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

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**FORM 10-Q**

☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.  
For the quarterly period ended **September 30, 2019**.

☐ Transition Report under Section 13 or 15(d) of the Securities Exchange Act of 1934.  
For the transition period from: \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: **001-32244**

**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, CT**  
(Address of principal executive offices)

**06902**  
(Zip Code)

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

**NOT APPLICABLE**

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

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$1.00 par value	IHC	NYSE

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, if any, every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ☐

Accelerated Filer ☒

Non-Accelerated Filer ☐

Smaller Reporting Company ☐

Emerging Growth Company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of November 5, 2019, the registrant had 14,849,707 shares of Common Stock outstanding.

# INDEPENDENCE HOLDING COMPANY

## INDEX

<b><u>PART I – FINANCIAL INFORMATION</u></b>	<b><u>PAGE NO.</u></b>
Item 1. Financial Statements	
Condensed Consolidated Balance Sheets	4
Condensed Consolidated Statements of Income	5
Condensed Consolidated Statements of Comprehensive Income (Loss)	6
Condensed Consolidated Statement of Changes in Equity	7
Condensed Consolidated Statements of Cash Flows	9
Notes to Condensed Consolidated Financial Statements	10
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	30
Item 3. Quantitative and Qualitative Disclosures about Market Risk	42
Item 4. Controls and Procedures	42
<b><u>PART II - OTHER INFORMATION</u></b>	
Item 1. Legal Proceedings	42
Item 1A. Risk Factors	44
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	44
Item 3. Defaults Upon Senior Securities	44
Item 4. Mine Safety Disclosures	44
Item 5. Other Information	44
Item 6. Exhibits	45
Signatures	47

Copies of the Company's SEC filings can be found on its website at [www.ihcgroup.com](http://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,” “plan,” “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)

	<b>September 30, 2019</b>	<b>December 31, 2018</b>
	<b>(Unaudited)</b>	
<b>ASSETS:</b>		
Investments:		
Short-term investments	\$ 50	\$ 1,050
Securities purchased under agreements to resell	56,878	12,063
Fixed maturities, available-for-sale	440,289	453,464
Equity securities	5,577	5,166
Other investments	13,889	13,192
Total investments	516,683	484,935
Cash and cash equivalents	17,824	26,173
Due and unpaid premiums	24,523	24,412
Due from reinsurers	364,673	368,731
Goodwill	60,205	50,697
Other assets	79,730	82,568
<b>TOTAL ASSETS</b>	<b>\$ 1,063,638</b>	<b>\$ 1,037,516</b>
<b>LIABILITIES AND EQUITY:</b>		
<b>LIABILITIES:</b>		
Policy benefits and claims	\$ 161,429	\$ 160,115
Future policy benefits	204,155	208,910
Funds on deposit	140,724	141,635
Unearned premiums	9,899	5,557
Other policyholders' funds	12,042	10,939
Due to reinsurers	4,655	3,613
Accounts payable, accruals and other liabilities	54,501	53,133
<b>TOTAL LIABILITIES</b>	<b>587,405</b>	<b>583,902</b>
Commitments and contingencies (Note 15)		
Redeemable noncontrolling interest	2,315	2,183
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock \$1.00 par value, 100,000 shares authorized; none issued or outstanding	-	-
Common stock \$1.00 par value, 23,000,000 shares authorized; 18,625,458 shares issued; and 14,853,244 and 14,878,248 shares outstanding	18,625	18,625
Paid-in capital	122,221	124,395
Accumulated other comprehensive income (loss)	3,587	(8,310)
Treasury stock, at cost; 3,772,214 and 3,747,210 shares	(69,704)	(66,392)
Retained earnings	399,160	380,431
<b>TOTAL IHC STOCKHOLDERS' EQUITY</b>	<b>473,889</b>	<b>448,749</b>
<b>NONREDEEMABLE NONCONTROLLING INTERESTS</b>	<b>29</b>	<b>2,682</b>
<b>TOTAL EQUITY</b>	<b>473,918</b>	<b>451,431</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 1,063,638</b>	<b>\$ 1,037,516</b>

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 September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>REVENUES:</b>				
Premiums earned	\$ 86,453	\$ 81,757	\$ 254,189	\$ 238,583
Net investment income	3,964	3,822	12,094	11,190
Fee income	2,938	4,397	10,833	14,193
Other income (loss)	880	(58)	5,443	(504)
Net investment gains (losses)	930	17	2,556	(335)
Other-than-temporary impairment losses, available-for-sale securities:				
Total other-than-temporary impairment losses	-	-	(646)	-
Portion of losses recognized in other comprehensive income (loss)	-	-	-	-
Net impairment losses recognized in earnings	-	-	(646)	-
	95,165	89,935	284,469	263,127
<b>EXPENSES:</b>				
Insurance benefits, claims and reserves	41,398	36,011	128,927	105,619
Selling, general and administrative expenses	44,348	41,021	127,083	126,057
	85,746	77,032	256,010	231,676
Income before income taxes	9,419	12,903	28,459	31,451
Income taxes	3,248	2,860	6,482	7,518
<b>Net income</b>	6,171	10,043	21,977	23,933
(Income) loss from nonredeemable noncontrolling interests	14	(59)	(130)	(99)
(Income) from redeemable noncontrolling interests	(43)	(49)	(131)	(181)
<b>NET INCOME ATTRIBUTABLE TO IHC</b>	\$ 6,142	\$ 9,935	\$ 21,716	\$ 23,653
<b>Basic income per common share</b>	\$ .41	\$ .67	\$ 1.46	\$ 1.60
<b>WEIGHTED AVERAGE SHARES OUTSTANDING</b>	14,879	14,795	14,919	14,808
<b>Diluted income per common share</b>	\$ .41	\$ .66	\$ 1.45	\$ 1.57
<b>WEIGHTED AVERAGE DILUTED SHARES OUTSTANDING</b>	14,941	15,109	14,985	15,104

See the accompanying Notes to Condensed Consolidated Financial Statements.

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Net income	\$ 6,171	\$ 10,043	\$ 21,977	\$ 23,933
Other comprehensive income (loss):				
<b>Available-for-sale securities:</b>				
Unrealized gains (losses) on available-for-sale securities, pre-tax	1,636	(925)	15,080	(8,908)
Tax expense (benefit) on unrealized gains on available-for-sale securities	347	(199)	3,183	(1,893)
Unrealized gains (losses) on available-for-sale securities, net of taxes	1,289	(726)	11,897	(7,015)
Other comprehensive income (loss), net of tax	1,289	(726)	11,897	(7,015)
<b>COMPREHENSIVE INCOME, NET OF TAX</b>	<b>7,460</b>	<b>9,317</b>	<b>33,874</b>	<b>16,918</b>
Comprehensive income, net of tax, attributable to noncontrolling interests:				
(Income) from noncontrolling interests in subsidiaries	(29)	(108)	(261)	(280)
Other comprehensive income, net of tax, attributable to noncontrolling interests	-	-	-	-
<b>COMPREHENSIVE INCOME, NET OF TAX, ATTRIBUTABLE TO NONCONTROLLING INTERESTS</b>	<b>(29)</b>	<b>(108)</b>	<b>(261)</b>	<b>(280)</b>
<b>COMPREHENSIVE INCOME, NET OF TAX, ATTRIBUTABLE TO IHC</b>	<b>\$ 7,431</b>	<b>\$ 9,209</b>	<b>\$ 33,613</b>	<b>\$ 16,638</b>

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See the accompanying Notes to Condensed Consolidated Financial Statements.

**INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Unaudited) (In thousands)**  
**Three Months Ended September 30, 2019 and 2018**

	ACCUMULATED			TREASURY STOCK, AT COST	RETAINED EARNINGS	TOTAL IHC STOCKHOLDERS' EQUITY	NONREDEEMABLE NONCONTROLLING INTERESTS	TOTAL EQUITY
	COMMON STOCK	PAID-IN CAPITAL	OTHER COMPREHENSIVE LOSS					
<b>BALANCE AT JUNE 30, 2019</b>	\$ 18,625	\$ 121,586	\$ 2,298	\$ (67,428)	\$ 393,018	\$ 468,099	\$ 43	\$ 468,142
Net income					6,142	6,142	(14)	6,128
Other comprehensive income, net of tax			1,289			1,289	-	1,289
Repurchases of common stock				(2,318)		(2,318)	-	(2,318)
Share-based compensation		635		42		677	-	677
<b>BALANCE AT SEPTEMBER 30, 2019</b>	<u>\$ 18,625</u>	<u>\$ 122,221</u>	<u>\$ 3,587</u>	<u>\$ (69,704)</u>	<u>\$ 399,160</u>	<u>\$ 473,889</u>	<u>\$ 29</u>	<u>\$ 473,918</u>
<b>BALANCE AT JUNE 30, 2018</b>	\$ 18,625	\$ 125,018	\$ (11,237)	\$ (66,440)	\$ 367,913	\$ 433,879	\$ 2,617	\$ 436,496
Net income					9,935	9,935	59	9,994
Other comprehensive loss, net of tax			(726)			(726)	-	(726)
Repurchases of common stock				(670)		(670)	-	(670)
Distributions to noncontrolling interests						-	(147)	(147)
Share-based compensation		261		192		453	-	453
<b>BALANCE AT SEPTEMBER 30, 2018</b>	<u>\$ 18,625</u>	<u>\$ 125,279</u>	<u>\$ (11,963)</u>	<u>\$ (66,918)</u>	<u>\$ 377,848</u>	<u>\$ 442,871</u>	<u>\$ 2,529</u>	<u>\$ 445,400</u>

**INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Unaudited) (In thousands)**  
**Nine Months Ended September 30, 2019 and 2018**

	ACCUMULATED			TREASURY	RETAINED	TOTAL IHC	NONREDEEMABLE	TOTAL
	COMMON	PAID-IN	OTHER	STOCK,	EARNINGS	STOCKHOLDERS'	NONCONTROLLING	EQUITY
	STOCK	CAPITAL	COMPREHENSIVE	AT COST		EQUITY	INTERESTS	
			INCOME (LOSS)					
<b>BALANCE AT</b>								
<b>DECEMBER 31, 2018</b>	\$ 18,625	\$ 124,395	\$ (8,310)	\$ (66,392)	\$ 380,431	\$ 448,749	\$ 2,682	\$ 451,431
Net income					21,716	21,716	130	21,846
Other comprehensive								
income, net of tax			11,897			11,897	-	11,897
Repurchases of common stock				(3,917)		(3,917)	-	(3,917)
Purchase noncontrolling interests		(1,012)				(1,012)	(2,380)	(3,392)
Distributions to noncontrolling								
interests						-	(403)	(403)
Common stock dividend								
(\$ .20 per share)					(2,987)	(2,987)	-	(2,987)
Share-based compensation		(1,162)		605		(557)	-	(557)
<b>BALANCE AT</b>								
<b>SEPTEMBER 30, 2019</b>	\$ 18,625	\$ 122,221	\$ 3,587	\$ (69,704)	\$ 399,160	\$ 473,889	\$ 29	\$ 473,918
<b>BALANCE AT</b>								
<b>DECEMBER 31, 2017</b>	\$ 18,625	\$ 124,538	\$ (4,598)	\$ (63,404)	\$ 356,383	\$ 431,544	\$ 2,699	\$ 434,243
Cumulative effects of new								
accounting principles			(350)		34	(316)	(97)	(413)
Net income					23,653	23,653	99	23,752
Other comprehensive								
loss, net of tax			(7,015)			(7,015)	-	(7,015)
Repurchases of common stock				(3,817)		(3,817)	-	(3,817)
Distributions to noncontrolling								
interests						-	(172)	(172)
Common stock dividend								
(\$ .15 per share)					(2,222)	(2,222)	-	(2,222)
Share-based compensation		741		303		1,044	-	1,044
<b>BALANCE AT</b>								
<b>SEPTEMBER 30, 2018</b>	\$ 18,625	\$ 125,279	\$ (11,963)	\$ (66,918)	\$ 377,848	\$ 442,871	\$ 2,529	\$ 445,400

See the accompanying Notes to Condensed Consolidated Financial Statements.



