

INDEPENDENCE HOLDING CO
Form 10-Q
May 12, 2011

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, 2011**.

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 11, 2011
15,833,083 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, 2011	December 31,
	2010	
	(unaudited)	
ASSETS:		
Investments:		
Short-term investments	\$ 50	\$ 53
Securities purchased under agreements to resell	20,778	41,081
Fixed maturities, available-for-sale	786,021	793,656
Equity securities, available-for-sale	53,829	48,073
Other investments	38,023	36,864
Total investments	898,701	919,727
Cash and cash equivalents	11,438	11,426
Due from securities brokers	12,288	15,022
Deferred acquisition costs	43,577	43,465
Due and unpaid premiums	45,838	48,586
Due from reinsurers	155,220	154,243
Premium and claim funds	39,758	37,646
Notes and other receivables	17,247	16,766
Goodwill	51,713	51,713
Other assets	65,317	63,198
TOTAL ASSETS	\$ 1,341,097	\$ 1,361,792
LIABILITIES AND STOCKHOLDERS EQUITY:		
LIABILITIES:		
Insurance reserves-health	\$ 181,345	\$ 181,447
Insurance reserves-life and annuity	278,923	278,000
Funds on deposit	409,933	408,566
Unearned premiums	4,212	4,043
Policy claims-health	15,794	16,521
Policy claims-life	11,666	11,809
Other policyholders' funds	20,563	20,195
Due to securities brokers	8,788	32,469
Due to reinsurers	30,349	31,554
Accounts payable, accruals and other liabilities	71,122	70,497
Liabilities related to discontinued operations	-	771
Debt	7,500	7,500

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Junior subordinated debt securities	38,146	38,146
TOTAL LIABILITIES	1,078,341	1,101,518
STOCKHOLDERS' EQUITY:		
IHC STOCKHOLDERS' EQUITY:		
Preferred stock (none issued)	-	-
Common stock \$1.00 par value, 20,000,000 shares authorized; 16,072,238 and 15,472,020 shares issued; 15,833,083 and 15,232,865 shares outstanding	16,072	15,472
Paid-in capital	105,868	101,003
Accumulated other comprehensive income	552	633
Treasury stock, at cost 239,155 shares	(1,917)	(1,917)
Retained earnings	118,601	115,437
TOTAL IHC STOCKHOLDERS' EQUITY	239,176	230,628
NONCONTROLLING INTERESTS IN SUBSIDIARIES	23,580	29,646
TOTAL EQUITY	262,756	260,274
TOTAL LIABILITIES AND EQUITY	\$ 1,341,097	\$ 1,361,792

See the accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended	
	March 31,	
	2011	2010
REVENUES:		
Premiums earned:		
Health	\$ 75,723	\$ 61,842
Life and annuity	10,150	9,042
Net investment income	10,116	9,371
Fee income	7,377	7,560
Net realized investment gains (losses)	(202)	349
Other-than-temporary impairment losses	(303)	(1,626)
Equity income from AMIC	-	280
Gain on bargain purchase of AMIC	-	27,830
Other income	1,458	1,702
	104,319	116,350
EXPENSES:		
Insurance benefits, claims and reserves:		
Health	50,576	43,563
Life and annuity	13,673	13,265
Selling, general and administrative expenses	35,986	31,435
Amortization of deferred acquisitions costs	1,691	1,318
Interest expense on debt	457	471
	102,383	90,052
Income from continuing operations before income taxes	1,936	26,298
Income taxes (benefits)	(1,864)	9,921
Income from continuing operations	3,800	16,377
Discontinued operations:		
Loss from discontinued operations	-	(127)
Net income	3,800	16,250
Less income from noncontrolling interests in subsidiaries	(616)	(216)
NET INCOME ATTRIBUTABLE TO IHC	\$ 3,184	\$ 16,034
Basic income (loss) per common share:		
Income from continuing operations	\$.21	\$ 1.06
Loss from discontinued operations	-	(.01)
Basic income per common share	\$.21	\$ 1.05

