation for the three months ended March 31, 2014 and 2013 are 140,000 and 121,000 incremental common shares, respectively, primarily from the dilutive effect of share-based payment awards, computed using the treasury stock method.

Note 3.**Investment Securities**

The cost (amortized cost with respect to certain fixed maturities), gross unrealized gains, gross unrealized losses and fair value of investment securities are as follows for the periods indicated (in thousands):

	March 31, 2014			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
FIXED MATURITIES				
AVAILABLE-FOR-SALE:				
Corporate securities	\$ 207,375	\$ 1,301	\$ (4,986)	\$ 203,690
CMOs - residential ⁽¹⁾	2,259	8	(11)	2,256
CMOs - commercial	975	-	(106)	869
U.S. Government obligations	15,592	216	(5)	15,803
Agency MBS - residential ⁽²⁾	76	4	-	80
GSEs ⁽³⁾	19,200	3	(667)	18,536
States and political subdivisions	256,226	3,507	(5,422)	254,311
Foreign government obligations	37,276	127	(1,768)	35,635
Redeemable preferred stocks	4,036	82	(204)	3,914
Total fixed maturities	\$ 543,015	\$ 5,248	\$ (13,169)	\$ 535,094
EQUITY SECURITIES				
AVAILABLE-FOR-SALE:				
Common stocks	\$ 7,517	\$ 450	\$ (87)	\$ 7,880
Nonredeemable preferred stocks	4,004	111	-	4,115
Total equity securities	\$ 11,521	\$ 561	\$ (87)	\$ 11,995
	December 31, 2013			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
FIXED MATURITIES				
AVAILABLE-FOR-SALE:				
Corporate securities	\$ 215,412	\$ 1,315	\$ (7,467)	\$ 209,260
CMOs - residential ⁽¹⁾	2,457	8	(8)	2,457
CMOs - commercial	975	-	(382)	593
U.S. Government obligations	15,596	271	(6)	15,861
Agency MBS - residential ⁽²⁾	79	4	-	83

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GSEs ⁽³⁾	28,484	4	(340)	28,148
States and political subdivisions	256,645	2,435	(9,377)	249,703
Foreign government obligations	34,437	20	(2,107)	32,350
Redeemable preferred stocks	4,036	74	(278)	3,832
Total fixed maturities	\$ 558,121	\$ 4,131	\$ (19,965)	\$ 542,287

EQUITY SECURITIES

AVAILABLE-FOR-SALE:

Common stocks	\$ 7,517	\$ 328	\$ (70)	\$ 7,775
Nonredeemable preferred stocks	4,004	58	(34)	4,028
Total equity securities	\$ 11,521	\$ 386	\$ (104)	\$ 11,803

(1)

Collateralized mortgage obligations (CMOs).

(2)

Mortgage-backed securities (MBS).

(3)

Government-sponsored enterprises (GSEs) are private enterprises established and chartered by the Federal Government

or its various insurance and lease programs which carry the full faith and credit obligation of the U.S. Government.

The amortized cost and fair value of fixed maturities available-for-sale at March 31, 2014, by contractual maturity, are shown below (in thousands). Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. CMOs and MBSs are shown separately, as they are not due at a single maturity.

	AMORTIZED COST	FAIR VALUE
Due in one year or less	\$ 28,453	\$ 28,451
Due after one year through five years	43,264	43,147
Due after five years through ten years	199,697	196,073
Due after ten years	249,093	245,682
CMOs and MBSs	22,508	21,741
	\$ 543,015	\$ 535,094

The following tables summarize, for all available-for-sale securities in an unrealized loss position, the aggregate fair value and gross unrealized loss by length of time those securities that have continuously been in an unrealized loss position for the periods indicated (in thousands):

March 31, 2014

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate securities	\$ 101,907	\$ 2,689	\$ 36,883	\$ 2,297	\$ 138,790	\$ 4,986
CMOs - residential	1,879	11	-	-	1,879	11
CMOs - commercial	-	-	869	106	869	106
U.S. Government obligations	494	5	-	-	494	5
GSEs	13,199	469	5,288	198	18,487	667
States and political subdivisions	135,318	3,634	37,068	1,788	172,386	5,422
Foreign governments	18,472	1,415	5,520	353	23,992	1,768
Redeemable preferred stocks	3,558	204	-	-	3,558	204
	274,827	8,427	85,628	4,742	360,455	13,169

Total fixed maturities

Common stocks	2,009	87	-	-	2,009	87
Total equity securities	2,009	87	-	-	2,009	87

Total temporarily impaired securities

	\$ 276,836	\$ 8,514	\$ 85,628	\$ 4,742	\$ 362,464	\$ 13,256
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Number of securities in an unrealized loss position

	105		31		136	
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December 31, 2013

Less than 12 Months

12 Months or Longer

Total