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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 **June 30, 2021**.

☐ 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** **58-1407235**  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

**96 CUMMINGS POINT ROAD, STAMFORD, CT** **06902**  
(Address of principal executive offices) (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 <input type="checkbox"/>	Accelerated Filer <input checked="" type="checkbox"/>
Non-Accelerated Filer <input type="checkbox"/>	Smaller Reporting Company <input checked="" type="checkbox"/>
Emerging Growth Company <input type="checkbox"/>	

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 August 7, 2021, the registrant had 14,644,389 shares of Common Stock outstanding.

# INDEPENDENCE HOLDING COMPANY

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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,” “project,” “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>June 30, 2021</b>	<b>December 31, 2020</b>
	<b>(Unaudited)</b>	
<b>ASSETS:</b>		
Investments:		
Short-term investments	\$ 1,550	\$ 1,568
Securities purchased under agreements to resell	70,323	33,038
Fixed maturities, available-for-sale	183,709	210,719
Equity securities	-	1,753
Other investments	2,022	1,928
Total investments	257,604	249,006
Cash and cash equivalents	22,834	31,923
Investment in Iguana Capital, Inc. ("Iguana Capital") (Note 2)	33,762	-
Due and unpaid premiums	10,950	9,981
Due from reinsurers	354,735	357,237
Goodwill	12,486	12,486
Funds held in escrow	78,779	-
Other assets	29,864	46,832
Assets attributable to discontinued operations (Note 2)	416,162	375,691
<b>TOTAL ASSETS</b>	<b>\$ 1,217,176</b>	<b>\$ 1,083,156</b>
<b>LIABILITIES AND EQUITY:</b>		
<b>LIABILITIES:</b>		
Policy benefits and claims	\$ 127,815	\$ 132,957
Future policy benefits	196,026	198,086
Funds on deposit	142,155	141,376
Unearned premiums	1,763	1,952
Other policyholders' funds	11,988	12,001
Due to reinsurers	2,242	3,872
Accounts payable, accruals and other liabilities	66,519	44,855
Liabilities attributable to discontinued operations (Note 2)	120,180	75,939
<b>TOTAL LIABILITIES</b>	<b>668,688</b>	<b>611,038</b>
Commitments and contingencies (Note 15)		
Redeemable noncontrolling interest	-	2,312
<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 14,644,389 and 14,643,047 shares outstanding	18,625	18,625
Paid-in capital	125,653	124,757
Accumulated other comprehensive income	3,220	4,197
Treasury stock, at cost; 3,981,069 and 3,982,411 shares	(77,189)	(77,088)
Retained earnings	478,139	399,273
<b>TOTAL IHC STOCKHOLDERS' EQUITY</b>	<b>548,448</b>	<b>469,764</b>
<b>NONREDEEMABLE NONCONTROLLING INTERESTS</b>	<b>40</b>	<b>42</b>
<b>TOTAL EQUITY</b>	<b>548,488</b>	<b>469,806</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 1,217,176</b>	<b>\$ 1,083,156</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 June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
<b>REVENUES:</b>				
Premiums earned	\$ 42,451	\$ 49,138	\$ 86,023	\$ 99,804
Net investment income	1,651	2,329	3,452	4,828
Fee income	4,944	3,907	11,079	7,341
Other income	410	807	1,026	1,432
Net investment gains (losses)	(126)	274	91	117
	49,330	56,455	101,671	113,522
<b>EXPENSES:</b>				
Insurance benefits, claims and reserves	17,192	21,339	39,113	47,628
Selling, general and administrative expenses	32,842	37,974	63,602	69,034
	50,034	59,313	102,715	116,662
Loss from continuing operations before income taxes	(704)	(2,858)	(1,044)	(3,140)
Income tax benefits	(267)	(1,066)	(430)	(1,187)
<b>Loss from continuing operations, net of tax</b>	<b>(437)</b>	<b>(1,792)</b>	<b>(614)</b>	<b>(1,953)</b>
<b>Discontinued operations (Note 2):</b>				
Total pretax income from discontinued operations	92,375	3,594	99,574	9,243
Income tax expense on discontinued operations	15,570	1,264	17,026	2,430
Income from discontinued operations, net of tax	76,805	2,330	82,548	6,813
<b>Net income</b>	<b>76,368</b>	<b>538</b>	<b>81,934</b>	<b>4,860</b>
(Income) loss from nonredeemable noncontrolling interests	1	(43)	2	(34)
(Income) loss from redeemable noncontrolling interests	102	(74)	156	(127)
<b>NET INCOME ATTRIBUTABLE TO IHC</b>	<b>\$ 76,471</b>	<b>\$ 421</b>	<b>\$ 82,092</b>	<b>\$ 4,699</b>
<b>Basic income per common share</b>				
Loss from continuing operations	\$ (.03)	\$ (.12)	\$ (.04)	\$ (.13)
Income from discontinued operations	5.25	.15	5.65	.45
Basic income per common share	\$ 5.22	\$ .03	\$ 5.61	\$ .32
<b>WEIGHTED AVERAGE SHARES OUTSTANDING</b>	<b>14,642</b>	<b>14,765</b>	<b>14,641</b>	<b>14,811</b>
<b>Diluted income per common share</b>				
Loss from continuing operations	\$ (.03)	\$ (.12)	\$ (.04)	\$ (.13)
Income from discontinued operations	5.25	.15	5.65	.45
Diluted income per common share	\$ 5.22	\$ .03	\$ 5.61	\$ .32
<b>WEIGHTED AVERAGE DILUTED SHARES OUTSTANDING</b>	<b>14,642</b>	<b>14,765</b>	<b>14,641</b>	<b>14,811</b>

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>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2021</b>
Net income	\$ 76,368	\$ 538	\$ 81,934	\$ 4,860
Other comprehensive income:				
<b>Available-for-sale securities:</b>				
Unrealized gains (losses) on available-for-sale securities, pre-tax	1,212	2,227	(1,248)	2,093
Tax expense (benefit) on unrealized gains (losses) on available-for-sale securities	260	474	(271)	451
Unrealized gains (losses) on available-for-sale securities, net of taxes	952	1,753	(977)	1,642
Other comprehensive income (loss), net of tax	952	1,753	(977)	1,642
<b>COMPREHENSIVE INCOME, NET OF TAX</b>	<b>77,320</b>	<b>2,291</b>	<b>80,957</b>	<b>6,502</b>
Comprehensive (income) loss, net of tax, attributable to noncontrolling interests:				
(Income) loss from noncontrolling interests in subsidiaries	103	(117)	158	(161)
Other comprehensive (income) loss, net of tax, attributable to noncontrolling interests	-	-	-	-
<b>COMPREHENSIVE (INCOME) LOSS, NET OF TAX, ATTRIBUTABLE TO NONCONTROLLING INTERESTS</b>	<b>103</b>	<b>(117)</b>	<b>158</b>	<b>(161)</b>
<b>COMPREHENSIVE INCOME, NET OF TAX, ATTRIBUTABLE TO IHC</b>	<b>\$ 77,423</b>	<b>\$ 2,174</b>	<b>\$ 81,115</b>	<b>\$ 6,341</b>

See the accompanying Notes to Condensed Consolidated Financial Statements.

**INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited) (In thousands)**  
**Three Months Ended June 30, 2021 and 2020**

			ACCUMULATED			
	COMMON	PAID-IN	OTHER	TREASURY	RETAINED	TOTAL IHC
	STOCK	CAPITAL	COMPREHENSIVE	STOCK,	EARNINGS	STOCKHOLDERS'
			INCOME	AT COST		EQUITY
<b>BALANCE AT</b>						
<b>MARCH 31, 2021</b>	\$ 18,625	\$ 125,189	\$ 2,268	\$ (77,228)	\$ 404,894	\$ 473,748
Net income					76,471	76,471
Other comprehensive						
loss, net of tax			952			952
Common stock dividends						
(\$.22 per share)					(3,226)	(3,226)
Share-based compensation		464		39		503
<b>BALANCE AT</b>						
<b>JUNE 30, 2021</b>	\$ 18,625	\$ 125,653	\$ 3,220	\$ (77,189)	\$ 478,139	\$ 548,448
<b>BALANCE AT</b>						
<b>MARCH 31, 2020</b>	\$ 18,625	\$ 123,260	\$ 1,101	\$ (71,196)	\$ 388,102	\$ 459,892
Net income					421	421
Other comprehensive						
income, net of tax			1,753			1,753
Repurchases of common stock				(3,129)		(3,129)
Common stock dividends						
(\$.22 per share)					(206)	(206)
Share-based compensation		544				544
<b>BALANCE AT</b>						
<b>JUNE 30, 2020</b>	\$ 18,625	\$ 123,804	\$ 2,854	\$ (74,325)	\$ 388,317	\$ 459,275

**INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Unaudited) (In thousands)**  
**Six Months Ended June 30, 2021 and 2020**

	ACCUMULATED			TREASURY		TOTAL IHC		NONREDEEMABLE	
	COMMON	PAID-IN	OTHER	STOCK,	RETAINED	STOCKHOLDERS'	NONCONTROLLING	TOTAL	
	STOCK	CAPITAL	COMPREHENSIVE	AT COST	EARNINGS	EQUITY	INTERESTS	EQUITY	
			INCOME (LOSS)						
<b>BALANCE AT</b>									
<b>DECEMBER 31, 2020</b>	\$ 18,625	\$ 124,757	\$ 4,197	\$ (77,088)	\$ 399,273	\$ 469,764	\$ 42	\$ 469,806	
Net income					82,092	82,092	(2)	82,090	
Other comprehensive									
loss, net of tax			(977)			(977)	-	(977)	
Repurchases of common stock				(140)		(140)	-	(140)	
Common stock dividends									
(\$.22 per share)					(3,226)	(3,226)	-	(3,226)	
Share-based compensation		896		39		935	-	935	
<b>BALANCE AT</b>									
<b>JUNE 30, 2021</b>	\$ 18,625	\$ 125,653	\$ 3,220	\$ (77,189)	\$ 478,139	\$ 548,448	\$ 40	\$ 548,488	
<b>BALANCE AT</b>									
<b>DECEMBER 31, 2019</b>	\$ 18,625	\$ 122,717	\$ 1,212	\$ (69,724)	\$ 386,864	\$ 459,694	\$ 18	\$ 459,712	
Net income					4,699	4,699	34	4,733	
Other comprehensive									
income, net of tax			1,642			1,642	-	1,642	
Repurchases of common stock				(4,601)		(4,601)	-	(4,601)	
Distributions to noncontrolling									
interests						-	(3)	(3)	
Common stock dividends									
(\$.22 per share)					(3,246)	(3,246)	-	(3,246)	
Share-based compensation		1,087				1,087	-	1,087	
<b>BALANCE AT</b>									
<b>JUNE 30, 2020</b>	\$ 18,625	\$ 123,804	\$ 2,854	\$ (74,325)	\$ 388,317	\$ 459,275	\$ 49	\$ 459,324	

See the accompanying Notes to Condensed Consolidated Financial Statements.