WEIGHTED AVERAGE SHARES OUTSTANDING		15,479		15,341
Diluted income (loss) per common share				
Income from continuing operations	\$.21	\$	1.05
Loss from discontinued operations		-		(.01)
Diluted income per common share	\$.21	\$	1.04
WEIGHTED AVERAGE DILUTED SHARES OUTSTANDING		15,483		15,345

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, 2011 (In thousands)

	COMMON STOCK	PAID-IN CAPITAL	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TREASURY STOCK, AT COST	RETAINED EARNINGS	TOTAL IHC STOCKHOLDERS' EQUITY	NON- CONTROL INTERESTS SUBSIDIARIES
BALANCE							
AT							
DECEMBER 31, 2010	15,472 \$	101,003 \$	633 \$	(1,917) \$	115,437 \$	230,628 \$	2
Net income					3,184	3,184	
Net change in unrealized gains (losses)			(94)			(94)	
Total comprehensive income						3,090	
Acquire noncontrolling interests in American Independence Corp.	600	4,430	13			5,043	
Acquire noncontrolling interests in Wisconsin Underwriting Associates		391				391	
Share-based compensation expenses and related tax benefits		(2)				(2)	

Distributions
to
noncontrolling
interests
Other
capital
transactions

46

(20)

26

BALANCE

AT

MARCH	16,072\$	105,868 \$	552 \$	(1,917)\$	118,601 \$	239,176 \$	2
31,							
2011							

See the accompanying Notes to Condensed Consolidated Financial Statements.

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2011	2010
CASH FLOWS PROVIDED BY (USED BY) OPERATING ACTIVITIES:		
Net income	\$ 3,800	\$ 16,250
Adjustments to reconcile net income to net change in cash from operating activities:		
Gain on bargain purchase of AMIC	-	(27,830)
Loss from discontinued operations	-	127
Amortization of deferred acquisition costs	1,691	1,318
Net realized investment (gains) losses	202	(349)
Other-than-temporary impairment losses	303	1,626
Equity income from AMIC and other equity method investments	(542)	(379)
Depreciation and amortization	1,123	1,164
Share-based compensation expenses	138	179
Deferred tax (benefit) expense	(605)	11,894
Other	878	110
Changes in assets and liabilities:		
Change in insurance liabilities	279	(13,878)
Additions to deferred acquisition costs, net	(1,722)	(1,021)
Change in net amounts due from and to reinsurers	(2,181)	9,243
Change in premium and claim funds	(2,112)	9,540
Change in current income tax liability	(1,621)	(2,464)
Change in due and unpaid premiums	2,748	6,422
Change in other assets	(1,122)	282
Change in other liabilities	1,279	(13,292)
Net change in cash from operating activities of continuing operations	2,536	(1,058)
Net change in cash from operating activities of discontinued operations	-	(408)
Net change in cash from operating activities	2,536	(1,466)
CASH FLOWS PROVIDED BY (USED BY) INVESTING ACTIVITIES:		
Change in net amount due from and to securities brokers	(20,947)	(25,744)
Net sales of securities under resale and repurchase agreements	20,303	21,806
Sales of equity securities	14,993	18,115
Purchases of equity securities	(19,015)	(6,530)
Sales of fixed maturities	89,904	147,571
Maturities and other repayments of fixed maturities	17,799	29,891
Purchases of fixed maturities	(103,417)	(183,739)
Additional investments in other investments, net of distributions	(617)	293

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Cash acquired in acquisition of AMIC, net of cash paid	-	4,562
Cash paid in acquisitions of companies, net of cash acquired	-	(3,469)
Cash paid in acquisitions of noncontrolling interests in AMIC	(1,000)	-
Cash received in acquisition of policy blocks	-	1,194
Change in notes and other receivables	(481)	1,134
Other	(372)	(402)
Net change in cash from investing activities	(2,850)	4,682

CASH FLOWS PROVIDED BY (USED BY) FINANCING ACTIVITIES:

Proceeds from issuance of common stock	-	-
Repurchases of common stock	-	(1,254)
Excess tax expense from expirations of stock options	(117)	