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

	<b>Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS PROVIDED BY (USED BY) OPERATING ACTIVITIES:</b>		
Net income	\$ 21,977	\$ 23,933
<b>Adjustments to reconcile net income to net change in cash from operating activities:</b>		
Amortization of deferred acquisition costs	894	681
Net investment (gains) losses	(2,556)	335
(Gain) on sale of investment	(3,589)	-
Other than-temporary-impairment losses, net	646	-
Equity (income) loss from equity method investments	(1,171)	976
Depreciation and amortization	2,386	1,953
Provision for bad debt on note receivable	1,214	-
Other	9,387	8,343
Changes in assets and liabilities:		
Change in insurance liabilities	3,511	(12,181)
Change in amounts due from reinsurers	4,058	9,053
Change in claim fund balances	1,577	294
Change in due and unpaid premiums	(111)	(7,150)
Other operating activities	(6,816)	(5,599)
Net change in cash from operating activities	31,407	20,638
<b>CASH FLOWS PROVIDED BY (USED BY) INVESTING ACTIVITIES:</b>		
Net (purchases) sales and maturities of short-term investments	1,000	(999)
Net (purchases) of securities under resale agreements	(44,815)	(7,756)
Sales of equity securities	-	698
Sales of fixed maturities	111,695	55,338
Maturities and other repayments of fixed maturities	57,087	21,992
Purchases of fixed maturities	(139,531)	(79,374)
Payments to acquire business, net of cash acquired	(7,952)	-
Proceeds from sales, distributions and returns of capital from investments	5,117	-
Payments to acquire other investments	(3,000)	-
Other investing activities	(2,393)	(3,709)
Net change in cash from investing activities	(22,792)	(13,810)
<b>CASH FLOWS PROVIDED BY (USED BY) FINANCING ACTIVITIES:</b>		
Repurchases of common stock	(3,923)	(3,943)
Withdrawals of investment-type insurance contracts	(1,376)	(1,033)
Dividends paid	(5,225)	(3,710)
Purchase of noncontrolling interest	(4,400)	-
Proceeds from stock options exercised	163	357
Payments related to tax withholdings for sharebased compensation	(2,397)	-
Other financing activities	(403)	(285)
Net change in cash from financing activities	(17,561)	(8,614)
Net change in cash, cash equivalents and restricted cash	(8,946)	(1,786)
Cash, cash equivalents and restricted cash, beginning of year	30,807	32,197
Cash, cash equivalents and restricted cash, end of period	\$ 21,861	\$ 30,411

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"), and Independence American Insurance Company ("Independence American"); and (ii) its marketing and administrative companies, including IHC Specialty Benefits Inc., IHC Carrier Solutions, Inc., My1HR, Inc. ("My1HR") and a majority interest in PetPartners, Inc. IHC also owns a significant equity interest in Ebix Health Exchange Holdings, LLC ("Ebix Health Exchange"), an administration exchange for health insurance. 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 approximately 62% of IHC's outstanding common stock at September 30, 2019.

**(B) Consolidation**

In May 2019, IHC purchased the remaining issued and outstanding units of HealthInsurance.org, LLC ("HIO") from noncontrolling interests for total consideration valued at \$4,700,000 making HIO a wholly owned subsidiary. The carrying value of the noncontrolling interest on the transaction date was \$2,380,000. As a result of the equity transaction, \$1,012,000 was charged to paid-in capital representing the difference between the fair value of the consideration paid and the carrying amount of noncontrolling interest on the transaction date, net of a deferred tax benefit.

**(C) Basis of Presentation**

The unaudited 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 unaudited 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 unaudited 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 nine months ended September 30, 2019 are not necessarily indicative of the results to be anticipated for the entire year.

**(D) Reclassifications**

Certain amounts in prior year's consolidated financial statements and Notes thereto have been reclassified to conform to the 2019 presentation.

**(E) Revenue Recognition**

Insurance premiums are recognized as revenue over the period insurance protection is provided. For additional information about our policies regarding the recognition of premium revenues, see Note 1 of the Notes to Consolidated Financial Statements included in our 2018 Annual Report on Form 10-K as filed with the Securities and Exchange Commission.

Fee income includes fees and commissions for various sales, marketing and administrative services provided by our marketing and administrative companies. Revenue is recognized as these services are performed. For these administrative service and other contracts, we have no material contract assets or contract liabilities on our consolidated balance sheet at September 30, 2019. Revenue recognized from performance obligations related to prior periods, and revenue expected to be recognized in future periods related to unfulfilled contractual performance obligations and contracts with variable consideration, is not material.

**(F) Recent Accounting Pronouncements**

***Recently Adopted Accounting Standards***

In July 2018, the FASB issued guidance to simplify several aspects of accounting for nonemployee share-based compensation. The adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

In March 2017, the FASB issued guidance requiring premium amortization on callable debt securities to be amortized to the earliest call date to more closely align the amortization period with expectations incorporated in market pricing of the underlying securities. The adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

In February 2016, the FASB issued guidance that requires lessees to recognize the assets and liabilities that arise from leases, including operating leases, on the statement of financial position. The Company elected the following practical expedients permitted within the new standard:

- an accounting policy election to recognize the lease payments for short-term leases in profit or loss on a straight-line basis over the lease term and variable lease payments in the period in which the obligation for those payments is incurred;
- practical expedients for leases that commenced before the effective date to not reassess: (i) whether any expired or existing contracts are or contain leases; (ii) the lease classification for any expired or existing leases; and (iii) initial direct costs for any existing leases;
- a practical expedient to use hindsight in determining the lease term and in assessing impairment of the entity's right-of-use assets.
- an accounting policy election to not separate non-lease components from lease components and instead to account for them together as a single lease component.

The Company selected the new transition method by applying the new lease requirements on January 1, 2019, without adjustment to the financial statements for periods prior to adoption. As a result, on January 1, 2019, the Company recognized right-of-use assets of \$7,010,000 for operating leases, reduced other liabilities by \$687,000 to reclassify the unamortized balances of previously deferred operating lease incentives, and recognized operating lease liabilities of \$7,697,000 in its Condensed Consolidated Balance Sheet. The adoption of this guidance did not have a material effect on the Company's consolidated results of operations or cash flows.

### ***Recently Issued Accounting Standards Not Yet Adopted***

In October 2018, the FASB issued guidance for determining whether a decision making fee is a variable interest and requires reporting entities to consider indirect interests held through related parties under common control on a proportional basis rather than as the equivalent of a direct interest. The amendments in this guidance are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The amendments in this guidance should be applied retrospectively through a cumulative effect adjustment to retained earnings at the beginning of the earliest period presented. The adoption of this guidance is not expected to have a material effect on the Company's consolidated financial statements.

In August 2018, the FASB issued guidance to improve existing measurements, presentation and disclosure requirements for long-duration contracts issued by insurance entities. The amendments in this guidance requires an entity to (1) review and update assumptions used to measure cash flows at least annually as well as update the discount rate assumption at each reporting date; (2) measure market risk benefits associated with deposit contracts at fair value; (3) disclose liability rollforwards and information about significant inputs, judgements assumptions, and methods used in measurement. Additionally, it simplifies the amortization of deferred acquisition costs and other balances on a constant level basis over the expected term of the related contracts. The amendments in this guidance are effective for public business entities for fiscal years beginning after December 15, 2020, including interim periods within that fiscal year. Upon adoption, the amendments in this guidance should be applied to contracts in-force as of the beginning of the earliest period presented with a cumulative adjustment to beginning retained earnings. Management is evaluating the requirements and potential impact that the adoption of this guidance will have on the Company's consolidated financial statements.

In August 2018, the FASB issued guidance to improve the effectiveness of disclosures in the notes to financial statements regarding fair value measurements. The amendments in this guidance are effective for all entities for fiscal years beginning after December 15, 2019, including interim periods within that fiscal year. Certain amendments should be applied prospectively for the most recent interim or annual period presented in the initial fiscal year of adoption while other amendments should be applied retrospectively to all periods presented upon the effective date. The adoption of this guidance is not expected to have a material effect on the Company's consolidated financial statements.

In January 2017, the FASB issued guidance to simplify the test for goodwill impairment by eliminating Step 2 in the goodwill impairment test. Instead, under the amendments in this guidance, an entity should perform its annual or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. Additionally, an entity should consider income tax effects from any tax-deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The amendments in this guidance are effective for public business entities for annual, or any interim, goodwill impairment tests in fiscal years beginning after December 15, 2019. The adoption of this guidance is not expected to have a material effect on the Company's consolidated financial statements.

In June 2016, the FASB issued guidance requiring financial assets measured at amortized cost basis to be presented at the net amount expected to be collected. An allowance for credit losses will be deducted from the amortized cost basis to present the net carrying value at the amount expected to be collected with changes in the allowance recorded in earnings. Credit losses relating to available-for-sale debt securities will also be recorded through an allowance for credit losses rather than the currently applied U.S. GAAP method of taking a permanent impairment of the security, which would be limited to the amount by which fair value is below the amortized cost. Certain existing requirements used to evaluate credit losses have been removed. In 2019, the FASB provided transition relief by providing entities with an option to irrevocably elect the fair value option on an instrument-by-instrument basis for eligible instruments upon adoption. For public entities that are SEC filers, the amendments in this guidance are effective for fiscal years beginning after December

15, 2019, including interim periods within those years. Early adoption is permitted for fiscal years beginning after December 15, 2018. The amendments in this guidance should be applied through a cumulative effect adjustment to retained earnings upon adoption as of the beginning of the first reporting period in which the guidance is effective. Management is evaluating the requirements and potential impact that the adoption of this guidance will have on the Company's consolidated financial statements.

## **Note 2. Income Per Common Share**

Diluted income per share was computed using the treasury stock method and includes incremental common shares, primarily from the dilutive effect of share-based payment awards, amounting to 62,000 and 66,000 shares for the three and nine months ended September 30, 2019, respectively, and 314,000 and 296,000 shares for the three and nine months ended September 30, 2018, respectively.

## **Note 3. Cash, Cash Equivalents and Restricted Cash**

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the Condensed Consolidated Balance Sheets to the amounts shown in the Condensed Consolidated Statements of Cash Flows for the periods indicated (in thousands):

	September 30,	
	2019	2018
Cash and cash equivalents	\$ 17,824	\$ 25,620
Restricted cash included in other assets	4,037	4,791
Total cash, cash equivalents and restricted cash	\$ 21,861	\$ 30,411

Restricted cash includes insurance premiums collected from insureds that are pending remittance to insurance carriers and/or payment of insurance claims and commissions to third party administrators. These amounts are required to be set aside by contractual agreements with the insurance carriers and are included in other assets on the Condensed Consolidated Balance Sheets.

## **Note 4. Investment Securities**

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

	September 30, 2019			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
<b>FIXED MATURITIES</b>				
<b>AVAILABLE-FOR-SALE:</b>				
Corporate securities	\$ 205,770	\$ 3,326	\$ (1,107)	\$ 207,989
CMOs – residential <sup>(1)</sup>	5,522	49	-	5,571
U.S. Government obligations	39,852	294	(69)	40,077
GSEs <sup>(3)</sup>	6,323	-	(114)	6,209
States and political subdivisions	165,493	2,552	(731)	167,314
Foreign government obligations	6,800	165	(3)	6,962
Redeemable preferred stocks	5,970	197	-	6,167
Total fixed maturities	\$ 435,730	\$ 6,583	\$ (2,024)	\$ 440,289

December 31, 2018				
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
<b>FIXED MATURITIES</b>				
<b>AVAILABLE-FOR-SALE:</b>				
Corporate securities	\$ 202,194	\$ 701	\$ (5,406)	\$ 197,489
CMOs - residential <sup>(1)</sup>	6,092	-	(252)	5,840
U.S. Government obligations	63,231	1	(423)	62,809
Agency MBS - residential <sup>(2)</sup>	3	-	-	3
GSEs <sup>(3)</sup>	6,596	-	(110)	6,486
States and political subdivisions	172,860	302	(5,228)	167,934
Foreign government obligations	7,039	51	(46)	7,044
Redeemable preferred stocks	5,970	-	(111)	5,859
Total fixed maturities	\$ 463,985	\$ 1,055	\$ (11,576)	\$ 453,464

(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 September 30, 2019, 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.

	AMORTIZED COST	FAIR VALUE
Due in one year or less	\$ 33,408	\$ 33,481
Due after one year through five years	173,009	175,175
Due after five years through ten years	139,594	142,102
Due after ten years	77,874	77,751
Fixed maturities with no single maturity date	11,845	11,780
	\$ 435,730	\$ 440,289

The following tables summarize, for all fixed maturities available-for-sale 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):

September 30, 2019						
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate securities	\$ 7,050	\$ 13	\$ 44,766	\$ 1,094	\$ 51,816	\$ 1,107
CMOs - residential	-	-	5	-	5	-
U.S. Government obligations	-	-	23,621	69	23,621	69
GSEs	-	-	6,203	114	6,203	114
States and political subdivisions	14,789	47	36,544	684	51,333	731
Foreign government obligations	-	-	1,632	3	1,632	3
<b>Fixed maturities in an unrealized loss position</b>	<b>\$ 21,839</b>	<b>\$ 60</b>	<b>\$ 112,771</b>	<b>\$ 1,964</b>	<b>\$ 134,610</b>	<b>\$ 2,024</b>
<b>Number of fixed maturities in an unrealized loss position</b>	<b>14</b>		<b>48</b>		<b>62</b>	

  

December 31, 2018						
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate securities	\$ 46,988	\$ 1,045	\$ 108,738	\$ 4,361	\$ 155,726	\$ 5,406
CMOs - residential	847	37	4,993	215	5,840	252
U.S. Government obligations	6,138	15	31,693	408	37,831	423
GSEs	-	-	6,478	110	6,478	110
States and political subdivisions	33,021	522	113,297	4,706	146,318	5,228
Foreign government obligations	-	-	2,835	46	2,835	46
Redeemable preferred stocks	5,859	111	-	-	5,859	111
<b>Fixed maturities in an unrealized loss position</b>	<b>\$ 92,853</b>	<b>\$ 1,730</b>	<b>\$ 268,034</b>	<b>\$ 9,846</b>	<b>\$ 360,887</b>	<b>\$ 11,576</b>
<b>Number of fixed maturities in an unrealized loss position</b>	<b>47</b>		<b>115</b>		<b>162</b>	

Substantially all of the unrealized losses on fixed maturities available-for-sale at September 30, 2019 and December 31, 2018 relate to investment grade securities and are attributable to changes in market interest rates. Because the Company does not intend to sell, nor is it more likely than not that the Company will have to sell such investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at September 30, 2019.