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

	<b>Six Months Ended June 30,</b>	
	<b>2021</b>	<b>2020</b>
<b>CASH FLOWS PROVIDED BY (USED BY) OPERATING ACTIVITIES:</b>		
Net income	\$ 81,934	\$ 4,860
<b>Adjustments to reconcile net income to net change in cash from operating activities:</b>		
Gain on disposal of discontinued operations	(74,534)	-
Pretax provision for loss on disposal	812	-
Amortization of deferred acquisition costs	425	166
Net amortization of purchased premium and discount in net investment income	1,139	1,218
Net investment (gains)	(91)	(117)
Depreciation and amortization	908	759
Other	17,107	2,393
Changes in assets and liabilities:		
Change in insurance liabilities	37,333	27,057
Change in amounts due from reinsurers	2,663	3,725
Change in claim fund balances	(1,022)	574
Change in due and unpaid premiums	(15,141)	(8,253)
Change in contract asset	(1,006)	-
Other operating activities	3,008	(4,135)
Net change in cash from operating activities	53,535	28,247
<b>CASH FLOWS PROVIDED BY (USED BY) INVESTING ACTIVITIES:</b>		
Net (purchases) sales and maturities of short-term investments	1,060	(1,049)
Net (purchases) sales of securities under resale agreements	(139,647)	5,740
Sales of equity securities	3,494	-
Sales of fixed maturities	10,366	36,413
Maturities and other repayments of fixed maturities	44,520	55,936
Purchases of fixed maturities	(8,343)	(96,353)
Cash divested from deconsolidation of subsidiary	(4,878)	-
Payments to acquire business, net of cash acquired	-	(13,707)
Payments to acquire other investments	(2,500)	(1,250)
Other investing activities	(1,870)	(3,372)
Net change in cash from investing activities	(97,798)	(17,642)
<b>CASH FLOWS PROVIDED BY (USED BY) FINANCING ACTIVITIES:</b>		
Repurchases of common stock	(140)	(4,489)
Withdrawals of investment-type insurance contracts	(112)	(326)
Dividends paid	(3,221)	(6,215)
Other financing activities	(32)	(3)
Net change in cash from financing activities	(3,505)	(11,033)
Net change in cash, cash equivalents and restricted cash	(47,768)	(428)
Cash, cash equivalents and restricted cash, beginning of year, including discontinued operations	74,793	24,631
Cash, cash equivalents and restricted cash, end of period, including discontinued operations	\$ 27,025	\$ 24,203
<b>NON-CASH ACTIVITY:</b>		
Proceeds from sale of subsidiary – funds held in escrow	\$ 78,779	\$ -

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 underwriting, administering and/or distributing group and individual specialty benefit products, including disability, supplemental health, pet, and group life insurance 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; and (ii) its marketing and administrative companies, including IHC Specialty Benefits Inc. ("IHCSB"), IHC Brokerage Group, Inc. ("IBG"), INSXCloud, Inc. ("INSXCloud") (formerly My1HR, Inc.), collectively the "IHC Agencies" and its lead generation company, Torchlight Technology Group LLC., ("Torchlight"). On June 30, 2021, the Company sold its majority interest in PetPartners, Inc. ("PetPartners"), a major distributor and administrator of pet insurance underwritten by Independence American Insurance Company and an unaffiliated insurer. Standard Security Life, Madison National Life and Independence American Insurance Company 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 financial holding company, and its affiliated entities, held approximately 62% of IHC's outstanding common stock at June 30, 2021.

**(B) 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.

During the second quarter of 2021, the Board of Directors committed to various plans for the disposal of several business operations (see Note 2). Each plan represents a strategic shift that will have a major effect on the Company's operations and financial results and as such, they each qualify for reporting as discontinued operations in the second quarter 2021. The assets, liabilities, and related income and expenses associated with each disposal group are presented as discontinued operations in the accompanying condensed consolidated financial statements and Notes thereto for all periods presented.

In March 2020, the World Health Organization declared the outbreak of COVID-19 a global health pandemic and the United States declared a national health emergency. COVID-19 has led to largescale disruption in the global economy, market instability and widespread unemployment in the United States. The COVID-19 outbreak continues to be a fluid situation and as it evolves, the duration of COVID-19 and its potential effects on our business cannot be certain. Regulatory mandates have affected, and we anticipate will continue to impact, the insurance industry. We currently cannot predict if there will be a material impact to

our business, results of operations or financial condition in future reporting periods. Consequently, future changes in market conditions may impact estimates used in the preparation of our financial statements associated with evaluations of goodwill and other intangible assets for impairment, estimates associated with the determination of valuation allowances related to net operating loss carryforwards, and estimates of certain losses under insurance contracts. These estimates may all be subject to substantial adjustments in future periods. In addition, volatile market conditions may result in declines in the fair value of our investment portfolio and possible impairments of certain securities.

In the opinion of management, all adjustments (consisting only of normal recurring accruals) that are necessary for a fair presentation of the consolidated financial position and results of operations for the interim periods have been included. The condensed consolidated results of operations for the three months and six months ended June 30, 2021 are not necessarily indicative of the results to be anticipated for the entire year.

### **(C) Reclassifications**

Certain amounts in prior year's condensed consolidated financial statements and Notes thereto have been reclassified to conform to the 2021 presentation, primarily for the effects of discontinued operations.

### **(D) Recent Accounting Pronouncements**

#### ***Recently Adopted Accounting Standards***

In December 2019, the Financial Accounting Standard Board ("FASB") issued guidance to simplify the accounting for income taxes. The guidance eliminates certain exceptions related to the approach for intra-period tax allocation, the methodology for calculating income taxes in an interim period, and the recognition of deferred tax liabilities related to changes in ownership of equity method investments and foreign subsidiaries. The guidance also simplifies aspects of accounting for franchise taxes, the requirement to allocate current and deferred tax expense to legal entities not subject to tax in its separate financial statements, enacted changes in tax laws or rates, and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. The adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

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

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. In 2019, the FASB delayed the original effective dates. For smaller reporting companies, the amendments in this guidance are now effective for fiscal years beginning after December 15, 2023, and for interim periods within fiscal years beginning after December 15, 2024. 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 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 and delayed the original effective dates. For smaller reporting companies, the amendments in this guidance are now effective for fiscal years beginning after December 15, 2022, including interim periods within those years. Early adoption is permitted. 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. Discontinued Operations**

### **(A) Sale of Standard Security Life**

On April 14, 2021, IHC and its wholly owned subsidiary, Independence Capital Corp. ("ICC"), entered into a Stock Purchase Agreement (the "SSL Purchase Agreement") with Reliance Standard Life Insurance Company ("Reliance Standard") to sell all of the issued and outstanding capital stock of Standard Security Life, a wholly owned subsidiary of ICC, for an aggregate purchase price of \$180,000,000 in cash. In addition, at closing, the Company will receive a dividend from Standard Security Life equal to the excess of aggregate statutory capital and surplus over \$53,000,000 as of the closing date. Standard Security Life had statutory capital and surplus of \$82,091,000 at June 30, 2021. The closing of the transaction, the closing dividend and certain other items are subject to customary closing conditions including applicable regulatory approvals, one of which is the approval of the New York State Department of Financial Services. Standard Security Life currently cedes a portion of its New York short-term disability ("DBL") and paid family leave rider ("PFL") business to Independence American Insurance Company. We filed notice to cancel this reinsurance contract in accordance with the terms of the SSL Purchase Agreement. Under the terms of the SSL Purchase Agreement, the sale transaction will include all of Standard Security Life's DBL and PFL business (including the DBL and PFL business previously ceded to Independence American Insurance Company) and will exclude other lines of business which will be reinsured prior to the closing. The DBL and PFL business being sold was part of the Company's Group disability, life, DBL and PFL segment. The aforementioned transaction, consisting of the sale of Standard Security Life, the closing dividend and other closing conditions, is collectively referred to as the "SSL Sale" transaction or disposal group. DBL and PFL are major product lines for the Company. The sale of Standard Security Life and resulting exit from DBL and PFL business represents a strategic shift that will have a major effect on the Company's operations and financial results. The SSL Sale transaction qualified for reporting as discontinued operations in the second quarter of 2021 upon the Board of Director's commitment to a plan for its disposal in April 2021, and the subsequent execution of the SSL Purchase Agreement. Provided that all regulatory approvals and other closing conditions are met, the Company expects to complete the SSL Sale transaction by the end of 2021.

On July 29, 2021, the SSL Purchase Agreement was amended and restated to: (i) include in the disposal group, the business lines that were previously excluded from the transaction; (ii) remove the reinsurance requirement for the previously excluded business lines; and (iii) increase the target statutory capital and surplus to \$57,000,000. As a result of this change in the disposal plan, the Company will include the assets, liabilities and results of operations for those business lines affected in discontinued operations for all periods presented, beginning in the third quarter of 2021.

Aside from customary transition services, there will be no continuing involvement with Standard Security Life after its disposal.

### **(B) Sale of Pet Division and Independence American Insurance Company ("Pets Sale")**

On May 17, 2021, IHC and certain subsidiaries entered into agreements to sell a 70% controlling interest in its pet division, including all of the issued and outstanding capital stock of Independence American

Insurance Company to a subsidiary of Iguana Capital, Inc. (“Iguana Capital”), an investment company specifically formed to facilitate this transaction as follows:

- (i) IHC and its wholly owned subsidiary, IHC SB Holdings LLC (“SBH”), entered into a Stock Purchase Agreement (the “PPI Purchase Agreement”) with Iguana Capital to sell its 85% interest in PetPartners for \$77,000,000 in cash (subject to working capital adjustments);
- (ii) IHC and its wholly owned subsidiary, AMIC Holdings, Inc. (“AMIC”), entered into a Stock Purchase Agreement (the “IAHC Purchase Agreement”) with Iguana Capital to sell all of the stock of Independence American Holdings Corp. (“IAHC”), which owns all of the stock of Independence American Insurance Company and other pet assets, for \$190,400,000 in cash (subject to adjustments for targeted statutory capital and surplus); and
- (iii) Following each of the above, IHC will retain a 30% interest in the form of an equity investment in Iguana Capital.

Both agreements are subject to customary closing conditions. The closing of the IAHC Purchase Agreement however is also subject to certain regulatory approvals, one of which is the approval of the Delaware Insurance Department. For this reason, the transaction was structured as two agreements such that the sale of PetPartners occurred on June 30, 2021, and the closing of the transactions contemplated in the IAHC Purchase Agreement will follow at a later date upon receipt of applicable regulatory approvals. Provided that all regulatory approvals and other closing conditions are met, the Company expects to complete the IAHC sale transaction by the end of 2021.

