

INDEPENDENCE HOLDING CO

Form 8-K

November 06, 2013

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D. C. 20549

**FORM 8-K**

**CURRENT REPORT**

**Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported) November 6, 2013

**INDEPENDENCE HOLDING COMPANY**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**010306**

(Commission File Number)

**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**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13a-4(c))



**Item 2.02 Results of Operations and Financial Condition.**

The information set forth under this Item 2.02 (Results of Operations and Financial Condition) is intended to be furnished. Such information, including the Exhibit attached hereto, shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Securities and Exchange Act of 1934, except as shall be expressly set forth by specific reference in such filing.

On November 6, 2013, Independence Holding Company issued a news release announcing its 2013 Third-Quarter and Nine-Month results, a copy of which is attached as Exhibit 99.1.

**Item 9.01 Financial Statements and Exhibits**

(c)

Exhibits:

**Exhibit 99.1**

News Release of Independence Holding Company dated November 6, 2013: Independence Holding Company Announces 2013 Third-Quarter and Nine-Month Results.

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**INDEPENDENCE HOLDING COMPANY**

(Registrant)

By: Teresa A. Herbert

Date: November 6, 2013

*/s/ Teresa A. Herbert*

Teresa A. Herbert

Senior Vice President and Chief Financial Officer

**INDEPENDENCE HOLDING COMPANY**  
**96 CUMMINGS POINT ROAD**  
**STAMFORD, CONNECTICUT 06902**  
**NYSE: IHC**

**CONTACT: ADAM VANDERVOORT**  
**(646) 509-2156**  
**www.IHCGroup.com**

## **NEWS RELEASE**

### **INDEPENDENCE HOLDING COMPANY ANNOUNCES**

### **2013 THIRD-QUARTER AND NINE-MONTH RESULTS**

Stamford, Connecticut, November 6, 2013. Independence Holding Company (NYSE: IHC) today reported 2013 third-quarter and nine-month results.

#### ***Financial Results***

Net income per share attributable to IHC amounted to \$.21 per share, diluted, or \$3,639,000, for the three months ended September 30, 2013 compared to \$.22 per share, diluted, or \$3,918,000, for the three months ended September 30, 2012. Revenues increased 27% to \$141,644,000 for the three months ended September 30, 2013 compared to revenues for the three months ended September 30, 2012 of \$111,502,000, primarily due to increases in premium revenue.

Net income per share attributable to IHC increased to \$.68 per share, diluted, or \$12,031,000, for the nine months ended September 30, 2013 compared to \$.63 per share, diluted, or \$11,371,000, for the nine months ended September 30, 2012. Revenues increased 37% to \$431,426,000 for the nine months ended September 30, 2013 compared to revenues for the nine months ended September 30, 2012 of \$315,101,000, primarily due to an increase in premium revenue and net realized investment gains.

Nine-month results include the write-off of approximately \$9.3 million of deferred acquisition costs related to a coinsurance agreement entered into by Madison National Life to cede approximately \$219 million of reserves, primarily annuities, in the second quarter of 2013. However, those costs were more than offset by the gains realized by the Company in the transaction, most of which resulted from the required sale and transfer of invested assets.

#### ***Chief Executive Officer's Comments***

Roy Thung, Chief Executive Officer, commented, "Earned premium for medical stop-loss, our largest segment, grew substantially over the same quarter last year. We anticipate that, by the end of the year, the medical stop-loss we write on a direct basis will have increased by approximately 25% from 2012 levels. We attribute this growth to enhanced sales efforts, focused underwriting and an expansion in the market as new employer groups migrate to self-funding

from fully insured in response to health care reform. We expect this growth to continue in 2014. Profitability of our medical stop-loss line continues at expected levels. We are also encouraged by the performance of our existing group life, disability and DBL business lines and the expansion of our pet insurance line. Additionally, as a result of an equity investment in a successful producer of non-subscriber occupational accident, we anticipate significant premiums and income from this new line of business in 2014.