Net investment gains (losses) are as follows for periods indicated (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Realized gains (losses):				
Fixed maturities available-for-sale	\$ 895	\$ (247)	\$ 2,144	\$ (442)
Equity securities	-	(2)	-	(7)
Total realized gains (losses) on debt and equity securities	895	(249)	2,144	(449)
Unrealized gains (losses) on equity securities	35	266	412	114
Gains (losses) on debt and equity securities	930	17	2,556	(335)
Gains (losses) on other investments	-	-	-	-
Net investment gains (losses)	\$ 930	\$ 17	\$ 2,556	\$ (335)

For the three and nine months ended September 30, 2019, the Company realized gross gains of \$1,143,000 and \$3,035,000, respectively, and gross losses of \$248,000 and \$891,000, respectively, from sales, maturities and prepayments of fixed maturities available-for-sale. For the three months and nine months ended September 30, 2018, the company realized gross gains of \$130,000 and \$449,000, respectively, and gross losses of \$377,000 and \$891,000, respectively, from sales, maturities and prepayments of fixed maturities available for sale.

#### ***Other-Than-Temporary Impairment Evaluations***

We recognize other-than-temporary impairment losses in earnings in the period that we determine: 1) we intend to sell the security; 2) it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis; or 3) the security has a credit loss. Any non-credit portion of the other-than-temporary impairment loss is recognized in other comprehensive income (loss). See Note 1F(v) to the Consolidated Financial Statements in the 2018 Annual Report on Form 10-K for further discussion of the factors considered by management in its regular review to identify and recognize other-than-temporary impairments on fixed maturities available-for-sale. The Company recognized other-than-temporary impairment losses of \$0 and \$646,000 on certain fixed maturities available-for-sale securities in the three months and nine months ended September 30, 2019, respectively. The Company determined that it was more likely than not that we would sell the securities before the recovery of their amortized cost basis. The Company did not recognize any other-than-temporary impairments on available for sale securities in the first nine months of 2018.

#### **Note 5. Fair Value Disclosures**

For all financial and non-financial assets and liabilities accounted for at fair value on a recurring basis, the Company utilizes valuation techniques based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market expectations. These two types of inputs create the following fair value hierarchy:

**Level 1** - Quoted prices for identical instruments in active markets.

**Level 2** - Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

**Level 3** - Instruments where significant value drivers are unobservable.



The following section describes the valuation methodologies we use to measure different assets at fair value.

### **Fixed maturities available-for-sale:**

Fixed maturities available-for-sale included in Level 2 are comprised of our portfolio of government securities, agency mortgage-backed securities, corporate fixed income securities, foreign government obligations, collateralized mortgage obligations, municipals and GSEs that were priced with observable market inputs. Level 3 debt securities consist of municipal tax credit strips. The valuation method used to determine the fair value of municipal tax credit strips is the present value of the remaining future tax credits (at the original issue discount rate) as presented in the redemption tables in the Municipal Prospectuses. This original issue discount is accreted into income on a constant yield basis over the term of the debt instrument. Further, we retain independent pricing vendors to assist in valuing certain instruments.

### **Equity securities:**

Equity securities included in Level 1 are equity securities with quoted market prices.

The following tables present our financial assets measured at fair value on a recurring basis for the periods indicated (in thousands):

	<b>September 30, 2019</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>FINANCIAL ASSETS:</b>				
<b>Fixed maturities available-for-sale:</b>				
Corporate securities	\$ -	\$ 207,989	\$ -	\$ 207,989
CMOs - residential	-	5,571	-	5,571
US Government obligations	-	40,077	-	40,077
GSEs	-	6,209	-	6,209
States and political subdivisions	-	165,739	1,575	167,314
Foreign government obligations	-	6,962	-	6,962
Redeemable preferred stocks	6,167	-	-	6,167
Total fixed maturities	<u>6,167</u>	<u>432,547</u>	<u>1,575</u>	<u>440,289</u>
<b>Equity securities:</b>				
Common stocks	2,633	-	-	2,633
Nonredeemable preferred stocks	2,944	-	-	2,944
Total equity securities	<u>5,577</u>	<u>-</u>	<u>-</u>	<u>5,577</u>
<b>Total Financial Assets</b>	<b>\$ <u>11,744</u></b>	<b>\$ <u>432,547</u></b>	<b>\$ <u>1,575</u></b>	<b>\$ <u>445,866</u></b>

December 31, 2018				
	Level 1	Level 2	Level 3	Total
<b>FINANCIAL ASSETS:</b>				
Fixed maturities available-for-sale:				
Corporate securities	\$ -	\$ 197,489	\$ -	\$ 197,489
CMOs - residential	-	5,840	-	5,840
US Government obligations	-	62,809	-	62,809
Agency MBS - residential	-	3	-	3
GSEs	-	6,486	-	6,486
States and political subdivisions	-	166,225	1,709	167,934
Foreign government obligations	-	7,044	-	7,044
Redeemable preferred stocks	5,859	-	-	5,859
Total fixed maturities	5,859	445,896	1,709	453,464
Equity securities:				
Common stocks	2,366	-	-	2,366
Nonredeemable preferred stocks	2,800	-	-	2,800
Total equity securities	5,166	-	-	5,166
<b>Total Financial Assets</b>	<b>\$ 11,025</b>	<b>\$ 445,896</b>	<b>\$ 1,709</b>	<b>\$ 458,630</b>

It is the Company's policy to recognize transfers of assets and liabilities between levels of the fair value hierarchy at the end of a reporting period. The Company does not transfer out of Level 3 and into Level 2 until such time as observable inputs become available and reliable or the range of available independent prices narrow. The Company did not transfer any securities between Level 1, Level 2 or Level 3 in either 2019 or 2018.

The following table presents the changes in fair value of our Level 3 financial assets for the periods indicated (in thousands):

Three Months Ended September 30,				
	2019		2018	
	States and Political Subdivisions	Total Level 3 Assets	States and Political Subdivisions	Total Level 3 Assets
<b>Beginning balance</b>	\$ 1,620	\$ 1,620	\$ 1,794	\$ 1,794
Increases (decreases) recognized in earnings:				
Net investment gains	-	-	-	-
Gains (losses) included in other comprehensive income (loss):				
Net unrealized gains (losses)	(6)	(6)	(8)	(8)
Repayments and amortization of fixed maturities				
	(39)	(39)	(34)	(34)
Sales	-	-	-	-
<b>Balance at end of period</b>	<b>\$ 1,575</b>	<b>\$ 1,575</b>	<b>\$ 1,752</b>	<b>\$ 1,752</b>

Nine Months Ended September 30,				
	2019		2018	
	States and Political Subdivisions	Total Level 3 Assets	States and Political Subdivisions	Total Level 3 Assets
<b>Beginning balance</b>	\$ 1,709	\$ 1,709	\$ 1,876	\$ 1,876
Increases (decreases) recognized in earnings:				
Net investment gains	-	-	-	-
Gains (losses) included in other comprehensive income (loss):				
Net unrealized gains (losses)	(20)	(20)	(23)	(23)
Repayments and amortization of fixed maturities	(114)	(114)	(101)	(101)
Sales	-	-	-	-
<b>Balance at end of period</b>	<u>\$ 1,575</u>	<u>\$ 1,575</u>	<u>\$ 1,752</u>	<u>\$ 1,752</u>

The following table provides carrying values, fair values and classification in the fair value hierarchy of the Company's financial instruments, that are not carried at fair value but are subject to fair value disclosure requirements, for the periods indicated (in thousands):

	September 30, 2019			December 31, 2018		
	Level 1	Level 2	Carrying Value	Level 1	Level 2	Carrying Value
	Fair Value	Fair Value		Fair Value	Fair Value	
FINANCIAL ASSETS:						
Short-term investments	\$ 50	\$ -	\$ 50	\$ 1,050	\$ -	\$ 1,050
FINANCIAL LIABILITIES:						
Funds on deposit	\$ -	\$ 140,739	\$ 140,724	\$ -	\$ 141,662	\$ 141,635
Other policyholders' funds	-	12,042	12,042	-	10,939	10,939

The following methods and assumptions were used to estimate the fair value of the financial instruments that are not carried at fair value in the Condensed Consolidated Financial Statements:

### Short-term Investments

Investments with original maturities of 91 days to one year are considered short-term investments and are carried at cost, which approximates fair value.

### Funds on Deposit

The Company has two types of funds on deposit. The first type is credited with a current market interest rate, resulting in a fair value which approximates the carrying amount. The second type carries fixed interest rates which are higher than current market interest rates. The fair value of these deposits was estimated by discounting the payments using current market interest rates. The Company's universal life policies are also credited with current market interest rates, resulting in a fair value which approximates the carrying amount. Both types of funds on deposit are included in Level 2 of the fair value hierarchy.

### Other Policyholders' Funds

Other policyholders' funds are primarily credited with current market interest rates resulting in a fair

value which approximates the carrying amount.

#### **Note 6. Other Investments, Including Variable Interest Entities**

Included in other investments is our investment in Ebix Health Exchange which administers various lines of health insurance for IHC's insurance subsidiaries. The carrying value of the Company's equity investment in Ebix Health Exchange is \$4,356,000 and \$6,425,000 at September 30, 2019 and December 31, 2018, respectively, and the Company recorded \$(406,000) and \$(2,069,000), respectively, of equity income (loss) from its investment for the three and nine months ended September 30, 2019 and \$(445,000) and \$(1,216,000), respectively, of equity income (loss) from its investment for the same periods of 2018.

At September 30, 2019 and December 31, 2018, the Company's Condensed Consolidated Balance Sheets include \$1,824,000 and \$1,842,000, respectively, of notes and other amounts receivable from Ebix Health Exchange, and include \$203,000 and \$910,000, respectively, of administrative fees and other expenses payable to Ebix Health Exchange, which are included in other assets and accounts payable, accruals and other liabilities, respectively. The Company's Condensed Consolidated Statements of Income include administrative fee expenses to Ebix Health Exchange, which are included in selling, general and administrative expenses of \$621,000 and \$1,608,000, for the three and nine months ended September 30, 2019, respectively, and \$1,796,000 and \$6,269,000, respectively, for the same periods of 2018.

In June 2019, the Company paid \$3,000,000 for an equity interest in a lead generation company that will be accounted for as an equity method investment.

In March 2019, the Company's equity investment in Pets Best, that was carried at a cost of \$500,000, was acquired by an unaffiliated entity and the Company realized a gain of \$3,589,000 on the sale, which is included in Other Income in the Condensed Consolidated Statement of Income for the nine months ended September 30, 2019.

#### **Variable Interest Entities**

The Company has a minority interest in certain limited partnerships that we have determined to be Variable Interest Entities ("VIEs"). The aforementioned VIEs are not required to be consolidated in the Company's condensed consolidated financial statements as we are not the primary beneficiary since we do not have the power to direct the activities that most significantly impact the VIEs' economic performance.

The Company will periodically reassess whether we are the primary beneficiary in any of these investments. The reassessment process will consider whether we have acquired the power to direct the most significant activities of the VIE through changes in governing documents or other circumstances. Our maximum loss exposure is limited to our combined \$4,423,000 carrying value in these equity investments which is included in other investments in the Condensed Consolidated Balance Sheet as of September 30, 2019.

#### **Note 7. Acquisitions**

In 2019 the Company made several business acquisitions as follows:

In January 2019, the Company acquired all of the stock of My1HR, a web-based entity with a state-of-the-art insurance quoting and cloud-based enrollment platform. In general, companies that provide insurance through user-centric platforms, or create efficiencies in the insurance industry through technological advances, are referred to as "insuretech" companies. The Company acquired My1HR for its quoting and cloud-based enrollment platforms as part of an effort to expand our "insuretech" footprint through our agencies, which generate leads and sell our products through our owned call center and career advisors.

In April 2019, the Company purchased substantially all of the assets and liabilities of a sales and

customer service call center. The Company acquired the call center in order to capitalize on technology-driven trends in the purchase of health insurance directly by consumers. Prior to the purchase, the Company owned an equity interest in the call center. Immediately preceding the transaction, the Company determined the fair value of its equity interest to be \$720,000 using a market approach and, as a result, recorded a loss of \$237,000 which is included in other income on the Condensed Consolidated Statement of Income.