Under the terms of the IAHC Purchase Agreement, the transaction includes the sale of all Independence American Insurance Company’s pet business and excludes other business lines. These excluded business lines will be retained by the Company through a reinsurance agreement with Madison National Life prior to closing. The reinsurance agreement will remain in effect until the underlying business is either transferred to Madison National Life or the business runs out. The aforementioned transaction, consisting of the sale of PetPartners, IAHC and Independence American Insurance Company, and other closing conditions, is collectively referred to as the “Pets Sale” transaction or disposal group. The pet business being sold was part of the Company’s Specialty Health segment. Because the pet business is a major product line for the Company, and the Company will no longer actively engage in the sales and marketing of pet insurance, the Pets Sale transaction represents a strategic shift that will have a major effect on the Company’s operations and financial results. The Pets Sale transaction qualified for reporting as discontinued operations in the second quarter of 2021 as a result of the Board of Directors’ commitment to a plan for the disposal of a controlling interest in its pet business in May 2021, and the execution of both the PPI Purchase Agreement and the IAHC Purchase Agreement on May 17, 2021.

On June 30, 2021, the Company completed the sale of its majority interest in PetPartners and, as a result, the Company ceased to have a controlling financial interest in PetPartners. Upon closing, the Company received proceeds of \$78,779,000 (consisting of the purchase price and certain initial working capital adjustments), recognized an initial equity investment in Iguana Capital valued at \$33,762,000, and recorded a \$62,693,000 gain on the disposal, net of transaction costs and income taxes. Transaction costs consisting of transaction bonuses, legal expenses and financial advisor expenses amounted to an aggregate of \$6,070,000. The PPI Purchase Agreement includes a waiver and consent to offer The American Kennel Club (“AKC”), PetPartners’ minority shareholder, until December 31, 2021, the right to sell their shares at the same price and terms as in the PPI Purchase Agreement. In the event AKC desires to sell such its shares, Iguana Capital and SBH will equally finance the cash payment to AKC. In connection with the PPI Sale transaction, the Company recorded a \$6,800,000 contingent liability (the maximum amount required) based on its belief that AKC will exercise this right. If for any reason the IAHC Purchase Agreement is terminated, then at the option of either SBH or an affiliate of Iguana Capital, IAHC may reacquire the Company’s interest in PetPartners (the “PPI Put/Call Option”). The value of the PPI Put/Call Option was deemed to be negligible due to the structure of the put and call features, the short time horizon and the Company’s belief that there is a low probability that the deal would be terminated. The proceeds received from the sale of PetPartners were deposited into an escrow

account owned by SBH and treated as a security deposit. The funds will be released from escrow upon either the consummation of the IAHC sale transaction or upon the exercise of the PPI Put/Call Option. At June 30, 2021, the security deposit is presented as funds held in escrow on the Condensed Consolidated Balance Sheet.

Continuing involvement with the Pets Sale disposal group will consist of customary transition services, the reinsurance of retained business lines, the PPI Put/Call Option, and the equity investment in Iguana Capital.

The following is a reconciliation, by disposal group, of the carrying amounts of major classes of assets and liabilities included in discontinued operations on the Condensed Consolidated Balance Sheets for the periods indicated (in thousands):

June 30, 2021			
	SSL Sale	Pets Sale	Total
<b>Major classes of assets:</b>			
Investments and cash	\$ 164,346	\$ 144,688	\$ 309,034
Goodwill	-	41,716	41,716
Other assets	30,020	35,392	65,412
Assets attributable to discontinued operations	\$ 194,366	\$ 221,796	\$ 416,162
<b>Major classes of liabilities:</b>			
Policy benefits and claims	\$ 56,987	\$ 12,743	\$ 69,730
Unearned premiums	26,778	6,080	32,858
Other liabilities	12,500	5,092	17,592
Liabilities attributable to discontinued operations	\$ 96,265	\$ 23,915	\$ 120,180

December 31, 2020			
	SSL Sale	Pets Sale	Total
<b>Major classes of assets included in discontinued operations:</b>			
Investments and cash	\$ 114,916	\$ 149,844	\$ 264,760
Goodwill	-	62,414	62,414
Other assets	18,787	29,730	48,517
Assets attributable to discontinued operations	\$ 133,703	\$ 241,988	\$ 375,691
<b>Major classes of liabilities included in discontinued operations:</b>			
Policy benefits and claims	\$ 34,500	\$ 11,775	\$ 46,275
Unearned premiums	5,208	5,629	10,837
Other liabilities	9,316	9,511	18,827
Liabilities attributable to discontinued operations	\$ 49,024	\$ 26,915	\$ 75,939

The following is a reconciliation, by disposal group, of the major line items constituting the pretax profit of discontinued operations to the income from discontinued operations, net of tax, as shown on the Condensed Consolidated Statements of Income for the periods indicated (in thousands):

	<b>For the Three Months Ended June 30, 2021</b>		
	<b>SSL Sale</b>	<b>Pets Sale</b>	<b>Total</b>
Revenues	\$ 50,342	\$ 33,080	\$ 83,422
Expenses:			
Insurance benefits, claims and reserves	24,341	18,442	42,783
Selling, general and administrative expenses	7,394	14,592	21,986
Pretax income of discontinued operations during phase-out	18,607	46	18,653
Pretax provision for loss on disposal	(402)	(410)	(812)
Pretax gain on disposal of discontinued operations	-	74,534	74,534
Total pretax income from discontinued operations	18,205	74,170	92,375
Income tax expense on discontinued operations	3,836	11,734	15,570
Income from discontinued operations, net of tax	\$ 14,369	\$ 62,436	\$ 76,805

	<b>For the Three Months Ended June 30, 2020</b>		
	<b>SSL Sale</b>	<b>Pets Sale</b>	<b>Total</b>
Revenues	\$ 30,442	\$ 20,407	\$ 50,849
Expenses:			
Insurance benefits, claims and reserves	22,152	11,098	33,250
Selling, general and administrative expenses	6,150	7,855	14,005
Pretax income of discontinued operations during phase-out	2,140	1,454	3,594
Pretax provision for loss on disposal	-	-	-
Pretax gain on disposal of discontinued operations	-	-	-
Total pretax income from discontinued operations	2,140	1,454	3,594
Income tax expense on discontinued operations	822	442	1,264
Income from discontinued operations, net of tax	\$ 1,318	\$ 1,012	\$ 2,330

	<b>For the Six Months Ended June 30, 2021</b>		
	<b>SSL Sale</b>	<b>Pets Sale</b>	<b>Total</b>
Revenues	\$ 93,738	\$ 61,999	\$ 155,737
Expenses:			
Insurance benefits, claims and reserves	53,865	34,374	88,239
Selling, general and administrative expenses	14,850	26,796	41,646
Pretax income of discontinued operations during phase-out	25,023	829	25,852
Pretax provision for loss on disposal	(402)	(410)	(812)
Pretax gain on disposal of discontinued operations	-	74,534	74,534
Total pretax income from discontinued operations	24,621	74,953	99,574
Income tax expense on discontinued operations	5,151	11,875	17,026
Income from discontinued operations, net of tax	\$ 19,470	\$ 63,078	\$ 82,548

	For the Six Months Ended June 30, 2020		
	SSL Sale	Pets Sale	Total
Revenue	\$ 59,943	\$ 37,838	\$ 97,781
Expenses:			
Insurance benefits, claims and reserves	40,560	20,459	61,019
Selling, general and administrative expenses	13,004	14,515	27,519
Pretax income of discontinued operations during phase-out	6,379	2,864	9,243
Pretax provision for loss on disposal	-	-	-
Pretax gain on disposal of discontinued operations	-	-	-
Total pretax income from discontinued operations	6,379	2,864	9,243
Income tax expense on discontinued operations	1,689	741	2,430
Income from discontinued operations, net of tax	\$ 4,690	\$ 2,123	\$ 6,813

The assets and liabilities in discontinued operations are measured at the lower of their carry value or fair value less cost to sell. During the three months and six months ended June 30, 2021, it was not necessary to write-down any assets or liabilities attributable to the disposal groups in discontinued operations to fair value, less costs to sell. The Company expects to recognize gains from the sales of these disposal groups, therefore, any costs to sell the disposal groups, primarily legal expenses, incurred prior to the actual disposal of the discontinued operation, are expensed when incurred and presented in pretax provision for loss on disposal in the tables above.

Pretax income (loss) from discontinued operations during phase-out attributable to IHC was \$18,653,000 and \$25,852,000 for the three and six months ended June 30, 2021, respectively, and was \$3,594,000 and \$9,243,000 for the three and six months ended June 30, 2020, respectively.

Total cash flows from operating activities of discontinued operations were \$45,917,000 and \$26,813,000 for the six months ended June 30, 2021 and 2020, respectively. Total cash flows from investing activities of discontinued operations were \$(88,501,000) and \$(29,753,000) for the six months ended June 30, 2021 and 2020, respectively.

On a consolidated basis, the Company recorded \$15,570,000 and \$1,264,000 of income taxes related to pretax income from discontinued operations for the three months ended June 30, 2021 and 2020, respectively, and \$17,026,000 and \$2,430,000 for the six months ended June 30, 2021 and 2020, respectively. In 2021, these amounts include \$11,841,000 of income taxes related to the pretax gain on disposal of discontinued operations. In connection with the sale of PetPartners, AMIC decreased its valuation allowance on existing deferred tax assets by \$8,281,000 and utilized approximately \$46,116,000 of its outstanding Federal net operating loss carryforwards (See Note 11). Differences between the Federal statutory income tax rate on discontinued operations and the Company's effective income tax rate on pretax income from discontinued operations are primarily the result of AMIC's decrease in its valuation allowance, state and local income taxes, nondeductible goodwill and other expenses.



**Note 3. Income Per Common Share**

Diluted income per share was computed using the treasury stock method. As a result of losses from continuing operations for the three months and six months ended June 30, 2021 and 2020, such shares were deemed anti-dilutive.

The following is a reconciliation of income available to common shareholders used to calculate income per share for the periods indicated (in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2021	2020	2021	2020
Income from continuing operations attributable to IHC	\$ (436)	\$ (1,835)	\$ (612)	\$ (1,987)
Income from discontinued operations attributable to IHC	\$ 76,907	\$ 2,256	\$ 82,704	\$ 6,686
<b>Net income attributable to IHC</b>	<b>\$ 76,471</b>	<b>\$ 421</b>	<b>\$ 82,092</b>	<b>\$ 4,699</b>

**Note 4. 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):

	June 30,	
	2021	2020
Cash and cash equivalents	\$ 22,834	\$ 11,655
Restricted cash in other assets	418	985
Cash, cash equivalents and restricted cash in discontinued operations	3,773	11,563
<b>Total cash, cash equivalents and restricted cash including discontinued operations</b>	<b>\$ 27,025</b>	<b>\$ 24,203</b>

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 5. 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):