During 2013, IHC has for the first time experienced underwriting losses in our individual major medical line of business, which are primarily attributable to the effects of health care reform. As a result, like many insurance companies, we have exited this line in all states. Since we have discontinued writing this business, the losses incurred in 2013 will not recur in 2014, except for any run-off. We are also recording decreased underwriting margins in our small-group major medical line of business. The Company attributes both the underwriting loss from individual major medical and the reduced profitability of the small-group major medical line to changes brought about by certain aspects of health care reform. Although health care reform has led to adverse underwriting results in our major-medical business, it has had a positive effect on sales for our higher-margin business lines, including medical stop-loss and ancillary health products such as short-term medical, dental, small-group stop-loss, hospital indemnity, critical illness, scheduled-benefit and gap insurance plans.

Our overall investment portfolio continues to be very highly rated (on average, AA) and has a duration of approximately six years. Our book value has increased to \$15.49 per share at September 30, 2013 from \$15.44 per share at June 30, 2013 and our total stockholders' equity is \$274 million.

As a result of our increased sales of stop-loss and higher-margin products not negatively affected by reform, increased sales of pet insurance and insurance for overseas employees and travelers, and the launching of a non-subscriber occupational accident product, we remain optimistic as to our 2014 results.

### ***About Independence Holding Company***

IHC is a holding company principally engaged in the life and health insurance business and the acquisition of blocks of policies through its insurance company subsidiaries (Standard Security Life Insurance Company of New York, Madison National Life Insurance Company, Inc. and Independence American Insurance Company) and its marketing and administrative affiliates. Standard Security Life markets medical stop-loss, group major medical, short-term medical, limited medical, group long-term and short-term disability and life, dental, vision and various supplemental products. Madison National Life sells group life and disability, group major medical, dental, individual life insurance and various supplemental products. Independence American offers pet insurance, non-subscriber occupational accident, international coverages, small-group major medical and short-term medical. IHC owns certain subsidiaries through its majority ownership of American Independence Corp. (NASDAQ: AMIC), which is a holding company principally engaged in the insurance and reinsurance business.

Certain statements and information contained in this release may be considered forward-looking statements, such as statements relating to management's views with respect to future events and financial performance. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical experience or from future results expressed or implied by such forward-looking statements. Potential risks and uncertainties include, but are not limited to, economic conditions in the markets in which IHC operates, new federal or state governmental regulation, IHC's ability to effectively operate, integrate and leverage any past or future strategic acquisition, and other factors which can be found in IHC's other news releases and filings with the Securities and Exchange Commission. IHC expressly disclaims any duty to update its forward-looking statements or earnings guidance, and does not undertake to provide any such guidance in the future.





**INDEPENDENCE HOLDING COMPANY**

**THIRD QUARTER REPORT**

**September 30, 2013**

**(In Thousands, Except Per Share Data)**

|   | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|---|---|-------------|--|-------------|
|   | <b>2013</b>                                 | <b>2012</b> | <b>2013</b>                                | <b>2012</b> |
| <b>REVENUES:</b>  |   |             |  |             |
| Premiums earned   | \$ 125,174                                  | \$ 92,236   | \$ 368,007                                 | \$ 261,479  |
| Net investment income   | 6,841                                       | 9,346       | 21,844                                     | 25,706      |
| Fee income  | 6,290                                       | 7,754       | 18,871                                     | 21,064      |
| Other income  | 922   | 1,155       | 3,933                                      | 3,558       |
| Net realized investment gains                                 | 2,417                                       | 1,011       | 18,771                                     | 3,998       |
| Net impairment losses recognized in earnings                  | -   | -           | -  | (704)       |
|   | 141,644                                     | 111,502     | 431,426                                    | 315,101     |
| <b>EXPENSES:</b>  |   |             |  |             |
| Insurance benefits, claims and reserves                       | 88,177                                      | 63,034      | 262,913                                    | 180,434     |
| Selling, general and administrative expenses                  | 45,597                                      | 39,791      | 133,339                                    | 109,594     |
| Amortization of deferred acquisitions costs                   | 1,404                                       | 1,587       | 13,792                                     | 4,812       |
| Interest expense on debt                                      | 470   | 509         | 1,447                                      | 1,588       |
|   | 135,648                                     | 104,921     | 411,491                                    | 296,428     |
| Income before income taxes                                    | 5,996                                       | 6,581       | 19,935                                     | 18,673      |
| Income taxes  | 2,080                                       | 2,191       | 6,821                                      | 6,123       |
| <b>Net income</b>   | 3,916                                       | 4,390       | 13,114                                     | 12,550      |
| Less: income from noncontrolling interests<br>in subsidiaries | (277)                                       | (472)       | (1,083)                                    | (1,179)     |
| <b>NET INCOME ATTRIBUTABLE TO IHC</b>                         | \$ 3,639                                    | \$ 3,918    | \$ 12,031                                  | \$ 11,371   |
| <b>Basic income per common share</b>                          | \$ .21                                      | \$ .22      | \$ .68                                     | \$ .63      |