The aggregate fair value of consideration transferred for these acquisitions was \$8,534,000 cash. The following table presents the aggregate acquisition-date fair values of the identifiable assets acquired and liabilities assumed in these transactions (in thousands):

Cash	\$	582
Intangible assets		1,500
Other assets		1,301
Total identifiable assets		3,383
Other liabilities		3,637
Total liabilities		3,637
Net identifiable assets (liabilities) acquired	\$	(254)

In connection with these acquisitions, the Company recorded \$9,508,000 of goodwill and \$1,500,000 of intangible assets (see Note 8). The fair value of the acquired identifiable intangible assets is provisional pending receipt of the final valuations for those assets and liabilities. The amount of goodwill and intangibles entitled to an amortization deduction for income tax purposes will be determined upon a mutually agreeable asset allocation of the acquisition consideration with the respective acquirees.

Goodwill reflects the synergies with our insurance carriers. My1HR has an existing distribution network and offers increased distribution sources for IHC carrier products through its quoting and cloud based enrollment platforms designed specifically for producers in the small group employer market and individual Affordable Care Act (“ACA”) and ancillary market. This new quoting and enrollment system will support group and individual products for all IHC carriers as well as select group ACA and level funded health coverages from leading national health plans. The acquisition of the call center is expected to expand our existing call center reach and increase sales of IHC-underwritten health insurance. Goodwill was calculated as the sum of (i) the aggregate acquisition-date fair value of total cash consideration transferred of \$8,534,000 , (ii) the aggregate acquisition-date fair value of equity interests immediately before the acquisition of \$720,000; and (iii) the net identifiable liabilities of \$254,000 assumed. Enterprise values were determined either by an independent appraisal using a discounted cash flow model based upon the projected future earnings or by a market approach net of any control premiums.

Acquisition-related costs, primarily legal and consulting fees, were not material and are included in selling, general and administrative expenses in the Consolidated Statement of Income.

For the three months ended September 30, 2019, the Company’s Consolidated Statement of Income includes revenues and net income of \$1,907,000 and \$332,000, respectively, from these acquisitions. For the period from the acquisition dates to September 30, 2019, the Company’s Consolidated Statement of Income includes revenues and net income of \$3,331,000 and \$(51,000), respectively, from these acquisitions.

Pro forma adjustments to present the Company’s consolidated revenues and net income as if the acquisition dates were January 1, 2018 are not material and accordingly are omitted.

## Note 8. Goodwill and Other Intangible Assets

The carrying amount of goodwill is \$60,205,000 and \$50,697,000 at September 30, 2019 and December 31, 2018, respectively, all of which is attributable to the Specialty Health segment.

The Company has net other intangible assets of \$13,687,000 and \$13,163,000 at September 30, 2019 and December 31, 2018, respectively, which are included in other assets in the Condensed Consolidated Balance Sheets. These intangible assets consist of: (i) finite-lived intangible assets, principally the fair value of acquired agent and broker relationships, which are subject to amortization; and (ii) indefinite-lived intangible assets which consist of the estimated fair value of insurance licenses that are not subject to amortization.

The gross carrying amounts of these other intangible assets are as follows for the periods indicated (in thousands):

	September 30, 2019		December 31, 2018	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Finite-lived Intangible Assets:				
Agent and broker relationships	\$ 18,753	\$ 14,223	\$ 17,253	\$ 13,419
Domain	1,000	300	1,000	225
Software systems	780	300	780	203
Total finite-lived	\$ 20,533	\$ 14,823	\$ 19,033	\$ 13,847
	September 30, 2019		December 31, 2018	
Indefinite-lived Intangible Assets:				
Insurance licenses	\$ 7,977		\$ 7,977	
Total indefinite-lived	\$ 7,977		\$ 7,977	

As discussed in Note 7, in connection with business acquisitions in 2019, the Company recorded \$9,508,000 of goodwill and \$1,500,000 of intangible assets associated with the Specialty Health segment. The intangible assets primarily represent the fair value of customer relationships and are being amortized over a weighted average period of 17 years.

Amortization expense was \$308,000 and \$976,000 for the three and nine months ended September 30, 2019, respectively, and was \$381,000 and \$1,124,000 for the three and nine months ended September 30, 2018, respectively.

## Note 9. Income Taxes

The provisions for income taxes shown in the Condensed Consolidated Statements of Income were computed by applying the effective tax rate expected to be applicable for the reporting periods. In 2017, the Tax Cuts and Jobs Act (the "Tax Act") was enacted. The Tax Act makes broad and complex changes to the U.S. tax code, including, but not limited to, reducing the Federal corporate income tax rate to 21% effective January 1, 2018. As a result of IHC's June 30 fiscal tax year, the Tax Act subjects IHC to a blended tax rate of 28% for its fiscal tax year ended June 30, 2018. Other differences between the Federal statutory income tax rate and the Company's effective income tax rate are principally from the dividends received deduction and tax exempt interest income, state and local income taxes, compensation related tax provisions, and the expected current year utilization of AMIC's net operating loss carryforwards.

Income taxes for the three months and nine months ended September 30, 2019 includes additional tax

expense of \$1,600,000 associated with the reduction of estimated tax benefits from the expected current year utilization of AMIC's net operating loss carryforwards.

The Internal Revenue Service has completed its review of the Company's 2015 consolidated income tax return with no changes in the Company's reported tax, however, the New York State Department of Taxation and Finance has recently selected the Company's 2015 and 2016 income tax returns for audit.

#### **Note 10. Leases**

Certain subsidiaries of the Company are obligated under operating lease agreements for office space and office equipment.

The Company had right-of-use assets amounting to \$7,251,000 and corresponding lease liabilities of \$7,871,000 related to its operating leases, which are included in other assets and other liabilities, respectively, in the Condensed Consolidated Balance Sheet on September 30, 2019. The weighted average discount rate used to measure lease liabilities was 6.70%. The leases have remaining lease terms of 1 to 8 years, some of which include options to extend the leases for up to 5 years. The weighted average remaining lease term is 5 years. Variable lease costs consist primarily of the Company's proportionate share of real estate taxes and operating expenses related to leased premises. The following table summarizes information pertaining to our lease obligations for the periods indicated (in thousands):

	<b>Three Months Ended September 30, 2019</b>	<b>Nine Months Ended September 30, 2019</b>
Operating lease costs	\$ 599	\$ 1,710
Short-term lease costs	65	139
Variable lease costs	127	333
<b>Total lease costs</b>	<b>\$ 791</b>	<b>\$ 2,182</b>
<b>Other information:</b>		
Operating cash flows from operating leases	\$ (603)	\$ (1,776)
Right-of-use assets obtained for operating leases	\$ 1,049	\$ 1,688

The Company assumed \$435,000 of right-of-use assets in connection with acquisitions in 2019, as discussed in Note 7.

Maturities of operating lease liabilities at September 30, 2019 were as follows:

Due in the next year	\$ 2,490
Due in two years	1,893
Due in three years	1,786
Due in four years	1,136
Due in five years	699
Due in remaining years	1,200
<b>Total payments due</b>	<b>9,204</b>
<b>Present value discount</b>	<b>(1,333)</b>
<b>Operating lease liability</b>	<b>\$ 7,871</b>

**Note 11.****Policy Benefits and Claims**

Policy benefits and claims is the liability for unpaid loss and loss adjustment expenses. It is comprised of unpaid claims and estimated incurred but not reported (“IBNR”) reserves. Summarized below are the changes in the total liability for policy benefits and claims for the periods indicated (in thousands).

	Nine Months Ended	
	September 30,	
	2019	2018
Balance at beginning of year	\$ 160,115	\$ 168,683
Less: reinsurance recoverable	38,122	42,136
Net balance at beginning of year	121,993	126,547
Amount incurred, related to:		
Current year	145,938	127,544
Prior years	(15,950)	(19,152)
Total incurred	129,988	108,392
Amount paid, related to:		
Current year	76,395	65,380
Prior years	51,326	49,916
Total paid	127,721	115,296
Net balance at end of year	124,260	119,643
Plus: reinsurance recoverable	37,169	38,525
Balance at end of year	\$ 161,429	\$ 158,168

Since unpaid loss and loss adjustment expenses are estimates, actual losses incurred may be more or less than the Company’s previously developed estimates and is referred to as either unfavorable or favorable development, respectively. The overall net favorable development of \$15,950,000 in 2019 related to prior years consists of favorable developments of \$4,370,000 in Specialty Health reserves, \$10,132,000 in the group disability reserves, \$1,291,000 in the other individual life, annuities and other reserves, and \$157,000 in Medical Stop-Loss reserves. Specialty Health net favorable development occurred primarily in the fixed indemnity limited benefit, short-term medical, occupational accident and dental lines of business. Group Disability net favorable development was primarily due to favorable claim experience in the New York short-term disability (“DBL”) and group long-term disability (“LTD”) lines of business. The net favorable development of the DBL line is mainly due to the reversal of potential policyholders’ premium refund for prior years for better than expected claim experience. The Company settled the Paid Family Leave (“PFL”) risk adjustment payment for the 2018 year with no adjustment to the DBL line of business. The overall net favorable development of \$19,152,000 in 2018 related to prior years primarily consists of favorable developments of \$9,729,000 in the Specialty Health reserves, \$7,862,000 in the group disability reserves, \$1,346,000 in the other individual life, annuities and other reserves, and \$215,000 in Medical Stop-Loss reserves.



Included in the preceding rollforward of the Company's liability for policy benefits and claims are the policy benefits and claims activity associated with the Company's health insurance lines. These are embedded within the Specialty Health segment. The table below summarizes the components of the change in the liability for policy benefits and claims that are specific to health insurance claims for the periods indicated (in thousands).

	<b>Specialty Health Segment Health Insurance Claims</b>	
	<b>Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>
Balance at beginning of year	\$ 26,068	\$ 32,904
Less: reinsurance recoverable	851	762
Net balance at beginning of year	25,217	32,142
Amount incurred, related to:		
Current year	38,950	37,099
Prior years	(2,370)	(8,266)
Total incurred	36,580	28,833
Amount paid, related to:		
Current year	15,630	14,880
Prior years	15,357	19,507
Total paid	30,987	34,387
Net balance at end of year	30,810	26,588
Plus: reinsurance recoverable	919	865
Balance at end of year	\$ 31,729	\$ 27,453

The liability for the IBNR plus expected development on reported claims associated with the Company's health insurance claims is \$30,810,000 at September 30, 2019.

## **Note 12. Stockholders' Equity**

### ***Accumulated Other Comprehensive Income (Loss)***

Other comprehensive income (loss) includes the after-tax net unrealized gains and losses on investment securities available-for-sale, including the subsequent increases and decreases in fair value of available-for-sale securities previously impaired and the non-credit related component of other-than-temporary impairments of fixed maturities.

Changes in the balances of accumulated other comprehensive income, shown net of taxes, for the periods indicated are as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Beginning balance	\$ 2,298	\$ (11,237)	\$ (8,310)	\$ (4,598)
Cumulative-effect of new accounting principles	-	-	-	(350)
<b>Other comprehensive income (loss):</b>				
Other comprehensive income (loss) before reclassifications	1,995	(922)	13,072	(7,364)
Amounts reclassified from accumulated OCI	(706)	196	(1,175)	349
Net other comprehensive income	1,289	(726)	11,897	(7,015)
Ending balance	\$ 3,587	\$ (11,963)	\$ 3,587	\$ (11,963)

Presented below are the amounts reclassified out of accumulated other comprehensive income (loss) and recognized in earnings for each of the periods indicated (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Unrealized gains (losses) on available-for-sale securities reclassified during the period to the following income statement line items:				
Net investment gains (losses)	\$ 895	\$ (247)	\$ 2,144	\$ (442)
Net impairment losses recognized in earnings	-	-	(646)	-
Income (loss) before income tax	895	(247)	1,498	(442)
Tax effect	189	(51)	323	(93)
Net income (loss)	\$ 706	\$ (196)	\$ 1,175	\$ (349)

### Note 13. Share-Based Compensation

IHC stock option activity during the first nine months of 2019 was as follows:

	Shares Under Option	Weighted- Average Exercise Price
<b>December 31, 2018</b>	567,384	\$ 19.40
Granted	424,380	37.38
Exercised	(197,383)	9.69
Forfeited	(4,000)	22.20
<b>September 30, 2019</b>	<u>790,381</u>	<u>\$ 31.46</u>

The weighted average grant date fair value of options granted during the nine months ended September 30, 2019 was \$8.31.

In 2019, IHC received \$163,000 in cash from the exercise of stock options with an aggregate intrinsic value of \$5,091,000 and recognized \$748,000 of tax benefits. Cash outflows in 2019 to satisfy employees' income tax withholding obligations amounted to \$2,397,000.

**Note 14. Supplemental Disclosures of Cash Flow Information**

Net cash payments for income taxes were \$783,000 and \$1,169,000 during the nine months ended September 30, 2019 and 2018, respectively.