June 30, 2021					
	AMORTIZED	GROSS	GROSS		
	COST	UNREALIZED	UNREALIZED	FAIR	
		GAINS	LOSSES	VALUE	
FIXED MATURITIES					
AVAILABLE-FOR-SALE:					
Corporate securities	\$ 75,245	\$ 1,583	\$ (779)	\$ 76,049	
CMOs – residential <sup>(1)</sup>	3,071	118	(5)	3,184	
U.S. Government obligations	23,029	273	-	23,302	
Agency MBS - residential <sup>(2)</sup>	35	-	(4)	31	
GSEs <sup>(3)</sup>	2,969	-	(84)	2,885	
States and political subdivisions	74,086	1,261	(384)	74,963	
Foreign government obligations	3,144	151	-	3,295	
Total fixed maturities	\$ 181,579	\$ 3,386	\$ (1,256)	\$ 183,709	
December 31, 2020					
	AMORTIZED	GROSS	GROSS		
	COST	UNREALIZED	UNREALIZED	FAIR	
		GAINS	LOSSES	VALUE	
FIXED MATURITIES					
AVAILABLE-FOR-SALE:					
Corporate securities	\$ 91,802	\$ 2,174	\$ (1,302)	\$ 92,674	
CMOs – residential <sup>(1)</sup>	3,439	146	(2)	3,583	
U.S. Government obligations	23,397	414	-	23,811	
Agency MBS - residential <sup>(2)</sup>	39	-	(5)	34	
GSEs <sup>(3)</sup>	3,055	-	(81)	2,974	
States and political subdivisions	82,910	1,768	(452)	84,226	
Foreign government obligations	3,211	206	-	3,417	
Total fixed maturities	\$ 207,853	\$ 4,708	\$ (1,842)	\$ 210,719	

(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 June 30, 2021, 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	\$ 36,481	\$ 36,938
Due after one year through five years	87,377	89,128
Due after five years through ten years	20,124	20,292
Due after ten years	31,522	31,252
Fixed maturities with no single maturity date	6,075	6,099
	\$ 181,579	\$ 183,709

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):

June 30, 2021						
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate securities	\$ 19,962	\$ 740	\$ 4,503	\$ 39	\$ 24,465	\$ 779
CMOs-residential	707	5	-	-	707	5
Agency MBS - residential	31	4	-	-	31	4
GSEs	-	-	2,886	84	2,886	84
States and political subdivisions	10,319	76	8,813	308	19,132	384
<b>Fixed maturities in an unrealized loss position</b>	<b>\$ 31,019</b>	<b>\$ 825</b>	<b>\$ 16,202</b>	<b>\$ 431</b>	<b>\$ 47,221</b>	<b>\$ 1,256</b>
<b>Number of fixed maturities in an unrealized loss position</b>	<b>9</b>		<b>14</b>		<b>23</b>	

  

December 31, 2020						
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate securities	\$ 23,591	\$ 458	\$ 8,845	\$ 844	\$ 32,436	\$ 1,302
CMOs-residential	748	2	-	-	748	2
Agency MBS - residential	34	5	-	-	34	5
GSEs	-	-	2,974	81	2,974	81
States and political subdivisions	16,983	150	6,108	302	23,091	452
<b>Fixed maturities in an unrealized loss position</b>	<b>\$ 41,356</b>	<b>\$ 615</b>	<b>\$ 17,927</b>	<b>\$ 1,227</b>	<b>\$ 59,283</b>	<b>\$ 1,842</b>
<b>Number of fixed maturities in an unrealized loss position</b>	<b>20</b>		<b>13</b>		<b>33</b>	

Substantially all of the unrealized losses on fixed maturities available-for-sale at June 30, 2021 and December 31, 2020 relate to investment grade securities. Management does not intend to sell, and it is likely that management will not be required to sell these securities prior to their anticipated recovery. The unrealized losses on the Company's fixed maturity securities are related to general market changes in interest rates, and/or the levels of credit spreads largely due to current market conditions relating to the COVID-19 pandemic rather than specific concerns with the issuer's ability to pay interest and repay principal. We have evaluated each corporate security's credit rating as well as industry risk factors associated with the securities. The fair value of these securities is expected to recover as they approach maturity and therefore the Company does not consider these investments to be other-than-temporarily impaired at June 30, 2021.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2021	2020	2021	2020
Realized gains (losses):				
Fixed maturities available-for-sale	\$ (126)	\$ 50	\$ 46	\$ 284
Equity securities	-	-	292	-
Total realized gains (losses) on debt and equity securities	(126)	50	338	284
Unrealized gains (losses) on equity securities	-	214	(247)	(184)
Gains (losses) on debt and equity securities	(126)	264	91	100
Gains (losses) on other investments	-	10	-	17
Net investment gains	\$ (126)	\$ 274	\$ 91	\$ 117

For the three months and six months ended June 30, 2021, the Company realized gross gains of \$61,000 and \$254,000, respectively, and gross losses of \$187,000 and \$206,000, respectively, from sales, maturities and prepayments of fixed maturities available-for-sale. For the three months and six months ended June 30, 2020, the Company realized gross gains of \$97,000 and \$346,000, respectively, and gross losses of \$47,000 and \$62,000, 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 1G(v) to the Consolidated Financial Statements in the 2020 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 did not recognize any other-than-temporary impairments on available-for-sale securities in the first six months of 2021 or 2020.

#### **Note 6. 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):

June 30, 2021				
	Level 1	Level 2	Level 3	Total
<b>FINANCIAL ASSETS:</b>				
Fixed maturities available-for-sale:				
Corporate securities	\$ -	\$ 76,049	\$ -	\$ 76,049
CMOs - residential	-	3,184	-	3,184
US Government obligations	-	23,302	-	23,302
Agency MBS - residential	-	31	-	31
GSEs	-	2,885	-	2,885
States and political subdivisions	-	73,949	1,014	74,963
Foreign government obligations	-	3,295	-	3,295
Total fixed maturities	-	182,695	1,014	183,709
<b>Total Financial Assets</b>	<b>\$ -</b>	<b>\$ 182,695</b>	<b>\$ 1,014</b>	<b>\$ 183,709</b>

  

December 31, 2020				
	Level 1	Level 2	Level 3	Total
<b>FINANCIAL ASSETS:</b>				
Fixed maturities available-for-sale:				
Corporate securities	\$ -	\$ 92,674	\$ -	\$ 92,674
CMOs - residential	-	3,583	-	3,583
US Government obligations	-	23,811	-	23,811
Agency MBS - residential	-	34	-	34
GSEs	-	2,974	-	2,974
States and political subdivisions	-	83,130	1,096	84,226
Foreign government obligations	-	3,417	-	3,417
Total fixed maturities	-	209,623	1,096	210,719
Equity securities:				
Common stocks	1,753	-	-	1,753
Total equity securities	1,753	-	-	1,753
<b>Total Financial Assets</b>	<b>\$ 1,753</b>	<b>\$ 209,623</b>	<b>\$ 1,096</b>	<b>\$ 212,472</b>

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

	Three Months Ended June 30,			
	2021		2020	
	States and	Total	States and	Total
	Political	Level 3	Political	Level 3
	Subdivisions	Assets	Subdivisions	Assets
<b>Beginning balance</b>	\$ 1,055	\$ 1,055	\$ 1,214	\$ 1,214
Increases (decreases) recognized in earnings:				
Net investment gains	-	-	-	-
Gains (losses) included in other comprehensive income (loss):				
Net unrealized gains (losses)	(4)	(4)	(5)	(5)
Repayments and amortization of fixed maturities	(37)	(37)	(34)	(34)
<b>Balance at end of period</b>	<u>\$ 1,014</u>	<u>\$ 1,014</u>	<u>\$ 1,175</u>	<u>\$ 1,175</u>

  

	Six Months Ended June 30,			
	2021		2020	
	States and	Total	States and	Total
	Political	Level 3	Political	Level 3
	Subdivisions	Assets	Subdivisions	Assets
<b>Beginning balance</b>	\$ 1,096	\$ 1,096	\$ 1,251	\$ 1,251
Increases (decreases) recognized in earnings:				
Net investment gains	-	-	-	-
Gains (losses) included in other comprehensive income (loss):				
Net unrealized gains (losses)	(8)	(8)	(9)	(9)
Repayments and amortization of fixed maturities	(74)	(74)	(67)	(67)
<b>Balance at end of period</b>	<u>\$ 1,014</u>	<u>\$ 1,014</u>	<u>\$ 1,175</u>	<u>\$ 1,175</u>

Included in unrealized gains (losses) on available-for-sale securities, pre-tax, on the Condensed Consolidated Statement of Comprehensive Income for the three months and six months ended June 30, 2021 are \$(4,000) and \$(8,000) of unrealized gains (losses) attributable to the change in unrealized gains (losses) related to Level 3 securities held at June 30, 2021.

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):

	June 30, 2021			December 31, 2020		
	Level 1	Level 2		Level 1	Level 2	
	Fair	Fair	Carrying	Fair	Fair	Carrying
	Value	Value	Value	Value	Value	Value
FINANCIAL ASSETS:						
Short-term investments	\$ 1,550	\$ -	\$ 1,550	\$ 1,568	\$ -	\$ 1,568
Securities purchased under						
agreements to resell	70,323	-	70,323	33,038	-	33,038
FINANCIAL LIABILITIES:						
Funds on deposit	\$ -	\$ 142,155	\$ 142,155	\$ -	\$ 141,376	\$ 141,376
Other policyholders' funds	-	11,988	11,988	-	12,001	12,001

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:

### Securities purchased under agreements to resell

Securities purchased under agreements to resell are carried at the amounts at which the securities will be subsequently resold, which approximates fair value.

### 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 7. Other Investments, Including Variable Interest Entities

### Equity Method Investments

Equity income (loss) from equity method investments for the three months and six months ended June 30, 2021 was \$4,000 and \$64,000 respectively; and was \$(356,000) and \$(28,000) for the three months and six months ended June 30, 2020, respectively.

### 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 \$2,022,000 carrying value in these equity investments which is included in other investments in the Condensed Consolidated Balance Sheet as of June 30, 2021.

### Related Party Transactions

At June 30, 2021 and December 31, 2020, the Company's Condensed Consolidated Balance Sheets include \$94,000 and \$163,000, respectively, of administrative fees and other expenses payable to Ebix Health Exchange Holdings, LLC ("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 \$361,000 and \$762,000, respectively, for the three months and six months ended June 30, 2021; and include \$423,000 and \$899,000, respectively, for the same periods in 2020.

Selling, general and administrative expense for the three months ended March 31, 2020 includes approximately \$1,507,000 of expense related to the purchase of leads from an affiliated lead generation company, Torchlight, which was acquired in April of 2020. Lead costs subsequent to acquisition are eliminated in consolidation.

## **Note 8. Acquisitions**

### **The Abacus Group, LLC.**

On January 1, 2020 (the "Abacus Acquisition Date"), the Company acquired the remaining 56% membership units of The Abacus Group, LLC, ("Abacus") for a purchase price of \$2,599,000. Abacus is an agency group that writes worksite business for Madison National Life and other carriers and receives commissions and other fees. The Company acquired Abacus to further the Company's position in the worksite marketplace. The Company accounted for its prior ownership interest using the equity method. Immediately preceding the transaction, the Company determined the fair value of its equity interest to be \$1,838,000 using a market approach and, as a result, recorded a loss of \$163,000, which is included in other income on the Condensed Consolidated Statement of Income.



Upon the acquisition, the Company consolidated the assets and liabilities of Abacus. The following table presents the identifiable assets acquired and liabilities assumed in the acquisition of Abacus on the Abacus Acquisition Date based on their respective fair values (in thousands):

Other assets	\$	350
Total identifiable assets		350
Other liabilities		575
Total liabilities		575
Net identifiable assets (liabilities) acquired	\$	(225)

In connection with the acquisition, the Company recorded \$4,662,000 of goodwill of which \$2,725,000 is deductible for income tax purposes.