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|  |    |        |        |        |        |
|--|----|--------|--------|--------|--------|
| <b>WEIGHTED AVERAGE SHARES<br/>OUTSTANDING</b>         |    | 17,683 | 17,957 | 17,784 | 17,991 |
| <b>Diluted income per common share</b>                 | \$ | .21    | \$ .22 | \$ .67 | \$ .63 |
| <b>WEIGHTED AVERAGE DILUTED SHARES<br/>OUTSTANDING</b> |    | 17,735 | 18,028 | 17,890 | 18,076 |

As of November 1, 2013, there were 17,687,669 common shares outstanding, net of treasury shares.

**INDEPENDENCE HOLDING COMPANY**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(In Thousands, Except Share Data)

|  | <b>September 30,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|--|-------------------------------|------------------------------|
| <b>ASSETS:</b>                                   |                               |                              |
| Investments:                                     |                               |                              |
| Short-term investments                           | \$ 50                         | \$ 50                        |
| Securities purchased under agreements to resell  | 34,036                        | 33,956                       |
| Trading securities                               | 6,394                         | 7,016                        |
| Fixed maturities, available-for-sale             | 546,707                       | 719,602                      |
| Equity securities, available-for-sale            | 5,605                         | 15,598                       |
| Other investments                                | 26,302                        | 35,134                       |
| Total investments                                | 619,094                       | 811,356                      |
| Cash and cash equivalents                        | 16,835                        | 23,945                       |
| Deferred acquisition costs                       | 29,578                        | 33,401                       |
| Due and unpaid premiums                          | 58,343                        | 49,430                       |
| Due from reinsurers                              | 377,802                       | 166,880                      |
| Premium and claim funds                          | 40,795                        | 40,596                       |
| Goodwill   | 50,318                        | 50,318                       |
| Other assets                                     | 83,984                        | 86,382                       |
| <b>TOTAL ASSETS</b>                              | <b>\$ 1,276,749</b>           | <b>\$ 1,262,308</b>          |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY:</b>      |                               |                              |
| <b>LIABILITIES:</b>                              |                               |                              |
| Claims and claim adjustment expenses-health      | \$ 232,688                    | \$ 194,480                   |
| Future policy benefits-life and annuity          | 285,175                       | 290,238                      |
| Funds on deposit                                 | 276,379                       | 278,084                      |
| Unearned premiums                                | 10,970                        | 8,453                        |
| Other policyholders' funds                       | 24,975                        | 22,373                       |
| Due to reinsurers                                | 36,734                        | 48,192                       |
| Accounts payable, accruals and other liabilities | 75,861                        | 71,495                       |
| Debt   | 6,000                         | 8,000                        |
| Junior subordinated debt securities              | 38,146                        | 38,146                       |
| <b>TOTAL LIABILITIES</b>                         | <b>986,928</b>                | <b>959,461</b>               |

**STOCKHOLDERS' EQUITY:****IHC STOCKHOLDERS' EQUITY:**

|   |                     |                     |
|---|---------------------|---------------------|
| Preferred stock (none issued)                   | -                   | -                   |
| Common stock                                    | 18,520              | 18,462              |
| Paid-in capital                                 | 127,683             | 126,589             |
| Accumulated other comprehensive income (loss)   | (5,923)             | 15,013              |
| Treasury stock, at cost                         | (7,430)             | (4,533)             |
| Retained earnings                               | 141,564             | 130,153             |
| <b>TOTAL IHC STOCKHOLDERS' EQUITY</b>           | <b>274,414</b>      | <b>285,684</b>      |
| <b>NONCONTROLLING INTERESTS IN SUBSIDIARIES</b> | <b>15,407</b>       | <b>17,163</b>       |
| <b>TOTAL EQUITY</b>                             | <b>289,821</b>      | <b>302,847</b>      |
| <b>TOTAL LIABILITIES AND EQUITY</b>             | <b>\$ 1,276,749</b> | <b>\$ 1,262,308</b> |