**Note 15. Contingencies****Third Party Administrator**

A third party administrator with whom we formerly did business ("Plaintiff" or "TPA")) filed a Complaint dated May 17, 2017 in the United States District Court, Northern District of Texas, Dallas Division, naming IHC, Madison National Life, Standard Security Life, and IHC Carrier Solutions, Inc. (collectively referred to as "Defendants"). "Plaintiff" and "Defendants" are collectively referred to herein as the "Parties". The Complaint concerned agreements entered into by Standard Security Life and Madison National Life with Plaintiff, as well as other allegations made by Plaintiff against Defendants. The Complaint sought injunctive relief and damages in an amount exceeding \$50,000,000, payments allegedly owed to Plaintiff under the agreements totaling at least \$3,082,000 through 2014, plus additional amounts for 2015 and 2016, and exemplary and punitive damages as allowed by law and fees and costs. Defendants moved to Compel Arbitration and Dismiss or Stay the original Complaint. Plaintiff filed an Amended Complaint on August 18, 2017. Defendants filed a Motion to Compel Arbitration or Stay the Amended Complaint. The Parties agreed to enter into an Order staying the action filed in Texas. The Parties' disputed claims moved in part to arbitration.

Standard Security Life and Madison National Life demanded arbitration against this TPA. The Arbitration Panel issued an Order splitting the hearing into two phases. Standard Security Life and Madison National Life successfully presented their claims in Phase I on September 25 through September 28, 2018. The TPA's counterclaims were heard during Phase II held on February 11, 2019 through February 15, 2019. Standard Security Life and Madison National Life successfully opposed the counterclaims asserted by the TPA as the Arbitration Panel denied all claims against Standard Security Life and Madison National Life. Standard Security Life and Madison National Life filed the Petition to Confirm the Arbitration Award. The TPA opposed this Motion. On June 17, 2019, the Court entered its Final Judgment and Order Confirming the Arbitration Award (the "Final Judgment"). On July 15, 2019, Plaintiff filed a Notice of Appeal to the United States Court of Appeals for the Seventh Circuit from the judgment entered on June 17, 2019.

Since the arbitration is complete, the stay in the Texas litigation was lifted, and Defendants filed a Motion to Dismiss. On October 16, 2019, the Court granted in part and denied in part Defendants' Motion to Dismiss. The Court found that an arbitration agreement, including an arbitration provision, exists between the parties and therefore, the parties were directed to proceed with arbitration. In light of this holding, the Court stayed and administratively closed the action pending the outcome of another arbitration. On October 29, 2019, the Plaintiff demanded arbitration against Standard Security Life, Madison National Life, and Independence Holding Company seeking a declaration by a new arbitration panel that the claims alleged in the complaint in the dismissed Texas litigation are not arbitrable. This demand for a new arbitration has no impact on the Final Judgment.

**Multistate Market Conduct Examination**

As previously disclosed, our subsidiaries Standard Security Life, Madison National Life and Independence American have been selected for a multistate market conduct exam ("MCE") related to our short term medical, limited medical and fixed indemnity health insurance products for the period of January 1, 2014 through September 30, 2017. The insurance departments of five jurisdictions (Delaware, Wisconsin, District of Columbia, Kansas and South Dakota) are serving as leads, and the District of Columbia Department of Insurance, Securities and Banking and the Delaware Department of Insurance are serving as the managing lead states of the MCE. In addition to the five lead states, 36 other states are participating in the MCE. Each of Standard Security Life, Madison National Life and Independence American responded to inquiries and

document production requests in the MCE and has proactively communicated and cooperated with the applicable regulatory agencies for the MCE. Each of these subsidiaries has also provided a detailed action plan to regulators that summarizes its enhanced compliance and control mechanisms.

On July 18, 2019, each of Standard Security Life, Madison National Life and Independence American received a proposed Regulatory Settlement Agreement ("RSA") to resolve the MCE with respect to such company. The proposed RSAs provide for monetary penalties as well as requirements related to such subsidiaries' marketing activities and periodic reporting to regulators. Standard Security Life, Madison National Life and Independence American have preliminarily responded to the proposed RSAs and anticipate entering into confidential discussions with the insurance departments of the lead jurisdictions once they have reviewed. At this time, the Company is not able to reasonably estimate any settlement amount or range of settlement amounts that may result from such discussions.

## Note 16. Segment Reporting

The Insurance Group principally engages in the life and health insurance business. Taxes and general expenses associated with parent company activities are included in Corporate. Identifiable assets by segment are those assets that are utilized in each segment and are allocated based upon the mean reserves and liabilities of each such segment. Corporate assets are composed principally of cash equivalents, resale agreements, fixed maturities, equity securities, partnership interests and certain other investments.

Information by business segment is presented below for the periods indicated (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>Revenues:</b>				
Specialty Health	\$ 48,237	\$ 53,108	\$ 149,419	\$ 152,959
Group disability, life, DBL and PFL	44,025	35,599	127,068	107,280
Individual life, annuities and other <sup>(A)</sup>	457	520	1,279	1,432
Medical Stop-Loss <sup>(A)</sup>	2	13	6	36
Corporate	1,514	678	4,787	1,755
	94,235	89,918	282,559	263,462
Net investment gains (losses)	930	17	2,556	(335)
Net impairment losses recognized in earnings	-	-	(646)	-
<b>Total revenues</b>	<b>\$ 95,165</b>	<b>\$ 89,935</b>	<b>\$ 284,469</b>	<b>\$ 263,127</b>
<b>Income before income taxes</b>				
Specialty Health <sup>(B)</sup>	\$ 1,127	\$ 10,595	\$ 13,608	\$ 23,319
Group disability, life, DBL and PFL	9,985	4,267	19,187	14,912
Individual life, annuities and other <sup>(A)(C)</sup>	(607)	(63)	(1,374)	(357)
Medical Stop-Loss <sup>(A)</sup>	(33)	(64)	252	100
Corporate	(1,983)	(1,849)	(5,124)	(6,188)
	8,489	12,886	26,549	31,786
Net investment gains (losses)	930	17	2,556	(335)
Net impairment losses recognized in earnings	-	-	(646)	-
<b>Income before income taxes</b>	<b>\$ 9,419</b>	<b>\$ 12,903</b>	<b>\$ 28,459</b>	<b>\$ 31,451</b>

(A) Substantially all of the business in the segment is coinsured. Activity in this segment primarily reflects income or expenses related to the coinsurance and the run-off of any remaining blocks that were not coinsured.

(B) The Specialty Health segment includes amortization of intangible assets. Total amortization expense was \$308,000 and \$381,000 for the three months ended September 30, 2019 and 2018, respectively, and was \$976,000 and \$1,124,000 for the nine months ended September 30, 2019 and 2018, respectively.

- (C) The Individual life, annuities and other segment includes amortization of deferred charges in connection with the assumptions of certain ceded life and annuity policies of \$198,000 and \$220,000 for the three months ended September 30, 2019 and 2018, respectively, and \$600,000 and \$675,000 for the nine months ended September 30, 2019 and 2018 , respectively.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion of the financial condition and results of operations of Independence Holding Company ("IHC") and its subsidiaries (collectively, the "Company") should be read in conjunction with, and is qualified in its entirety by reference to, the Consolidated Financial Statements of the Company and the related Notes thereto appearing in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, as filed with the Securities and Exchange Commission, and our unaudited Condensed Consolidated Financial Statements and related Notes thereto appearing elsewhere in this quarterly report.*

### **Overview**

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"), and Independence American Insurance Company ("Independence American"); and (ii) its marketing and administrative companies, including IHC Specialty Benefits Inc., IHC Carrier Solutions, Inc., My1HR, Inc. ("My1HR") and a majority interest in PetPartners, Inc. ("PetPartners"). IHC also owns a significant equity interest in Ebix Health Exchange Holdings, LLC ("Ebix Health Exchange"), an administration exchange for health insurance. 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".

While management considers a wide range of factors in its strategic planning and decision-making, underwriting profit is consistently emphasized as the primary goal in all decisions as to whether or not to increase our retention in a core line, expand into new products, acquire an entity or a block of business, or otherwise change our business model. Management's assessment of trends in healthcare and morbidity, with respect to specialty health, disability, New York short-term disability ("DBL") and Paid Family Leave ("PFL"), mortality rates with respect to life insurance, and changes in market conditions in general play a significant role in determining the rates charged, deductibles and attachment points quoted, and the percentage of business retained. IHC also seeks transactions that permit it to leverage its vertically integrated organizational structure by generating fee income from production and administrative operating companies as well as risk income for its carriers. Management has always focused on managing the costs of its operations.

***The following is a summary of key performance information and events:***

Results of operations are summarized as follows for the periods indicated (in thousands):

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Revenues	\$ 95,165	\$ 89,935	\$ 284,469	\$ 263,127
Expenses	85,746	77,032	256,010	231,676
Income before income taxes	9,419	12,903	28,459	31,451
Income taxes	3,248	2,860	6,482	7,518
<b>Net income</b>	<b>6,171</b>	<b>10,043</b>	<b>21,977</b>	<b>23,933</b>
(Income) from noncontrolling interests	(29)	(108)	(261)	(280)
<b>Net income attributable to IHC</b>	<b>\$ 6,142</b>	<b>\$ 9,935</b>	<b>\$ 21,716</b>	<b>\$ 23,653</b>

- Income from operations of \$.41 per share, diluted, for the three months ended September 30, 2019 compared to \$.66 per share, diluted, for the same period in 2018. Income from operations of \$1.45 per share, diluted, for the nine months ended September 30, 2019 compared to \$1.57 per share, diluted for the same period in 2018.
  - Net income for the nine months ended September 30, 2019 includes \$2.6 million of gain, net of tax, related to the sale of an equity investment.
  - Net income for the three and nine months ended September 30, 2019 includes additional tax expense of \$1.6 million associated with the reduction of estimated tax benefits from the expected current year utilization of AMIC's net operating loss carryforwards.
- Consolidated investment yields (on an annualized basis) of 3.1% for the three months and nine months ended September 30, 2019, compared to 2.8% and 2.7% for the comparable periods in 2018, respectively;
- Book value of \$31.90 per common share at September 30, 2019 compared to \$30.16 at December 31, 2018.

***The following is a summary of key performance information by segment:***

- The Specialty Health segment reported \$1.1 million of income before taxes for the three months ended September 30, 2019 as compared to \$10.6 million for the comparable period in 2018; and reported \$13.6 million of income before taxes for the nine months ended September 30, 2019 compared to \$23.3 million for the same period in 2018. The decrease in 2019 when compared to 2018 is primarily due to lower premium volume in the fixed indemnity limited benefit line, less favorable prior year loss development in the short-term medical and fixed indemnity limited benefit lines of business and bad debt expense. Results for comparable 2018 periods included more favorable development from prior periods mostly on short term medical and fixed indemnity limited benefit business;
  - Premiums earned decreased \$3.6 million and \$3.5 million the three and nine months ended September 30, 2019, respectively, compared with the same periods in 2018. Increased premiums from the pet business were more than offset by decreased premiums in fixed indemnity limited benefit business.

- Underwriting experience, as indicated by its U.S. GAAP Combined Ratios, for the Specialty Health segment are as follows for the periods indicated (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Premiums Earned	\$ 44,462	\$ 48,111	\$ 133,467	\$ 136,960
Insurance Benefits, Claims & Reserves	19,585	15,382	56,334	44,975
Expenses	20,972	22,285	62,424	70,045
Loss Ratio <sup>(A)</sup>	44.0%	32.0%	42.2%	32.8%
Expense Ratio <sup>(B)</sup>	47.2%	46.3%	46.8%	51.1%
Combined Ratio <sup>(C)</sup>	91.2%	78.3%	89.0%	83.9%

- (A) Loss ratio represents insurance benefits, claims and reserves divided by premiums earned.
- (B) Expense ratio represents commissions, administrative fees, premium taxes and other underwriting expenses divided by premiums earned.
- (C) The combined ratio is equal to the sum of the loss ratio and the expense ratio.