Goodwill represents the synergies with our insurance carriers. Abacus has an existing distribution network and offers increased distribution sources for IHC carriers' existing products and developing products through its enrollment platform designed specifically for producers in the worksite marketplace. Goodwill was calculated as the sum of (i) the acquisition date fair value of total cash consideration transferred of \$2,599,000, (ii) the aggregate acquisition-date fair value of equity interests immediately before the acquisition of \$1,838,000, and (iii) the net identifiable liabilities of \$225,000 that were assumed. The enterprise value of Abacus was determined by a market approach net of any control premium. Acquisition-related costs, primarily legal and consulting fees, were not material and are included in selling, general and administrative expenses in the Condensed Consolidated Statement of Income.

Revenue and net income from Abacus for the period from the Abacus Acquisition Date to June 30, 2020, is not material as most of their agency fee income is derived from Madison National Life and is now eliminated in consolidation. The amount of fee income earned from other carriers in 2020 is not material and will reduce over time as the business either runs-off or is transitioned to Madison National Life.

Pro forma adjustments to present the Company's consolidated revenues and net income as if the acquisition date was January 1, 2019 are not material and accordingly are omitted.

### **Torchlight Technology Group LLC.**

On April 15, 2020 (the "Torchlight Acquisition Date"), the Company acquired the remaining 77% membership units of Torchlight Technology Group LLC, ("Torchlight") for a purchase price of \$11,443,000 in cash and other consideration valued at \$185,000. In accordance with the purchase and sale agreement, the Company will also make future incentive payments to the former owners based on the future market appreciation of IHC. These payments will be accounted for as compensation for post-combination services. The Company purchased Torchlight for its marketing technology ("MarTech"), artificial data intelligence, and consumer lead generation capabilities. In an effort to further expand our InsureTech division (comprised of Torchlight, our call centers, field and career agents, and web domains), the Company wants to be able to internally develop and deliver lead traffic opportunities in an affordable and controlled environment. The Company accounted for its prior ownership interest using the equity method. Immediately preceding the transaction, the Company determined the fair value of its equity interest to be \$3,432,000 using the income approach and, as a result, recorded a gain of \$519,000, which is included in other income on the Condensed Consolidated Statement of Income.

Upon the acquisition, the Company consolidated the assets and liabilities of Torchlight. The following

table presents the identifiable assets acquired and liabilities assumed in the acquisition of Torchlight on the Torchlight Acquisition Date based on their respective fair values (in thousands):

Cash	\$	333
Intangible assets		2,700
Other assets		2,132
Total identifiable assets		5,165
Other liabilities		1,227
Total liabilities		1,227
Net identifiable assets acquired	\$	3,938

In connection with the acquisition, the Company recorded \$11,122,000 of goodwill, of which \$7,976,000 is deductible for income tax purposes, and \$2,700,000 of intangible assets. In 2021, a portion of this goodwill was allocated to the Pets Sale disposal group presented in discontinued operations.

Goodwill represents the synergies with our agencies. With a significant dependence on consumer and small business opportunities, our agencies require a consistent and predictable flow of lead traffic, and as a result, have meaningful synergies with the functions and deliverables that are developed at Torchlight. Before the acquisition of Torchlight, our agency was fully dependent on market traffic, which was both unpredictable in price and availability. Such restrictions would not allow for coordinated or scheduled growth. Goodwill was calculated as the sum of (i) the acquisition date fair value of total aggregate consideration transferred of \$11,628,000; and (ii) the aggregate acquisition-date fair value of equity interests immediately before the acquisition of \$3,432,000; over (iii) the net identifiable assets of \$3,938,000 that were acquired. The enterprise value of Torchlight was determined by an independent appraisal using a discounted cash flow model. Acquisition-related costs, primarily legal and consulting fees, were not material and are included in selling, general and administrative expenses in the Condensed Consolidated Statement of Income.

Revenue and net loss from Torchlight for the period from the Torchlight Acquisition Date to June 30, 2020 is \$1,828,000 and \$(564,000), respectively. The net loss is primarily related to the integration of Torchlight with the Company's other operations.

Pro forma adjustments to present the Company's consolidated revenues and net income as if the acquisition date was January 1, 2019 are not material and accordingly are omitted.

## **Note 9. Goodwill and Other Intangible Assets**

The carrying amount of goodwill is \$12,486,000 at June 30, 2021 and December 31, 2020, of which \$8,263,000 is attributable to the Specialty Health Segment at both June 30, 2021 and December 31, 2020, and \$4,223,000 is attributable to the Group disability and life segment for the same periods.

The Company has net other intangible assets of \$3,667,000 and \$4,008,000 at June 30, 2021 and December 31, 2020, 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):

	June 30, 2021		December 31, 2020	
	Gross		Gross	
	Carrying Amount	Accumulated Amortization	Carrying Amount	Accumulated Amortization
<b>Finite-lived Intangible Assets:</b>				
Agent and broker relationships	\$ 6,583	\$ 4,599	\$ 7,583	\$ 5,385
Software systems	1,500	294	1,500	167
Total finite-lived	<u>\$ 8,083</u>	<u>\$ 4,893</u>	<u>\$ 9,083</u>	<u>\$ 5,552</u>

	June 30, 2021	December 31, 2020
<b>Indefinite-lived Intangible Assets:</b>		
Insurance licenses	\$ 477	\$ 477
Total indefinite-lived	<u>\$ 477</u>	<u>\$ 477</u>

Amortization expense was \$179,000 and \$341,000 for the three months and six months ended June 30, 2021, respectively; and was \$171,000 and \$224,000 for the three months and six months ended June 30, 2020, respectively.

#### **Note 10. Fee Income**

Substantially all of the fee income recorded by the IHC Agencies and lead generation company relate to our Specialty Health segment. The following table presents fee income disaggregated by type for the periods indicated (in thousands).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Commissions	\$ 1,416	1,932	4,297	\$ 3,672
Administrative Fees	80	581	177	1,069
Marketing Fees	254	292	559	643
Enrollment Platform Fees	529	455	1,029	973
Lead and Referral Fees	2,633	588	4,945	854
Payment Plan, Application and Other Fees	32	59	72	130
Total Fee Income	<u>\$ 4,944</u>	<u>3,907</u>	<u>11,079</u>	<u>\$ 7,341</u>

#### Commission Revenues

Commission revenues result from the sales of certain policies by the IHC Agencies on behalf of multiple unaffiliated insurance carriers. Increased sales of products to these unaffiliated insurance carriers began in 2020 as a result of new contracts with the carriers and increased distribution channels. These policies primarily consist of senior products, such as Medicare Advantage, Medicare Part D prescription drug plans and Medicare Supplement plans, as well as Affordable Care Act (“ACA”) plans. A significant portion of our commission revenues are recorded at a point in time upon the issuance of a policy by the unaffiliated insurance carrier based on expected constrained lifetime value (“LTV”). Constrained LTV represents expected commissions to be received over the lifetime of the policies sold. The Company analyzes various factors, such as commission rates, carrier mix, contract amendments and terminations, estimated average plan durations, cancellations and non-renewals, to estimate the LTV. Constraints are applied to help ensure that the total estimated lifetime commissions expected to be collected are recognized as revenue only to the extent that it is

probable that a significant reversal in the amount of cumulative revenue recognized will not occur.

We evaluate the appropriateness of our constraints on a quarterly basis and update the LTV assumptions if we observe evidence that suggests a change in the underlying long-term expectations. In doing this, we apply significant judgement in assessing historical cash collections and changes in circumstances that would impact future cash collections such as, but not limited to, commission rates, carrier mix, plan durations, plan cancellations and non-renewals. Changes in LTV result in an increase or decrease to fee income revenue and a corresponding increase or decrease to contract assets. Any significant impact due to changes in the LTV assumptions are recognized in revenue (i) in the period of the change; and (ii) to the extent we do not believe a significant reversal is probable.

#### Costs to Fulfill a Contract

Costs to fulfill a contract include commissions owed to independent licensed agents or affinity partners that are contracted by the IHC Agencies. Upon the submission of a completed insurance application, the sales and marketing performance obligation is complete and the resultant estimated lifetime commission costs incurred are expensed and a corresponding commission liability is recorded on the Condensed Consolidated Balance Sheet. As policyholders continue their policy and remit monthly premium payments, the Company receives its commissions from the insurance carrier. Commissions owed to the agent or affinity partner are then paid and the corresponding liability is reduced. Judgement is required to estimate total expected lifetime commissions based on policy duration assumptions. At June 30, 2021 and December 31, 2020, the aforementioned commission liability was \$2,858,000 and \$2,362,000, respectively, and is included in accounts payable, accruals and other liabilities on the Condensed Consolidated Balance Sheet.

#### Contract Asset

Contract assets primarily relate to our commission revenues for the sales of senior products, such as Medicare Advantage and Medicare Supplement plans and ACA plans, which began in 2020. When commission revenue for the sales of these products is recognized, a corresponding contract asset is recorded in other assets on the Condensed Consolidated Balance Sheet. The timing of revenue differs from the collection of commissions. As policyholders continue their policy and remit monthly premium payments, the Company receives its commissions from the insurance carrier and the contract asset is reduced.

The following table summarizes the contract asset activity for the period indicated (in thousands).

	<b>Six Months Ended June 30, 2021</b>
Beginning Balance	\$ 7,760
Commissions recognized during the period	4,708
Commission adjustments related to prior periods	(418)
Cash receipts	(3,251)
Ending Balance	\$ 8,799

#### Remaining Performance Obligations

Deferred revenues are recorded in connection with certain terminable contracts and the right to use our INSX enrollment platform. At June 30, 2021 and December 31, 2020, deferred revenues are immaterial and expected to be fully recognized within the next 12 months.

## **Note 11.       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. 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, and compensation related tax provisions.

December 31, 2020, AMIC had Federal net operating loss carryforwards of approximately \$46,116,000 and a corresponding valuation allowance of \$8,281,000 related to those net operating loss carryforwards that, in the judgment of management, were not considered realizable. On June 30, 2021, the Company sold PetPartners and recorded a pretax gain of \$74,534,000 (See Note 2). As a result, AMIC decreased its valuation allowance by \$8,281,000 and utilized the \$46,116,000 of its outstanding Federal net operating loss carryforwards. Total income tax expense related to the pretax gain on disposal of discontinued operations was \$11,841,000. The primary differences between the Federal statutory income tax rate and the Company's effective income tax rate related to the gain on disposal of discontinued operations are the result of AMIC's decrease in its valuation allowance, partially offset by the non-deductibility of goodwill and other expenses related to the disposal.

The effective income tax rates related to losses from continuing operations in 2021 were impacted by tax benefits from exercises of share-based compensation and state and local income tax benefits on certain subsidiaries. In 2020, the effective income tax rates related to losses from continuing operations reflect a benefit from capital losses attributable to the sale of a subsidiary, partially offset by certain non-deductible expenses recorded in connection with a Regulatory Settlement Agreement.

