

INDEPENDENCE HOLDING CO
Form 10-Q
August 08, 2013

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 **June 30, 2013**.

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 August 2, 2013
17,667,526 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)

	June 30, 2013	December 31,
	(Unaudited)	2012
ASSETS:		
Investments:		
Short-term investments	\$ 50	\$ 50
Securities purchased under agreements to resell	10,588	33,956
Trading securities	7,997	7,016
Fixed maturities, available-for-sale	573,527	719,602
Equity securities, available-for-sale	5,594	15,598
Other investments	25,648	35,134
Total investments	623,404	811,356
Cash and cash equivalents	18,977	23,945
Deferred acquisition costs	29,624	33,401
Due and unpaid premiums	73,146	49,430
Due from reinsurers	383,848	166,880
Premium and claim funds	36,524	40,596
Goodwill	50,318	50,318
Other assets	77,548	86,382
TOTAL ASSETS	\$ 1,293,389	\$ 1,262,308
 LIABILITIES AND STOCKHOLDERS EQUITY:		
LIABILITIES:		
Claims and claim adjustment expenses-health	\$ 240,155	\$ 194,480
Future policy benefits-life and annuity	289,726	290,238
Funds on deposit	276,287	278,084
Unearned premiums	11,106	8,453
Other policyholders' funds	24,990	22,373
Due to reinsurers	45,454	48,192
Accounts payable, accruals and other liabilities	71,425	71,495
Debt	8,000	8,000
Junior subordinated debt securities	38,146	38,146
TOTAL LIABILITIES	1,005,289	959,461
 STOCKHOLDERS EQUITY:		
IHC STOCKHOLDERS' EQUITY:		

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Preferred stock (none issued)	--	-
Common stock \$1.00 par value, 23,000,000 shares authorized;		
18,473,958 and 18,461,992 shares issued; 17,665,051 and 17,932,954 shares outstanding	18,474	18,462
Paid-in capital	127,187	126,589
Accumulated other comprehensive income (loss)	(3,459)	15,013
Treasury stock, at cost; 808,907 and 529,038 shares	(7,431)	(4,533)
Retained earnings	137,921	130,153
TOTAL IHC STOCKHOLDERS EQUITY	272,692	285,684
NONCONTROLLING INTERESTS IN SUBSIDIARIES	15,408	17,163
TOTAL EQUITY	288,100	302,847
TOTAL LIABILITIES AND EQUITY	\$ 1,293,389	\$ 1,262,308

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		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
REVENUES:				
Premiums earned	\$ 125,465	\$ 85,469	\$ 242,833	\$ 169,243
Net investment income	7,002	7,609	15,003	16,360
Fee income	6,039	5,889	12,581	13,310
Other income	1,659	1,247	3,011	2,403
Net realized investment gains	11,735	1,850	16,354	2,987
Other-than-temporary impairment losses:				
Total other-than-temporary impairment losses	-	(909)	-	(992)
Portion of losses recognized in other comprehensive income	-	288	-	288
Net impairment losses recognized in earnings	-	(621)	-	(704)
	151,900	101,443	289,782	203,599
EXPENSES:				
Insurance benefits, claims and reserves	89,276	60,265	174,736	117,400
Selling, general and administrative expenses	44,862	33,331	87,742	69,803
Amortization of deferred acquisitions costs	10,948	1,631	12,388	3,225
Interest expense on debt	490	540	977	1,079
	145,576	95,767	275,843	191,507
Income from operations before income taxes	6,324	5,676	13,939	12,092
Income taxes	2,166	1,846	4,741	3,932
Net income	4,158	3,830	9,198	8,160
Less: Income from noncontrolling interests in subsidiaries	(467)	(299)	(806)	(707)
NET INCOME ATTRIBUTABLE TO IHC	\$ 3,691	\$ 3,531	\$ 8,392	\$ 7,453
Basic income per common share	\$.21	\$.20	\$.47	\$.41
WEIGHTED AVERAGE SHARES OUTSTANDING	17,753	17,987	17,836	18,008
Diluted income per common share	\$.21	\$.20	\$.47	\$.41
WEIGHTED AVERAGE DILUTED SHARES OUTSTANDING	17,805	18,025	17,922	18,100

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 June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income	\$ 4,158	\$3,830	\$9,198	\$ 8,160
Other comprehensive income (loss):				
Available-for-sale securities:				
Unrealized gains (losses) on available-for-sale securities, pre-tax	(25,889)	6,602	(27,996)	7,307
Tax expense (benefit) on unrealized gains (losses) on available-for-sale securities	(8,325)	2,066	(8,905)	2,366
Unrealized gains (losses) on available-for-sale securities, net of taxes	(17,564)	4,536	(19,091)	4,941
Other-than-temporary impairment losses, pre-tax	-	(288)	-	(288)
Tax benefit on other-than-temporary impairment losses	-	(41)	-	(41)
Other-than-temporary impairment losses, net of taxes	-	(247)	-	(247)
Cash flow hedge:				
Unrealized gains (losses) on cash flow hedge, pre-tax	22	28	45	(8)
Tax expense (benefit) on unrealized gains (losses) on cash flow hedge	9	11	18	(3)
Unrealized gains (losses) on cash flow hedge, net of taxes	13	17	27	(5)
Other comprehensive income (loss), net of tax	(17,551)	4,306	(19,064)	4,689
COMPREHENSIVE INCOME (LOSS), NET OF TAX	(13,393)	8,136	(9,866)	12,849
Comprehensive income, net of tax, attributable to noncontrolling interests:				
Income from noncontrolling interests in subsidiaries	(467)	(299)	(806)	(707)
Other comprehensive loss, net of tax, attributable to noncontrolling interests:				
Unrealized (income) loss on available-for-sale securities, net of tax	465	(126)	556	(93)
Other comprehensive (income) loss, net of tax, attributable to noncontrolling interests	465	(126)	556	(93)

COMPREHENSIVE INCOME, NET OF TAX, ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(2)	(425)	(250)	(800)
COMPREHENSIVE INCOME (LOSS), NET OF TAX, ATTRIBUTABLE TO IHC	(\$13,395)	\$7,711	(\$0,116)	\$ 12,049

See the accompanying Notes to Condensed Consolidated Financial Statements.

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)
SIX MONTHS ENDED JUNE 30, 2013 (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, 2012	18,462\$	126,589\$	15,013 \$	(4,533)\$	130,153 \$	285,684 \$	
Net income					8,392	8,392	
Other comprehensive (loss), net of tax			(18,508)			(18,508)	
Repurchases of common stock				(2,898)		(2,898)	
Common stock dividend (\$0.035 per share)					(624)	(624)	
Share-based compensation expenses and related tax benefits	12	191				203	
Acquire noncontrolling interests		403	36			439	
Distributions to noncontrolling interests						-	
Other capital transactions		4				4	

**BALANCE
AT
JUNE \$
30, 2013**

18,474\$	127,187\$	(3,459)\$	(7,431)\$	137,921 \$	272,692 \$
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See the accompanying Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended June 30,	
	2013	2012
CASH FLOWS PROVIDED BY (USED BY) OPERATING ACTIVITIES:		
Net income	\$ 9,198	\$ 8,160
Adjustments to reconcile net income to net change in cash from		