- The higher loss ratios in 2019 were as a result of less favorable prior period development than in 2018. The lower expense ratio for the first nine months of 2019 is primarily due to changes in the mix of products in the Specialty Health segment.
- Income before taxes from the Group disability, life, DBL and PFL segment was \$10.0 million and \$19.2 million for the three months and nine months ended September 30, 2019, respectively, compared to \$4.3 million and \$14.9 million for the same periods in 2018, respectively. The increase in the results for the first nine months is primarily due a decrease in DBL claim reserves;
- The Individual life, annuities and other segment reported losses before income taxes of \$.6 million and \$1.4 million for the three months and nine months ended September 30, 2019, respectively, compared with losses of \$.1 million and \$.4 million for the three months and the nine months ended September 30, 2018 respectively.
- The Medical Stop-Loss segment reported an insignificant amount of income before taxes for the three and nine months ended September 30, 2019 and 2018, respectively. Amounts recorded for investment income, and benefits, claims and reserves in the Medical Stop-Loss segment represent the activity of the remaining reserves of medical stop-loss business in run-off;
- The Corporate segment reported losses before taxes of \$2.0 million and \$5.1 million for the three and nine months ended September 30, 2019, respectively, compared with losses of \$1.8 million in the three months and \$6.2 million in the nine months ended 2018; and



- Premiums by principal product for the periods indicated are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
Gross Direct and Assumed Earned Premiums:	2019	2018	2019	2018
Specialty Health	\$ 46,203	\$ 48,741	\$ 137,476	\$ 138,652
Group disability, life, DBL and PFL	49,073	41,845	142,217	126,097
Individual life, annuities and other	4,862	5,574	15,984	17,587
	\$ 100,138	\$ 96,160	\$ 295,677	\$ 282,336

	Three Months Ended September 30,		Nine Months Ended September 30,	
Net Direct and Assumed Earned Premiums:	2019	2018	2019	2018
Specialty Health	\$ 44,462	\$ 48,111	\$ 133,467	\$ 136,960
Group disability, life, DBL and PFL	41,977	33,631	120,683	101,605
Individual life, annuities and other	14	15	39	18
	\$ 86,453	\$ 81,757	\$ 254,189	\$ 238,583

## CRITICAL ACCOUNTING POLICIES

The accounting and reporting policies of the Company conform to U.S. generally accepted accounting principles ("GAAP"). The preparation of the Condensed Consolidated Financial Statements in conformity with U.S. GAAP requires the Company's management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. A summary of the Company's significant accounting policies and practices is provided in Note 1 of the Notes to the Consolidated Financial Statements included in Item 8 of the Annual Report on Form 10-K for the fiscal year ended December 31, 2018. Management has identified the accounting policies related to *Insurance Premium Revenue Recognition and Policy Charges, Insurance Liabilities, Investments, Goodwill and Other Intangible Assets, and Deferred Income Taxes* as those that, due to the judgments, estimates and assumptions inherent in those policies, are critical to an understanding of the Company's Consolidated Financial Statements and this Management's Discussion and Analysis. A full discussion of these policies is included under the heading, "Critical Accounting Policies" in Item 7 of the Annual Report on Form 10-K for the fiscal year ended December 31, 2018. During the nine months ended September 30, 2019, there were no additions to or changes in the critical accounting policies disclosed in the 2018 Form 10-K except for the recently adopted accounting standards discussed in Note 1(E) of the Notes to Condensed Consolidated Financial Statements.

## Results of Operations for the Three Months Ended September 30, 2019 Compared to the Three Months Ended September 30, 2018

Information by business segment for the periods indicated is as follows:

<b>September 30, 2019</b> <b>(In thousands)</b>	<b>Premiums</b> <b>Earned</b>	<b>Net</b> <b>Investment</b> <b>Income</b>	<b>Fee and</b> <b>Other</b> <b>Income</b>	<b>Benefits,</b> <b>Claims</b> <b>and</b> <b>Reserves</b>	<b>Selling,</b> <b>General</b> <b>and</b> <b>Administrative</b>	<b>Total</b>
Specialty Health	\$ 44,462	1,132	2,643	19,585	27,525	\$ 1,127
Group disability, life, DBL and PFL	41,977	1,928	120	21,396	12,644	9,985
Individual life, annuities and other	14	367	76	411	653	(607)
Medical Stop-Loss	-	2	-	6	29	(33)
Corporate	-	535	979	-	3,497	(1,983)
Sub total	\$ 86,453	\$ 3,964	\$ 3,818	\$ 41,398	\$ 44,348	8,489
Net investment gains						930
Income before income taxes						9,419
Income taxes						3,248
Net Income						\$ 6,171

  

<b>September 30, 2018</b> <b>(In thousands)</b>	<b>Premiums</b> <b>Earned</b>	<b>Net</b> <b>Investment</b> <b>Income</b>	<b>Fee and</b> <b>Other</b> <b>Income</b>	<b>Benefits,</b> <b>Claims</b> <b>and</b> <b>Reserves</b>	<b>Selling,</b> <b>General</b> <b>and</b> <b>Administrative</b>	<b>Total</b>
Specialty Health	\$ 48,111	1,109	3,888	15,382	27,131	\$ 10,595
Group disability, life, DBL and PFL	33,631	1,788	180	20,216	11,116	4,267
Individual life, annuities and other	15	402	103	186	397	(63)
Medical Stop-Loss	-	12	1	227	(150)	(64)
Corporate	-	511	167	-	2,527	(1,849)
Sub total	\$ 81,757	\$ 3,822	\$ 4,339	\$ 36,011	\$ 41,021	12,886
Net investment gains						17
Income before income taxes						12,903
Income taxes						2,860
Net Income						\$ 10,043

### Premiums Earned

In the third quarter of 2019, premiums earned increased \$4.7 million over the comparable period of 2018. The increase in earned premiums is primarily due to: (i) an \$8.3 million increase in earned premiums from the Group disability, life, DBL and PFL segment as a result of \$5.1 million in increased PFL and DBL premiums, \$2.1 million in increased group long-term disability ("LTD") and short-term disability ("STD") business and \$1.1 million in increased group term and other life business; partially offset by (ii) a \$3.6 million decrease in premiums from the Specialty Health segment primarily as a result of decreased premiums in the fixed indemnity limited benefit business line of \$6.3 million and a \$.3 million decrease in earned premiums from the dental line, partially offset by increases of \$2.5 million and \$.6 million, respectively, in the pet and short term medical lines of business.

### Net Investment Income

Total net investment income increased \$.2 million. The overall annualized investment yields were 3.1% in both the third quarter of 2019 and 2018.

The annualized investment yields on bonds, equities and short-term investments were 3.1% in the third quarter of 2019 and 3.2% for the comparable 2018 period.

### **Net Investment Gains**

The Company had net investment gains of \$.9 million in the three-month period ended September 30, 2019. Net investment gains were insignificant in 2018. These amounts include gains and losses from sales of fixed maturities available-for-sale, equity securities and other investments. Decisions to sell securities are based on management's ongoing evaluation of investment opportunities and economic and market conditions, thus creating fluctuations in gains and losses from period to period.

### **Fee Income and Other Income**

Fee income decreased \$1.5 million for the three-month period ended September 30, 2019 compared to the three-month period ended September 30, 2018. The decrease is primarily due to more business being written on IHC carrier paper in 2019.

Other income increased \$1.0 million for the three months ended September 30, 2019 from the comparable period in 2018 due to higher income from equity partnerships in 2019.

### **Insurance Benefits, Claims and Reserves**

In the third quarter of 2019, insurance benefits, claims and reserves increased \$5.4 million over the comparable period in 2018. The increase is primarily attributable to: (i) an increase of \$1.2 million in benefits, claims and reserves in the Group disability, life, DBL and PFL segment, primarily as a result of an increase of \$3.2 million in the PFL line due to increased premiums, \$1.8 million in the combined LTD and STD lines due to higher loss ratios, partially offset by a decrease of \$3.6 million in DBL claim reserves; and (ii) an increase of \$4.2 million in the Specialty Health segment, primarily from an increase of \$2.1 million in the short term medical line due to less favorable prior year loss development in 2019, an increase of \$1.3 million in the pet line due to increased premium volume, and an increase of \$.7 million in the fixed indemnity limited benefit line due to less favorable prior year loss development in 2019 than in the prior year.

### **Selling, General and Administrative Expenses**

Total selling, general and administrative expenses increased \$3.3 million over the comparable period in 2018. The increase is primarily a result of: (i) an increase of \$1.5 million in the Group disability, life, DBL and PFL segment primarily due to increased commission expense and other general expenses due to increased premium volume; (ii) an increase of \$.4 million in the Specialty Health segment primarily due to an increase in commissions, administrative fees and other general expenses in the pets business due to increased premium volume, as well as increased lead generation, compensation, system development related expenses and bad debt expense in our marketing and administrative companies, partially offset by a decrease in commission and administrative expenses related to decreased premium volume in the fixed indemnity limited benefit line of business; and (iii) an increase of \$1.0 million in the Corporate segment due to compensation associated expenses.

### **Income Taxes**

The effective tax rate for the three months ended September 30, 2019 was 34.5% compared to 22.2% for the three months ended 2018. The higher effective tax rate in 2019 is primarily due to tax provisions associated with the reduction of estimated tax benefits from the expected current year utilization of AMIC's net operating loss carryforwards.

## Results of Operations for the Nine Months Ended September 30, 2019 Compared to the Nine Months Ended September 30, 2018

Information by business segment for the periods indicated is as follows:

<b>September 30, 2019</b> <b>(In thousands)</b>	<b>Premiums</b> <b>Earned</b>	<b>Net</b> <b>Investment</b> <b>Income</b>	<b>Fee and</b> <b>Other</b> <b>Income</b>	<b>Benefits,</b> <b>Claims</b> <b>and</b> <b>Reserves</b>	<b>Selling,</b> <b>General</b> <b>and</b> <b>Administrative</b>	<b>Total</b>
Specialty Health	\$ 133,467	3,116	12,836	56,334	79,477	\$ 13,608
Group disability, life, DBL and PFL	120,683	5,958	427	71,664	36,217	19,187
Individual life, annuities and other	39	1,002	238	932	1,721	(1,374)
Medical Stop-Loss	-	6	-	(3)	(243)	252
Corporate	-	2,012	2,775	-	9,911	(5,124)
Sub total	\$ 254,189	\$ 12,094	\$ 16,276	\$ 128,927	\$ 127,083	26,549
Net investment gains						2,556
Net impairment losses recognized in earnings						(646)
Income before income taxes						28,459
Income taxes						6,482
Net Income						\$ 21,977

  

<b>September 30, 2018</b> <b>(In thousands)</b>	<b>Premiums</b> <b>Earned</b>	<b>Net</b> <b>Investment</b> <b>Income</b>	<b>Fee and</b> <b>Other</b> <b>Income</b>	<b>Benefits,</b> <b>Claims</b> <b>and</b> <b>Reserves</b>	<b>Selling,</b> <b>General</b> <b>and</b> <b>Administrative</b>	<b>Total</b>
Specialty Health	\$ 136,960	3,290	12,709	44,975	84,665	\$ 23,319
Group disability, life, DBL and PFL	101,605	5,203	472	60,278	32,090	14,912
Individual life, annuities and other	18	1,130	284	585	1,204	(357)
Medical Stop-Loss	-	35	1	(219)	155	100
Corporate	-	1,532	223	-	7,943	(6,188)
Sub total	\$ 238,583	\$ 11,190	\$ 13,689	\$ 105,619	\$ 126,057	31,786
Net investment losses						(335)
Income before income taxes						31,451
Income tax benefits						7,518
Net Income						\$ 23,933

### **Premiums Earned**

In the first nine months of 2019, premiums earned increased \$15.6 million over the comparable period of 2018. The increase in earned premiums is primarily due to: (i) a \$19.1 million increase from the Group disability, life, DBL and PFL segment as a result of \$11.1 million in increased DBL and PFL premiums, a \$4.6 million increase in combined LTD/STD premiums primarily from new STD business and increased retentions, a \$2.8 million increase in group term life premiums as a result of increased retentions, and \$.6 million of other group life business due to new product sales; partially offset by (ii) a \$3.5 million decrease in Specialty Health segment premiums, principally due to decreased premiums of \$13.5 million in fixed indemnity limited benefit business and \$1.2 million in the dental line partially offset by increased premium volume of \$6.4 million from pet lines, \$2.1 million in group gap lines, \$1.1 million in occupational accident business and \$.6 million in short term medical business.

### **Net Investment Income**

Total net investment income increased \$.9 million. The overall annualized investment yields were 3.1% and 3.0% for the first nine months of 2019 and 2018, respectively.

The annualized investment yields on bonds, equities and short-term investments were 3.2% in the first

nine months of 2019 and 3.1% for the comparable 2018 period.

### **Net Investment Gains (Losses) and Net Impairment Losses Recognized in Earnings**

The Company had net investment gains of \$2.6 million in the nine months ended September 30, 2019 compared to \$.3 million of investment losses for the same period in 2018. These amounts include gains and losses from sales of fixed maturities available-for-sale, equity securities and other investments. Decisions to sell securities are based on management's ongoing evaluation of investment opportunities and economic and market conditions, thus creating fluctuations in gains and losses from period to period.

The Company recognized \$.6 million of other-than-temporary impairment losses on fixed maturities available-for-sale securities in 2019, as the Company determined that it was more likely than not that we would sell the securities before the recovery of their amortized cost basis.

### **Fee Income and Other Income**

Fee income decreased \$3.4 million for the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. The decrease is primarily due to more business being written on IHC carrier paper in 2019.

Other income increased \$5.9 million for the nine months ended September 30, 2019 from the comparable period in 2018 primarily due to \$3.6 million in pretax gain on the sale of an equity investment in Pets Best and higher income from equity partnerships in 2019.