On March 27, 2020, as part of the business stimulus package in response to the COVID-19 pandemic, the U.S. government enacted the Coronavirus Aid, Relief, and Economic Security ("CARES") Act. The CARES Act established new tax provisions including, but not limited to: (1) five-year carryback of net operating losses ("NOLs") generated in 2018, 2019 and 2020; (2) accelerated refund of alternative minimum tax (AMT) credit carryforwards; and (3) retroactive changes to allow accelerated depreciation for certain depreciable property. At this time, the legislation does not have a material impact on the Company due to the lack of taxable losses in the stated carryback eligible tax years and the fact that the Company was already expecting to receive a cash benefit for the remaining AMT credits in the fiscal 2018 tax year return.

The New York State Department of Taxation and Finance has selected the Company's 2015 and 2016 NYS returns for audit.

**Note 12. 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). Amounts incurred below do not include expenses for policy benefits and costs incurred for the Company’s life, annuity and other long-duration contracts. In addition, certain loss adjustment expenses related to short-duration contracts that are included in amounts incurred below are classified as selling general and administrative expenses on the Condensed Consolidated Statements of Income.

	<b>For the Six Months Ended June 30, 2021</b>			
	<b>Specialty Health</b>	<b>Group Disability</b>	<b>All Other Lines</b>	<b>Total</b>
Balance at beginning of year	\$ 31,680	\$ 80,976	\$ 20,301	\$ 132,957
Less: reinsurance recoverable	1,776	22,472	11,878	36,126
Net balance at beginning of year	29,904	58,504	8,423	96,831
Amount incurred, related to:				
Current year	16,631	20,031	11,947	48,609
Prior years	(4,634)	(4,033)	(1,132)	(9,799)
Total incurred	11,997	15,998	10,815	38,810
Amount paid, related to:				
Current year	4,461	3,922	6,885	15,268
Prior years	12,080	11,488	3,667	27,235
Total paid	16,541	15,410	10,552	42,503
Net balance at end of period	25,360	59,092	8,686	93,138
Plus: reinsurance recoverable	1,161	22,492	11,024	34,677
Balance at end of period	\$ 26,521	\$ 81,584	\$ 19,710	\$ 127,815

For the Six Months Ended June 30, 2020				
	Specialty Health	Group Disability	All Other Lines	Total
Balance at beginning of year	\$ 35,530	\$ 80,079	\$ 19,874	\$ 135,483
Less: reinsurance recoverable	1,717	23,322	11,954	36,993
Net balance at beginning of year	33,813	56,757	7,920	98,490
Amount incurred, related to:				
Current year	24,522	19,093	11,182	54,797
Prior years	(1,972)	(1,553)	(3,201)	(6,726)
Total incurred	22,550	17,540	7,981	48,071
Amount paid, related to:				
Current year	7,064	4,010	4,979	16,053
Prior years	17,530	12,125	2,155	31,810
Total paid	24,594	16,135	7,134	47,863
Net balance at end of period	31,769	58,162	8,767	98,698
Plus: reinsurance recoverable	1,802	22,463	11,074	35,339
Balance at end of period	\$ 33,571	\$ 80,625	\$ 19,841	\$ 134,037

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.

Net favorable (unfavorable) development in the Specialty Health segment, as depicted in the tables above, is comprised of the following lines of business for the years indicated (in thousands):

Six Months Ended			
June 30,			
Specialty Health segment:	2021	2020	
Short-term Medical ("STM")	\$ 1,676	\$ 286	
Occupational Accident	963	798	
Fixed Indemnity Limited Benefit	862	(736)	
Limited Medical	197	241	
Critical Illness	196	397	
Group Gap	356	513	
All other specialty health lines	384	473	
Total Specialty Health segment	\$ 4,634	\$ 1,972	

In both 2021 and 2020, net favorable development in the various lines of the Specialty Health segment shown above are primarily due to better than expected claim development. In 2021, experience in STM continues to be better than expected and severity has been relatively low.

In 2021, favorable development of \$4,033,000 in the group disability business is primarily due to lower frequency and severity in both the short-term disability ("STD") and the long-term disability ("LTD") lines. In 2020, favorable development in the group disability business is primarily due to a reduction in open claims, specifically new claims, in the LTD line, partially offset by an increase in the overall frequency and

severity of claims in the STD line.

All other lines, primarily life and other individual health products and including our medical stop-loss business in run-off, experienced favorable development in 2021 and 2020. The favorable development in 2020 is primarily related to the group term life business due to continued improvements in experience and updated assumptions for the Paid-Up Life business.

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>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2021</b>	<b>2020</b>
Balance at beginning of year	\$ 28,295	\$ 31,259
Less: reinsurance recoverable	1,766	1,113
Net balance at beginning of year	26,529	30,146
Amount incurred, related to:		
Current year	15,818	23,627
Prior years	(3,658)	(1,184)
Total incurred	12,160	22,443
Amount paid, related to:		
Current year	4,319	8,260
Prior years	11,992	16,382
Total paid	16,311	24,642
Net balance at end of period	22,378	27,947
Plus: reinsurance recoverable	1,158	1,406
Balance at end of period	\$ 23,536	\$ 29,353

The liability for the IBNR plus expected development on reported claims associated with the Company's health insurance claims is \$22,378,000 at June 30, 2021.



**Note 13. 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):

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Beginning balance	\$ 2,268	\$ 1,101	\$ 4,197	\$ 1,212
<b>Other comprehensive income (loss):</b>				
Other comprehensive income (loss) before reclassifications	784	1,810	(1,013)	2,544
Amounts reclassified from accumulated OCI	168	(57)	36	(902)
Net other comprehensive income (loss)	952	1,753	(977)	1,642
Ending balance	\$ 3,220	\$ 2,854	\$ 3,220	\$ 2,854

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):

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Unrealized gains (losses) on available-for-sale securities reclassified during the period to the following income statement line items:				
Net investment gains (losses)	\$ (125)	\$ 47	\$ 47	\$ 284
Income (loss) from continuing operations before income taxes	(125)	47	47	284
Income tax expense (benefit)	(28)	10	9	60
Income (loss) from continuing operations, net of tax	(97)	37	38	224
Total pretax income (loss) from discontinued operations	(90)	25	(94)	858
Income tax expense (benefit) on discontinued operations	(19)	5	(20)	180
Income from discontinued operations, net of tax	(71)	20	(74)	678
Net income (loss)	\$ (168)	\$ 57	\$ (36)	\$ 902

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

Net cash payments for income taxes were \$59,000 and \$55,000 during the six months ended June 30, 2021 and 2020, respectively.

## **Note 15. Contingencies**

### **Third Party Administrator**

A third party administrator with whom we formerly did business (“Plaintiff” or “TPA”) commenced an action on May 17, 2017 in the United States District Court, Northern District of Texas, Dallas Division (the “Texas Action”), naming IHC, Madison National Life, Standard Security Life, and Independence Brokerage Group, Inc. (formerly IHC Carrier Solutions, Inc.) as defendants (“Defendants”). The Plaintiff seeks contractual payments allegedly owed by the Defendants 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. The court had previously stayed the proceedings during the pendency of two arbitrations. The first arbitration resulted in a judicially-confirmed award in favor of Standard Security Life and Madison National Life in the amount of \$5,641,000, which the Plaintiff has satisfied. The Company received payment on September 9, 2020 and recorded it in other income on the Consolidated Statement of Income in the third quarter of 2020. The second arbitration resulted in no monetary obligations owed by any of the parties. The Plaintiff has filed a motion for leave to file a Second Amended Complaint. The Defendants have until August 9, 2021 to file an opposition to the motion for leave to amend.

### **Multistate Market Conduct Examination (“MCE”)**

As previously disclosed, our subsidiaries Standard Security Life, Madison National Life and Independence American Insurance Company were selected for MCE related to our short-term medical (“STM”), limited medical and fixed indemnity limited 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) served as lead states, and the District of Columbia Department of Insurance, Securities and Banking and the Delaware Department of Insurance served as the managing lead states of the MCE. In addition to the five lead states, 37 other states participated in the MCE. Each of Standard Security Life, Madison National Life and Independence American Insurance Company responded to inquiries and document production requests in the MCE and proactively communicated and cooperated with the applicable regulatory agencies for the MCE. Each of these subsidiaries also provided a detailed action plan to regulators that summarized its enhanced compliance and control mechanisms.

In an effort to avoid long-term litigation and/or administrative proceedings that would be required to resolve disputes between Standard Security Life, Madison National Life and Independence American Insurance Company and the states involved in the MCE, the Lead States and Standard Security Life, Madison National Life and Independence American Insurance Company entered into separate RSAs on July 14, 2020. The RSAs require the implementation of a compliance plan, impose certain requirements related to specified business practices and monetary payments. The thirty-seven participating states adopted the RSAs. The Company accrued \$3,660,000 in accounts payable, accruals and other liabilities on the Consolidated Balance Sheet in the second quarter of 2020 and processed payment in October 2020. As set forth in the RSAs, Standard Security Life, Madison National Life and Independence American Insurance Company deny any wrongdoing or violation of any applicable laws or regulations, and the entry into the RSAs is not an admission or acknowledgment of any wrongdoing or liability. In accordance with the RSAs, the Monitoring Period commenced and Standard Security Life, Madison National Life and Independence American Insurance Company continue to comply.

## **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		Six Months Ended	
	June 30,		June 30,	
	2021	2020	2021	2020
<b>Revenues:</b>				
Specialty Health	\$ 23,862	\$ 30,718	\$ 50,133	\$ 62,924
Group disability and life	25,143	24,076	50,264	48,161
Individual life, annuities and other <sup>(A)</sup>	183	490	392	808
Corporate	268	897	791	1,512
	<u>49,456</u>	<u>56,181</u>	<u>101,580</u>	<u>113,405</u>
Net investment gains (losses)	(126)	274	91	117
<b>Total revenues</b>	<u>\$ 49,330</u>	<u>\$ 56,455</u>	<u>\$ 101,671</u>	<u>\$ 113,522</u>
<b>Income before income taxes</b>				
Specialty Health <sup>(C)</sup>	\$ (841)	\$ (5,329)	\$ (2,732)	\$ (5,935)
Group disability and life	3,770	4,353	6,900	6,190
Individual life, annuities and other <sup>(A) (B)</sup>	(263)	(140)	(247)	(283)
Corporate	<u>(3,244)</u>	<u>(2,016)</u>	<u>(5,056)</u>	<u>(3,229)</u>
	(578)	(3,132)	(1,135)	(3,257)
Net investment gains (losses)	(126)	274	91	117
<b>Loss from continuing operations before income taxes</b>	<u>\$ (704)</u>	<u>\$ (2,858)</u>	<u>\$ (1,044)</u>	<u>\$ (3,140)</u>

- (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 Individual life, annuities and other segment includes amortization of deferred charges in connection with the assumptions of certain ceded life and annuity policies amounting to \$153,000 and \$176,000, for the three months ended June 30, 2021 and 2020, respectively, and \$310,000 and \$364,000, for the six months ended June 30, 2021 and 2020, respectively.
- (C) In both 2021 and 2020, significant costs associated with hiring, training and licensing a significant number of new agents, as well as costs for system development in our marketing and administrative companies.