### **Insurance Benefits, Claims and Reserves**

In the first nine months of 2019, insurance benefits, claims and reserves increased \$23.3 million over the comparable period in 2018. The increase is primarily attributable to: (i) an increase of \$11.4 million in benefits, claims and reserves in the Group disability, life, DBL and PFL segment primarily as a result of an \$8.7 million increase in PFL line due to increased premium volume, a \$5.1 million increase in the combined LTD/STD line due to higher loss ratios on certain LTD business and increased retention on STD business, an increase of \$1.0 million in group term life business due to higher premium volume and increased retention partially offset by lower loss ratios, and an increase of \$.4 million in other group term life lines due to new business, partially offset by a decrease of \$3.8 million in DBL claim reserves; and (ii) an increase of \$11.3 million in the Specialty Health segment, primarily from an increase of \$6.2 million in the short term medical line due to less favorable prior year loss development, an increase of \$3.3 million and \$2.6 million in the pet and group gap lines, respectively, due to increased premium volume, partially offset by a decrease of \$.5 million in the fixed indemnity limited benefit line due to lower premium volume, and \$.6 million in dental due to lower loss ratios; and (iii) an increase of \$.2 million in the Medical Stop Loss segment as a result of lower positive reserve run-off volume when compared to the same period in 2018.

### **Selling, General and Administrative Expenses**

Total selling, general and administrative expenses increased \$1.0 million over the comparable period in 2018. The increase is principally due to: (i) an increase of \$4.1 million in the Group disability, life, DBL and PFL segment primarily due to increased commission expense and other general expenses due to increased premium volume; and (ii) a \$2.0 million increase in the Corporate segment due to compensation associated expenses; partially offset by (iii) a decrease of \$5.2 million in the Specialty Health line of business due to a decrease in commission and administrative expenses related to decreased premium volume in fixed indemnity limited benefit and lower administrative fees and loss adjustment expenses in the short term medical line, partially offset by an increase in commissions and administrative fees and other general expenses in the pets and group gap lines due to increased premium volume as well as increased lead generation, compensation and system development related expenses and bad debt expense in our marketing and administrative companies.

## **Income Taxes**

The effective tax rate for the nine months ended September 30, 2019 was 22.8% compared to 23.9% for the nine months ended 2018. The effective tax rate in 2019 is primarily due to tax provisions associated with the reduction of estimated tax benefits from the expected current year utilization of AMIC's net operating loss carryforwards partially offset by tax benefits resulting from exercises of certain shared based compensation. As a result of the 2017 Tax Act, the Company's tax rate in 2018 reflects a blended 28% tax rate for the first six months of 2018 followed by a 21% tax rate beginning in the third quarter of 2018.

## **LIQUIDITY**

### **Insurance Group**

The Insurance Group normally provides cash flow from: (i) operations; (ii) the receipt of scheduled principal payments on its portfolio of fixed maturities; and (iii) earnings on investments. Such cash flow is partially used to fund liabilities for insurance policy benefits. These liabilities represent long-term and short-term obligations.

### **Corporate**

Corporate derives its funds principally from: (i) dividends from the Insurance Group; (ii) management fees from its subsidiaries; and (iii) investment income from Corporate liquidity. Regulatory constraints historically have not affected the Company's consolidated liquidity, although state insurance laws have provisions relating to the ability of the parent company to use cash generated by the Insurance Group. No cash dividends were declared or paid by the Insurance Group during the nine months ended September 30, 2019 or 2018.

### **Cash Flows**

The Company had \$21.9 million and \$30.8 million of cash, cash equivalents and restricted cash as of September 30, 2019 and December 31, 2018, respectively.

For the nine months ended September 30, 2019, operating activities provided \$31.4 million of cash and investment activities utilized \$22.8 million of cash, primarily the result of purchases of investment securities, and \$8.0 million utilized for business acquisitions. Financing activities utilized \$17.6 million of cash, of which \$ 5.2 million related to common stock dividend payments, \$4.4 million was utilized to acquire noncontrolling interests in subsidiaries, \$3.9 million was utilized for treasury share purchases, and \$2.4 million related to payments for tax withholdings on sharebased compensation.

The Company had \$365.6 million of liabilities for future policy benefits and policy benefits and claims as of September 30, 2019 that it expects to ultimately pay out of current assets and cash flows from future business. If necessary, the Company could utilize the cash received from maturities and repayments of its fixed maturity investments if the timing of claim payments associated with the Company's insurance resources does not coincide with future cash flows. For the nine months ended September 30, 2019, cash received from the maturities and other repayments of fixed maturities was \$57.1 million.

The Company believes it has sufficient cash to meet its currently anticipated business requirements over the next twelve months including working capital requirements and capital investments.

## **BALANCE SHEET**

The Company had receivables due from reinsurers of \$364.7 million at September 30, 2019 compared to \$368.7 million at December 31, 2018. All of such reinsurance receivables are from highly rated companies

or are adequately secured. No allowance for doubtful accounts was necessary at September 30, 2019.

The Company's liability for policy benefits and claims by segment are as follows (in thousands):

	<b>Policy Benefits and Claims</b>	
	<b>September 30, 2019</b>	<b>December 31, 2018</b>
Specialty Health	\$ 41,682	\$ 38,114
Group Disability	110,709	112,616
Individual A&H and Other	8,727	8,954
Medical Stop-Loss	311	431
	<u>\$ 161,429</u>	<u>\$ 160,115</u>

For the Specialty Health business, IBNR claims liabilities plus expected development on reported claims are calculated using standard actuarial methods and practices. The “primary” assumption in the determination of Specialty Health reserves is that historical Claim Development Patterns are representative of future Claim Development Patterns. Factors that may affect this assumption include changes in claim payment processing times and procedures, changes in time delay in submission of claims, and the incidence of unusually large claims. Liabilities for policy benefits and claims for Specialty Health medical and disability coverage are computed using completion factors and expected Net Loss Ratios derived from actual historical premium and claim data. The reserving analysis includes a review of claim processing statistical measures and large claim early notifications; the potential impacts of any changes in these factors are not material. The Company has business that is serviced by third-party administrators. From time to time, there are changes in the timing of claims processing due to any number of factors including, but not limited to, system conversions and staffing changes during the year. These changes are monitored by the Company and the effects of these changes are taken into consideration during the claim reserving process. Other than these considerations, there have been no significant changes to methodologies and assumptions from the prior year.

While these calculations are based on standard methodologies, they are estimates based on historical patterns. To the extent that actual claim payment patterns differ from historical patterns, such estimated reserves may be redundant or inadequate. The effects of such deviations are evaluated by considering claim backlog statistics and reviewing the reasonableness of projected claim ratios. Other factors which may affect the accuracy of policy benefits and claim estimates include the proportion of large claims which may take longer to adjudicate, changes in billing patterns by providers and changes in claim management practices such as hospital bill audits.

Since our analysis considered a variety of outcomes related to these factors, the Company does not believe that any reasonably likely change in these factors will have a Material Effect.

The Company’s disability business is comprised of group disability, DBL and PFL. The two “primary” assumptions on which disability policy benefits and claims are based are: (i) morbidity levels; and (ii) recovery rates. If morbidity levels increase, for example due to an epidemic or a recessionary environment, the Company would increase reserves because there would be more new claims than expected. In regard to the assumed recovery rate, if disabled lives recover more quickly than anticipated then the existing claims reserves would be reduced; if less quickly, the existing claims reserves would be increased. Advancements in medical treatments could affect future recovery, termination, and mortality rates. The Company does not believe that reasonably likely changes in its “primary” assumptions would have a material effect on the Company’s financial condition, results of operations, or liquidity.

The \$25.2 million increase in IHC’s stockholders' equity in the first nine months of 2019 is primarily due to \$21.7 million of net income attributable to IHC and \$11.9 million of other comprehensive income attributable to IHC reduced by \$3.0 million of common stock dividends declared and \$3.9 million for treasury

stock purchases.

### **Asset Quality and Investment Impairments**

The nature and quality of insurance company investments must comply with all applicable statutes and regulations, which have been promulgated primarily for the protection of policyholders. The Company has gross unrealized gains of \$6.6 million and gross unrealized losses of \$2.0 million on its fixed maturities available-for-sale securities at September 30, 2019. All of the Company's fixed maturities were investment grade and continue to be rated on average AA. The Company marks all of its fixed maturities available-for-sale to fair value through accumulated other comprehensive income or loss. These investments tend to carry less default risk and, therefore, lower interest rates than other types of fixed maturity investments. The Company did not have any non-performing fixed maturities at September 30, 2019.

The Company reviews its investments regularly and monitors its investments continually for impairments. The Company recognized \$.6 million of other-than-temporary impairment losses on certain fixed maturities available for sale during the nine months ended September 30, 2019, as the Company determined that it was more likely than not that the company would sell the securities before the recovery of their amortized cost basis. The Company did not record any other-than-temporary impairment losses in the nine months ended September 30, 2018. There were no securities with fair values less than 80% of their amortized cost at September 30, 2019.

The unrealized losses on fixed maturities available-for-sale were evaluated in accordance with the Company's impairment policy and were determined to be temporary in nature at September 30, 2019. From time to time, as warranted, the Company may employ investment strategies to mitigate interest rate and other market exposures. Further deterioration in credit quality of the companies backing the securities, further deterioration in the condition of the financial services industry, imbalances in liquidity that exist in the marketplace, a worsening of the current economic recession, or declines in real estate values may further affect the fair value of these securities and increase the potential that certain unrealized losses be designated as other-than-temporary in future periods which may cause the Company to incur additional write-downs.

### **CAPITAL RESOURCES**

Due to its strong capital ratios, broad licensing and excellent asset quality and credit-worthiness, the Insurance Group remains well positioned to increase or diversify its current activities. It is anticipated that future acquisitions or other expansion of operations will be funded internally from existing capital and surplus and parent company liquidity. In the event additional funds are required, it is expected that they would be borrowed or raised in the public or private capital markets to the extent determined to be necessary or desirable.

### **OUTLOOK**

For the remainder of 2019, the Company anticipates that it will:

- Continue to expand our direct to consumer (D2C) owned call center and career agent channels. Our D2C channels have grown to nearly 200 agents, and we expect robust growth to continue into 2020. This is a highly scalable model subject to continued generation of quality leads at an affordable price. One of our call center's key relationships is supporting inquiries received from members of USAA, an insurance, banking, and investment services provider serving millions of military members and their families. We are also ramping up our organic lead generation capabilities and sources of paid leads, and making inroads into large affinity groups that will make our products available to their members. In each case, our D2C agents are able to offer a number of quality health insurance choices, including STM, hospital indemnity ("HIP"), dental and gap plans underwritten by IHC's carriers as well as Affordable Care Act ("ACA") and other products available through nationally recognized insurance companies.
- Enter the senior market, which covers approximately 60 million people, and is estimated to be growing by



10,000 people per day, and by 2040 is expected to cover 87 million people. Given the expansion of call center representatives and career agents, we will expand our offerings to serve the rapidly expanding senior market. Initially, we will import Medicare Supplement, Medicare Advantage, term life and final expense products from other carriers to supplement dental, vision and HIP products underwritten by IHC's insurance companies. During the first quarter of 2020, we anticipate being in the market with a portfolio of timely and competitive Medicare Supplement plans in light of regulatory changes taking effect January 1, 2020

- Incorporate our new cloud-based technology platforms and quoting and enrollment tools into our various distribution channels. In January 2019, we acquired My1HR, a state-of-the-art quoting and cloud-based enrollment platform utilized by approximately 4,000 active users to manage the health insurance needs of their clients. As a web-based entity, this includes quoting and enrolling individuals in ACA plans as well as ancillary coverages. In addition, My1HR is in the final stage of launching a cloud-based quoting and enrollment tool that is specifically designed for producers in the small group employer market. This new quoting and enrollment system will support group products for all IHC carriers as well as select group ACA and level funded health coverages from leading national health plans. It also positions us to take advantage of the expansion of Health Reimbursement Arrangements (HRAs) effective January 1, 2020 as a result of new federal regulations.
- Continue to diversify our sources of pet insurance premium through (i) the expansion of marketing efforts by our subsidiary, PetPartners, (ii) increased white-label distribution opportunities (such as our arrangement with the American Kennel Club) where PetPartners acts as administrator and Independence American is the risk taker, and (iii) increased premium for Independence American through our relationships as an underwriter for PetFirst, a company focused on shelters, rescues and animal welfare marketing space, Pets Best, which excels on affiliate and veterinarian sales channels, and Figo Pet Insurance, an insurtech brand in the pet insurance space focused on D2C, referral partners, and employer benefits channels.
- In 2020, IHC will be uniquely situated, through its vertically integrated structure, to better serve the growing demand for health insurance options by delivering an end-to-end experience to the consumer, including a broad base of products across the entire spectrum of age groups and needs. We will provide state-of-the-art on-line and mobile tools linking individuals and families in need of insurance coverage to highly rated insurance companies. Our enterprise will include: (i) digital marketing and website domains that will drive exclusive lead traffic for ancillary health and pet insurance, (ii) exchanges that will permit individuals to perform side-by-side comparisons of various employee benefit and pet insurance coverages, (iii) sales and customer service centers with licensed employee agents available to respond to consumer questions; (iv) a wholly owned insurance company, licensed in all 50 states, which will have the broadest mix of ancillary health and pet insurance in the country, and (v) access to other highly rated insurers for life, senior and P&C products.
- Continue to increase our DBL/PFL premiums. Effective January 1, 2018, Standard Security Life began selling a new PFL rider as part of our New York DBL policies. This is a result of New York State requiring employers to provide PFL, which would cover job-protected paid leave to care for a new child or sick family member or to assist when someone is called to active military service. This has more than doubled our DBL block. The PFL product rate is set by the New York State Department of Financial Services and provides for a potential risk adjustment payment in the event the company has better experience than the industry. The PFL rate is scheduled to increase by 76% for 2020. This increase, along with a modest increase in new premium writings, is expected to increase our combined DBL/PFL premium by approximately 46%.
- Achieve increases in both long-term and short-term disability premiums generated from new distribution relationships.
- Accomplish increases in life and disability premium by developing additional strategic functional and

distribution partnerships, broaden worksite portfolio, and enhance Business to Business and Business to Consumer website functionality.