## Note 17. Subsequent Events

On July 14, 2021, IHC and its wholly owned subsidiary ICC entered into a Stock Purchase Agreement with Horace Mann Educators Corporation to sell all of the issued and outstanding capital stock of Madison National Life, a Wisconsin insurance company wholly owned by ICC, for an aggregate purchase price of \$172,500,000 in cash. In addition, if Madison National Life reaches specified financial targets in 2023, IHC will receive an additional purchase price of up to \$12,500,000. The transaction has been approved by the Board of Directors of IHC, and IHC's majority stockholders have entered into a voting agreement under which such majority stockholders agreed to approve the transaction. The closing is expected no earlier than January 1, 2022. The transaction is subject to customary closing conditions, including applicable regulatory approvals, one of which is the approval by the Wisconsin Office of the Commissioner of Insurance. The aforementioned disposal plan represents a strategic shift that will have a major effect on the Company's operations and financial results and as such, will qualify for reporting as discontinued operations in the third quarter 2021.

## **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, 2020, 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, is a holding company principally engaged in underwriting, administering and/or distributing group and individual specialty benefit products, including disability, supplemental health, pet, and group life insurance through: (i) its insurance companies, Standard Security Life, Madison National Life, and Independence American Insurance Company; and (ii) its marketing and administrative companies consisting of IHCSB, IBG, INSXCloud (collectively the "IHC Agencies") and its lead generation company, Torchlight. On June 30, 2021, the Company sold its majority interest in PetPartners, a major distributor and administrator of pet insurance underwritten by Independence American Insurance Company and an unaffiliated insurer. Standard Security Life, Madison National Life and Independence American Insurance Company 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".

During the second quarter of 2021, the Board of Directors committed to the following plans for the disposal of several business operations. Each disposal plan below represents a strategic shift that will have a major effect on the Company's operations and financial results and as such, they each qualify for reporting as discontinued operations in the second quarter 2021.

- (A) On April 14, 2021, IHC and its wholly owned subsidiary ICC entered into a purchase agreement with Reliance Standard ("SSL Purchase Agreement") to sell all of the issued and outstanding capital stock of Standard Security Life, a wholly owned subsidiary of ICC, for an aggregate purchase price of \$180 million in cash. In addition, at closing, the Company will receive a dividend from Standard Security Life equal to the excess of aggregate statutory capital and surplus over \$53 million as of the closing date. Standard Security Life had statutory capital and surplus of \$82.1 million at June 30, 2021. The closing of the transaction, the closing dividend and certain other items are subject to customary closing conditions including applicable regulatory approvals, one of which is the approval of the New York State Department of Financial Services. Under the terms of the SSL Purchase Agreement, the transaction includes all of Standard Security Life's DBL and PFL business and excluded all other lines of business, which will be reinsured prior to the closing. The aforementioned transaction, consisting of the sale of Standard Security Life, the closing dividend, the reinsurance of excluded business and other closing conditions, is collectively referred to as the "Standard Security Life Sale Transaction".

On July 29, 2021, the SSL Purchase Agreement was amended and restated to: (i) include in the disposal group, the business lines that were previously excluded from the transaction; (ii) remove the reinsurance requirement for the previously excluded business lines; and (iii) increase the target statutory capital and surplus to \$57 million. As a result of this change in the disposal plan, the Company will include the assets, liabilities and results of operations for those business lines affected in discontinued operations for all periods presented, beginning in the third quarter of 2021.

- (B) On May 17, 2021, IHC and its wholly owned subsidiary SBH entered into a stock purchase

agreement with a subsidiary of Iguana Capital to sell its 85% interest in PetPartners, a major distributor and administrator of pet insurance underwritten by Independence American Insurance Company and an unaffiliated insurer. In addition, IHC and its wholly owned subsidiary, AMIC, entered into a stock purchase agreement with Iguana Capital to sell all of the issued and outstanding capital stock of IAHC (“IAHC Purchase Agreement”), which owns all of the issued and outstanding common stock of Independence American Insurance Company and other pet assets including the Company’s equity investments in FIGO Pet Insurance, LLC and Pet Assistant Holdings, LLC. Under the terms of the IAHC Purchase Agreement, the transaction includes all of Independence American Insurance Company’s pet business and excludes all other lines of business which will be reinsured prior to the closing. The impact of these two agreements, taken in the aggregate, represents the sale of 70% of the Company’s pet business. The Company will retain a 30% interest in the form of an equity investment in the buyer, Iguana Capital. On June 30, 2021, the sale of PetPartners closed and in exchange for its shares of PetPartners, the Company received \$78.8 million in cash, retained a 30% equity investment valued at \$33.7 million and recorded a \$74.5 million pretax gain on sale of discontinued operations, net of transaction costs. The cash is held in escrow until such time as the IAHC sale transaction closes. In connection with the pending sale of IAHC, the Company will receive approximately \$190.4 million in cash and retain a 30% equity investment valued at approximately \$81.6 million. The closing of the transactions contemplated by the IAHC Purchase Agreement is subject to customary closing conditions, including applicable regulatory approvals, one of which is the approval of the Delaware Insurance Department. The aforementioned transaction, consisting of the sale of PetPartners, IAHC and Independence American Insurance Company, the reinsurance of excluded business, and other closing conditions, is collectively referred to as the “Pets Sale Transaction”.

On July 14, 2021, IHC and its wholly owned subsidiary Independence Capital Corp. (“ICC”) entered into a Stock Purchase Agreement with Horace Mann Educators Corporation to sell all of the issued and outstanding capital stock of Madison National Life, a Wisconsin insurance company wholly owned by ICC, for an aggregate purchase price of \$172.5 million in cash; in addition, if Madison National Life reaches specified financial targets in 2023, IHC will receive an additional purchase price of up to \$12.5 million. The transaction has been approved by the Board of Directors of IHC, and IHC’s majority stockholders have entered into a voting agreement under which such majority shareholders agreed to approve the transaction. The closing is expected no earlier than January 1, 2022; and the transaction is subject to customary closing conditions, including applicable regulatory approvals, one of which is the approval by the Wisconsin Office of the Commissioner of Insurance. The aforementioned transaction is referred to as the “MNL Sale” transaction or disposal group.

The MNL Sale transaction also represents a strategic shift that will have a major effect on the Company’s operations and financial results and as such, will qualify for reporting as discontinued operations in the third quarter 2021.

## COVID-19

In March 2020, the World Health Organization declared the outbreak of COVID-19, a global health pandemic, and the United States declared a national health emergency. COVID-19 has led to large scale disruption in the global economy, market instability and widespread unemployment in the United States.

The COVID-19 outbreak continues to be a fluid situation. The business continuity and emergency response plans we implemented during 2020 continue to ensure we provide a high level of service to our customers and support our everyday business needs. To help protect the safety and wellbeing of our employees and mitigate the spread of COVID-19, we have limited travel and directed our employees to work remotely whenever possible. As the COVID-19 outbreak continues to evolve, the duration of COVID-19 and its potential effects on our business cannot be certain. Regulatory mandates have affected, and we anticipate will continue to impact, the insurance industry. We currently cannot predict if there will be a material impact to our business, results of operations or financial condition in future reporting periods. For more information, see the risk factor under the heading “We continue to face risks related to the ongoing Coronavirus (COVID-19) pandemic that could impact our sales, operating results and financial condition” in Item 1A. Risk Factors of our Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

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

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

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2021	2020	2021	2020
Revenues	\$ 49,330	\$ 56,455	\$ 101,671	\$ 113,522
Expenses	50,034	59,313	102,715	116,662
Loss from continuing operations before income taxes	(704)	(2,858)	(1,044)	(3,140)
Income tax benefit	(267)	(1,066)	(430)	(1,187)
<b>Loss from continuing operations</b>	<b>(437)</b>	<b>(1,792)</b>	<b>(614)</b>	<b>(1,953)</b>
<b>Income from discontinued operations</b>	<b>76,805</b>	<b>2,330</b>	<b>82,548</b>	<b>6,813</b>
<b>Net income</b>	<b>76,368</b>	<b>538</b>	<b>81,934</b>	<b>4,860</b>
(Income) loss from noncontrolling interests	103	(117)	158	(161)
<b>Net income attributable to IHC</b>	<b>\$ 76,471</b>	<b>\$ 421</b>	<b>\$ 82,092</b>	<b>\$ 4,699</b>

- Loss from continuing operations of \$.03 per share, diluted, for the three months ended June 30, 2021 compared to \$.12 per share, diluted, for the same period in 2020. Loss from continuing operations of \$.04 per share, diluted, for the six months ended June 30, 2021 compared to \$.13 per share, diluted, for the same period in 2020.
  - Net income for the for the three and six months ended June 30, 2020 includes \$3.7 million in expenses for compliance with the MCE related to our STM, limited medical and fixed indemnity limited benefit health insurance products for the period of January 1, 2014 through September 30, 2017, as discussed in Note 15.
- Consolidated investment yields (on an annualized basis) of 2.0% for both the three and six months ended June 30, 2021, respectively, compared to 2.4% and 2.5% for the three month and six month periods, respectively, in 2020;

- Book value of \$37.45 per common share at June 30, 2021 compared to \$32.08 at December 31, 2020.
- Income from discontinued operations for both the three and six months ended June 30, 2021 includes an after tax gain of \$62.7 million on the sale of PetPartners. Excluding this gain, income from discontinued operations for the three months and six months ended June 30, 2021 and 2020 were \$14.1 million and \$19.8 million, respectively compared with income of \$2.3 million and \$6.8 million in the comparable 2020 periods, respectively.
- Results for the first half of 2021 were both positively and negatively impacted by COVID-19.
  - Sales at our agency were lower than expected in the first half of 2021, impacted by lower short-term medical (“STM”) sales, as consumers, especially those over the age of 50 who often purchased STM coverage took advantage of Special Enrollment Periods for ACA coverage and the increased Advanced Premium Tax Credits, also known as subsidies, as well as employers continuing to offer employer sponsored coverage to furloughed workers. The agency is seeing an increase in fee and commission income from the sale of ACA plans. Certain lines of business that are sold with ACA coverage, such as dental and accident plans exceeded expectations but due to lower commission on these products did not fully offset the commission lost through lower STM sales. We are shifting our call center focus to the ACA market for this period.
  - Evolving regulatory mandates for testing and treatment coverage, the length and severity of the outbreak, claims activity, and impacts on payment of premiums have not had a significant impact on the 2021 results to date, however, we may incur additional expenses in the future relating to possible COVID-19 related claims activity and possible non-payment of premiums as the full effects of the outbreak continue to unfold. To date, we have experienced lower utilization related to the deferral of services which more than offset the extra incurred costs mentioned previously. It is still unpredictable how this level of deferred utilization will reverse or not in the future but emerging results will continue to be monitored.
  - Results for the Group disability and life segment were not materially impacted by COVID-19 from an aggregate claims standpoint. The life incidence rate was higher than expected in the first half of 2021 partially due to COVID-19 reported deaths.