- Continue to evaluate strategic transactions. We plan to deploy some of our cash to make additional investments and acquisitions that will bolster existing or new lines of business.
- Continue to focus on administrative efficiencies.

Subject to making additional repurchases, acquisitions and investments, the Company will remain highly liquid as a result of the continuing shorter duration of the portfolio. The low duration of our portfolio enables us, if we deem prudent, the flexibility to reinvest in much higher yielding longer-term securities, which would significantly increase investment income in the future. A low duration portfolio such as ours also mitigates the adverse impact of potential inflation. IHC will continue to monitor the financial markets and invest accordingly.

Our results depend on the adequacy of our product pricing, our underwriting, the accuracy of our reserving methodology, returns on our invested assets, and our ability to manage expenses. We will also need to be diligent with increased rate review scrutiny to effect timely rate changes and will need to stay focused on the management of medical cost drivers in the event medical trend levels cause margin pressures. Factors affecting these items, as well as unemployment and global financial markets, may have a material adverse effect on our results of operations and financial condition.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not required for smaller reporting companies.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### ***Evaluation of Disclosure Controls and procedures***

IHC's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") supervised and participated in IHC's evaluation of its disclosure controls and procedures as of the end of the period covered by this report. Disclosure controls and procedures are controls and procedures designed to ensure that information required to be disclosed in IHC's periodic reports filed or submitted under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Based upon that evaluation, IHC'S CEO and CFO concluded that IHC's disclosure controls and procedures were effective.

Management, including the CEO and CFO, identified no change in our internal control over financial reporting that occurred during our fiscal quarter ended September 30, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

We are involved in legal proceedings and claims that arise in the ordinary course of our businesses. We have established reserves that we believe are sufficient given information presently available related to our outstanding legal proceedings and claims. We do not anticipate that the result of any pending legal proceeding or claim will have a material adverse effect on our financial condition or cash flows, although there could be such an effect on our results of operations for any particular period.

### **Third Party Administrator**

A third party administrator with whom we formerly did business (“Plaintiff” or “TPA”)) filed a Complaint dated May 17, 2017 in the United States District Court, Northern District of Texas, Dallas Division, naming IHC, Madison National Life, Standard Security Life, and IHC Carrier Solutions, Inc. (collectively referred to as “Defendants”). “Plaintiff” and “Defendants” are collectively referred to herein as the “Parties”. The Complaint concerned agreements entered into by Standard Security Life and Madison National Life with Plaintiff, as well as other allegations made by Plaintiff against Defendants. The Complaint sought injunctive relief and damages in an amount exceeding \$50,000,000, payments allegedly owed to Plaintiff under the agreements totaling at least \$3,082,000 through 2014, plus additional amounts for 2015 and 2016, and exemplary and punitive damages as allowed by law and fees and costs. Defendants moved to Compel Arbitration and Dismiss or Stay the original Complaint. Plaintiff filed an Amended Complaint on August 18, 2017. Defendants filed a Motion to Compel Arbitration or Stay the Amended Complaint. The Parties agreed to enter into an Order staying the action filed in Texas. The Parties’ disputed claims moved in part to arbitration.

Standard Security Life and Madison National Life demanded arbitration against this TPA. The Arbitration Panel issued an Order splitting the hearing into two phases. Standard Security Life and Madison National Life successfully presented their claims in Phase I on September 25 through September 28, 2018. The TPA’s counterclaims were heard during Phase II held on February 11, 2019 through February 15, 2019. Standard Security Life and Madison National Life successfully opposed the counterclaims asserted by the TPA as the Arbitration Panel denied all claims against Standard Security Life and Madison National Life. Standard Security Life and Madison National Life filed the Petition to Confirm the Arbitration Award. The TPA opposed this Motion. On June 17, 2019, the Court entered its Final Judgment and Order Confirming the Arbitration Award (the “Final Judgment”). On July 15, 2019, Plaintiff filed a Notice of Appeal to the United States Court of Appeals for the Seventh Circuit from the judgment entered on June 17, 2019.

Since the arbitration is complete, the stay in the Texas litigation was lifted, and Defendants filed a Motion to Dismiss. On October 16, 2019, the Court granted in part and denied in part Defendants’ Motion to Dismiss. The Court found that an arbitration agreement, including an arbitration provision, exists between the parties and therefore, the parties were directed to proceed with arbitration. In light of this holding, the Court stayed and administratively closed the action pending the outcome of another arbitration. On October 29, 2019, the Plaintiff demanded arbitration against Standard Security Life, Madison National Life, and Independence Holding Company seeking a declaration by a new arbitration panel that the claims alleged in the complaint in the dismissed Texas litigation are not arbitrable. This demand for a new arbitration has no impact on the Final Judgment.

### **Multistate Market Conduct Examination**

As previously disclosed, our subsidiaries Standard Security Life, Madison National Life and Independence American have been selected for a multistate market conduct exam (“MCE”) related to our short term medical, limited medical and fixed indemnity health insurance products for the period of January 1, 2014 through September 30, 2017. The insurance departments of five jurisdictions (Delaware, Wisconsin, District of Columbia, Kansas and South Dakota) are serving as leads, and the District of Columbia Department of Insurance, Securities and Banking and the Delaware Department of Insurance are serving as the managing lead states of the MCE. In addition to the five lead states, 36 other states are participating in the MCE. Each of Standard Security Life, Madison National Life and Independence American responded to inquiries and document production requests in the MCE and has proactively communicated and cooperated with the applicable regulatory agencies for the MCE. Each of these subsidiaries has also provided a detailed action plan to regulators that summarizes its enhanced compliance and control mechanisms.

On July 18, 2019, each of Standard Security Life, Madison National Life and Independence American

received a proposed Regulatory Settlement Agreement ("RSA") to resolve the MCE with respect to such company. The proposed RSAs provide for monetary penalties as well as requirements related to such subsidiaries' marketing activities and periodic reporting to regulators. Standard Security Life, Madison National Life and Independence American have preliminarily responded to the proposed RSAs and anticipate entering into confidential discussions with the insurance departments of the lead jurisdictions once they have reviewed. At this time, the Company is not able to reasonably estimate any settlement amount or range of settlement amounts that may result from such discussions.

## **ITEM 1A. RISK FACTORS**

There were no material changes from the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2018 in Item 1A to Part 1 of Form 10-K.

## **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

### **Share Repurchase Program**

IHC has a program, initiated in 1991, under which it repurchases shares of its common stock. In August 2016, the Board of Directors increased the number of shares that can be repurchased to 3,000,000 shares of IHC common stock. As of September 30, 2019, 1,750,638 shares were still authorized to be repurchased.

Share repurchases during the third quarter of 2019 are summarized as follows:

<b>2019</b>			
<b>Month of Repurchase</b>	<b>Shares Repurchased</b>	<b>Average Price of Repurchased Shares</b>	<b>Maximum Number of Shares Which Can be Repurchased</b>
July	15,934	\$ 37.66	1,796,558
August	31,642	\$ 37.51	1,764,916
September	14,278	\$ 37.23	1,750,638

## **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

## **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

## **ITEM 5. OTHER INFORMATION**

Not applicable.

## ITEM 6. EXHIBITS

### Exhibit Number

- 3.1 Restated Certificate of Incorporation of Independence Holding Company (Filed as Exhibit 3(i) to our Quarterly Report on Form 10-Q for the quarter ended June 30, 1996 and incorporated herein by reference).
- 3.2 [Certificate of Amendment of Restated Certificate of Incorporation of Independence Holding Company \(Filed as Exhibit 3.1 to our Current Report on Form 8-K filed with the SEC on July 29, 2004 and incorporated herein by reference\).](#)
- 3.3 [By-Laws of Independence Holding Company \(Filed as Exhibit 3.3 to our Annual Report on Form 10-K for the year ended December 31, 2006 and incorporated herein by reference\), as amended by Amendment to By-Laws of Independence Holding Company \(Filed as Exhibit 3.2 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2013 and incorporated herein by reference\).](#)
- 10.1 [Officer Employment Agreement, made as of April 18, 2011, by and among Independence Holding Company, Standard Security Life Insurance Company of New York and Mr. David T. Kettig \(Filed as Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on April 22, 2011 and incorporated herein by reference\).](#)
- 10.2 [Officer Employment Agreement, made as of April 18, 2011, by and among Independence Holding Company, Madison National Life Insurance Company, Inc. and Mr. Larry R. Graber \(Filed as Exhibit 10.2 to our Current Report on Form 8-K filed with the SEC on April 22, 2011 and incorporated herein by reference\).](#)
- 10.3 [Officer Employment Agreement, made as of April 18, 2011, by and between Independence Holding Company and Ms. Teresa A. Herbert \(Filed as Exhibit 10.5 to our Current Report on Form 8-K filed with the SEC on April 22, 2011 and incorporated herein by reference\).](#)
- 10.4 [Officer Employment Agreement, made as of May 11, 2011, by and between Independence Holding Company and Mr. Roy T.K. Thung \(Filed as Exhibit 10.1 to our Quarterly Report on Form 10-Q for the period ended March 31, 2011 filed with the SEC on May 12, 2011, and incorporated herein by reference\).](#)
- 10.5 Retirement Benefit Agreement, dated as of September 30, 1991, between Independence Holding Company and Mr. Roy T.K. Thung, as amended. (Filed as an Exhibit to our Annual Report on Form 10-K for the year ended December 31, 1993 and incorporated herein by reference; [Amendment No. 1 filed as Exhibit 10\(iii\)\(A\)\(4a\) to our Annual Report on Form 10-K for the year ended December 31, 2003 and incorporated herein by reference; Amendment No. 2 filed as Exhibit 10\(iii\)\(4\)\(b\) to our Current Report on Form 8-K filed with the SEC on June 22, 2005 and incorporated herein by reference; Amendment No. 3 filed as Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on January 7, 2009 and incorporated herein by reference.](#))
- 10.6 [Purchase Agreement, made and entered into on June 15, 2015, by and among Madison National Life Insurance Company, Inc., Standard Security Life Insurance Company of New York and National Guardian Life Insurance Company \(Filed as Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on June 16, 2015, and incorporated herein by reference\).](#)
- 10.7 [Sale Bonus Agreement, dated November 7, 2016, by and between Independence American Holdings Corp. and David T. Kettig \(Filed as Exhibit 10.8 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2016 and incorporated herein by reference\).](#)

- 10.8 [Officer Employment Agreement, made as of May 25, 2011, by and among Independence Holding Company, Standard Security Life and Mr. Gary J. Balzofiore \(Filed as Exhibit 10.9 to our Annual Report on Form 10-K for the year ended December 31, 2016 and incorporated herein by reference\).](#)
- 10.9 Officer Employment Agreement, made as of June 22, 2015, by and among Independence Holding Company, Standard Security Life and Mr. Vincent Furfaro, as amended by the Assignment and Assumption with Novation and Amendment of Officer Employment Agreement dated January 1, 2017 by and among Standard Security Life, AMIC Holdings, Inc. and Mr. Vincent Furfaro (Filed as Exhibit 10.9 to our Annual Report on Form 10-K for the year ended December 31, 2018 and incorporated herein by reference).
- 10.10 Sale Bonus Agreement, dated July 25, 2018, by and between Independence American Holdings Corp. and Vincent Furfaro (Filed as Exhibit 10.10 to our Annual Report on Form 10-K for the year ended December 31, 2018 and incorporated herein by reference).
- 10.11 Assignment and Assumption with Novation and Amendment of Officer Employment Agreement dated January 1, 2017 by and among Standard Security Life, AMIC Holdings, Inc. and Mr. David T. Kettig (Filed as Exhibit 10.11 to our Annual Report on Form 10-K for the year ended December 31, 2018 and incorporated herein by reference).
- 31.1 Certification of the Chief Executive Officer and President Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. \*
- 31.2 Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. \*
- 32.1 Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. \*
- 32.2 Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. \*
- 101.INS XBRL Instance Document. The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
- 101.SCH XBRL Taxonomy Extension Schema Document. \*
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document. \*
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document. \*
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document. \*
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document. \*

\* Filed herewith.

## **SIGNATURES**

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: /s/Roy T. K. Thung  
Roy T.K. Thung  
Chief Executive Officer, and Chairman  
of the Board of Directors

Date: November 8, 2019

By: /s/Teresa A. Herbert  
Teresa A. Herbert  
Senior Vice President and  
Chief Financial Officer

Date: November 8, 2019