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

- The Specialty Health segment reported \$0.8 million of losses before taxes for the three months ended June 30, 2021 compared to \$5.3 million of losses before taxes for the comparable period in 2020; and reported \$2.7 million in losses before taxes for the six-month period ended June 30, 2021 compared to \$5.9 million of losses for the same period in 2020. The three and six months ended June 30, 2020 includes \$3.7 million in expenses for compliance with the MCE related to our STM, limited medical and fixed indemnity limited benefit health insurance products for the period of January 1, 2014 through September 30, 2017. Excluding the MCE compliance expense, losses in the three and six months of 2020 were \$1.6 million and \$2.2 million, respectively.
- Premiums earned for the three months and six months ended June 30, 2021 decreased \$7.8 million and \$15.9 million, respectively, as compared to the same periods in 2020. Decreases in premiums occurred in the STM, fixed indemnity limited benefit and group gap lines.

- IHC's agencies produced operating losses of \$4.8 million and \$8.7 million for the three and six months ended June 30, 2021 compared with operating losses of \$4.2 million and \$7.2 million for the three and six months ended June 30, 2020. These amounts exclude purchase related incentive compensation and intangible asset amortization.
- 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		Six Months Ended	
	June 30,		June 30,	
	2021	2020	2021	2020
Premiums Earned	\$ 18,639	\$ 26,440	\$ 38,465	\$ 54,413
Insurance Benefits, Claims & Reserves	4,036	10,468	11,906	21,798
Expenses	9,306	16,675	18,862	30,812
Loss Ratio <sup>(A)</sup>	21.7%	39.6%	31.0%	40.1%
Expense Ratio <sup>(B)</sup>	49.9%	63.1%	49.0%	56.6%
Combined Ratio <sup>(C)</sup>	71.6%	102.7%	80.0%	96.7%

- (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 lower loss ratio in 2021 is primarily due to favorable reserve experience in the short term medical and fixed indemnity lines. The lower expense ratio in 2021 is primarily due to the change in product lines which have a lower expense structure.
  - Income before taxes from the Group disability and life segment decreased \$.6 million for the three months ended June 30, 2021 compared to the same period in 2020 and increased \$.7 million for the six months ended June 30, 2021 compared with the comparable period in 2020. The decrease in second quarter 2021 income was primarily due to higher loss ratios in the group term life business. The increased income in the six-month period of 2021 was as a result of lower loss ratios in the STD line of business; partially offset by higher loss ratios in the LTD line and higher loss ratios in the group term life business partially due to Covid-19 related claims.
  - Income and loss before taxes from the Individual life, annuities and other segment in run-off were not significant for the three or six months ended June 30, 2021 and 2020;
  - The Corporate segment reported losses before taxes of \$3.2 million and \$5.1 million for the three months and six months ended June 30, 2021, respectively, compared to losses of \$2.0 million and \$3.2 million in the comparable periods in 2020, primarily due to higher share-based and incentive compensation expenses; and



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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
<b>Gross Direct and Assumed Earned Premiums:</b>	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Specialty Health	\$ 19,734	\$ 28,185	\$ 40,623	\$ 57,731
Group disability and life	29,887	28,954	59,687	57,934
Individual life, annuities and other	4,090	4,788	8,857	9,630
	<u>\$ 53,711</u>	<u>\$ 61,927</u>	<u>\$ 109,167</u>	<u>\$ 125,295</u>

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
<b>Net Direct and Assumed Earned Premiums:</b>	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Specialty Health	\$ 18,639	26,440	38,465	\$ 54,413
Group disability and life	23,808	22,685	47,542	45,370
Individual life, annuities and other	4	13	16	21
	<u>\$ 42,451</u>	<u>49,138</u>	<u>86,023</u>	<u>\$ 99,804</u>

### **CRITICAL ACCOUNTING POLICIES**

The accounting and reporting policies of the Company conform to U.S. 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, 2020. Management has identified the accounting policies related to *Insurance Premium Revenue Recognition and Policy Charges*, *Fee Income Revenue Recognition*, *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, 2020. During the six months ended June 30, 2021, there were no additions to or changes in the critical accounting policies disclosed in the 2020 Form 10-K except for the recently adopted accounting standards discussed in Note 1(D) of the Notes to Condensed Consolidated Financial Statements.

## Results of Operations for the Three Months Ended June 30, 2021 Compared to the Three Months Ended June 30, 2020

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

<b>June 30, 2021</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	\$ 18,639	295	4,928	4,036	20,667	\$ (841)
Group disability and life	23,808	1,085	250	13,010	8,363	3,770
Individual life,						
annuities and other	4	122	57	146	300	(263)
Corporate	-	149	119	-	3,512	(3,244)
Sub total	\$ 42,451	\$ 1,651	\$ 5,354	\$ 17,192	\$ 32,842	(578)
Net investment gains (losses)						(126)
Loss from continuing operations before income taxes						(704)
Income taxes (benefits)						(267)
Loss from continuing operations, net of tax						\$ (437)

  

<b>June 30, 2020</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	\$ 26,440	550	3,728	10,468	25,579	\$ (5,329)
Group disability and life	22,685	1,254	137	10,713	9,010	4,353
Individual life,						
annuities and other	13	202	275	158	472	(140)
Corporate	-	323	574	-	2,913	(2,016)
Sub total	\$ 49,138	\$ 2,329	\$ 4,714	\$ 21,339	\$ 37,974	(3,132)
Net investment gains						274
Loss from continuing operations before income taxes						(2,858)
Income taxes (benefits)						(1,066)
Loss from continuing operations, net of tax						\$ (1,792)

### Premiums Earned

In the second quarter of 2021, premiums earned decreased \$6.7 million over the comparable period in 2020. The decrease is primarily due to a \$7.8 million decrease in earned premiums from the Specialty Health segment primarily as a result of decreases of \$4.3 million in STM premiums, \$2.6 million in the fixed indemnity limited benefit line, and \$1.4 million in group gap business; partially offset by an increase in dental premiums of \$.4 million. Earned premiums in the Group disability and life segment increased \$1.1 million primarily in the STD/LTD lines.

### Net Investment Income

Total net investment income decreased \$.7 million. The overall annualized investment yields were 2.0% and 2.4% in the second quarter of 2021 and 2020, respectively.

### Net Investment Gains

The Company had net investment losses of \$.1 million in 2021 compared to net investment gains of \$.3 million in 2020. 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 increased \$1.0 million for the three-month period ended June 30, 2021 compared to the three-month period ended June 30, 2020 primarily due to an increase in lead generating fees partially offset by decreases in lifetime value commission accruals principally on Medicare advantage products by the IHC Agencies for multiple unaffiliated insurance carriers.

Other income in the second quarter of both 2021 and 2020 was not significant.

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

In the second quarter of 2021, insurance benefits, claims and reserves decreased \$4.1 million over the comparable period in 2020. The decrease is primarily attributable to: (i) a decrease of \$6.4 million in reserves in the Specialty Health segment primarily due to a decrease of \$3.8 million in the STM line and \$1.8 million in the fixed indemnity limited benefit line due to lower premium volume and lower loss ratios, and \$.9 million in the group gap line on lower premium volume; partially offset by (ii) an increase of \$2.3 million in the Group disability and life segment primarily due higher loss ratios on group term life business partially due to COVID-19 related claims.

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

Total selling, general and administrative expenses decreased \$5.1 million over the comparable period in 2020. The decrease is principally due to: (i) a decrease of \$4.9 million in the Specialty Health line of business primarily due to the second quarter of 2020 results including \$3.7 million of expenses accrued for compliance with the MCE related to our STM, limited benefit and fixed indemnity limited benefit products with no comparable expenses in 2021, as well as decreases in commission and administrative expenses related to decreased volume in the fixed indemnity limited benefit, STM and group gap lines partially offset by increased lead generation expenses, compensation and system development related expenses in our marketing and administrative companies; (ii) a decrease of \$.7 million in the Group disability and life segment primarily due to increased commission expenses and other general expenses on group term life and LTD/STD lines of business on increased premium volume; and (iii) an increase of \$.6 million in the Corporate segment primarily due to compensation related expenses.

### **Income Taxes**

The effective tax rate for the three months ended June 30, 2021 was (37.9)% compared to (37.3)% for the three months ended June 30, 2020. The effective income tax rates related to losses from continuing operations in 2021 were impacted by tax benefits from exercises of share-based compensation and state and local income tax benefits on certain subsidiaries. In 2020, the effective income tax rates related to losses from continuing operations reflect a benefit from capital losses attributable to the sale of a subsidiary, partially offset by certain non-deductible expenses recorded in connection with a Regulatory Settlement Agreement.

## Results of Operations for the Six Months Ended June 30, 2021 Compared to the Six Months Ended June 30, 2020

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

<b>June 30, 2021</b> <b>(In thousands)</b>	<b>Premiums Earned</b>	<b>Net Investment Income</b>	<b>Fee and Other Income</b>	<b>Benefits, Claims and Reserves</b>	<b>Selling, General and Administrative</b>	<b>Total</b>
Specialty Health	\$ 38,465	638	11,030	11,906	40,959	\$ (2,732)
Group disability and life	47,542	2,208	514	26,901	16,463	6,900
Individual life, annuities and other	16	257	119	306	333	(247)
Corporate	-	349	442	-	5,847	(5,056)
Sub total	\$ 86,023	\$ 3,452	\$ 12,105	\$ 39,113	\$ 63,602	(1,135)
Net investment gains						91
Loss from continuing operations before income taxes						(1,044)
Income taxes (benefit)						(430)
Loss from continuing operations, net of tax						\$ (614)

  

<b>June 30, 2020</b> <b>(In thousands)</b>	<b>Premiums Earned</b>	<b>Net Investment Income</b>	<b>Fee and Other Income</b>	<b>Benefits, Claims and Reserves</b>	<b>Selling, General and Administrative</b>	<b>Total</b>
Specialty Health	\$ 54,413	1,122	7,389	21,798	47,061	\$ (5,935)
Group disability and life	45,370	2,505	286	25,534	16,437	6,190
Individual life, annuities and other	21	411	376	296	795	(283)
Corporate	-	790	722	-	4,741	(3,229)
Sub total	\$ 99,804	\$ 4,828	\$ 8,773	\$ 47,628	\$ 69,034	(3,257)
Net investment gains						117
Loss from continuing operations before income taxes						(3,140)
Income taxes (benefit)						(1,187)
Loss from continuing operations, net of tax						\$ (1,953)

### Premiums Earned

In the first six months of 2021, premiums earned decreased \$13.8 million over the comparable period in 2020. The decrease is primarily due to a \$15.9 million decrease in earned premiums from the Specialty Health segment principally as result of decreased premiums of \$7.1 million in STM, \$6.2 million in the fixed indemnity limited benefit line and \$2.9 million in group gap business, partially offset by increased premium of \$.4 million in the dental line. Earned premiums in the Group disability and life segment increased \$2.1 million primarily as a result of \$1.5 million on increased premiums in both STD and LTD business, as well as \$.5 million in higher premiums on group term life business.

### Net Investment Income

Total net investment income decreased \$1.4 million. The overall annualized investment yields were 2.0% and 2.5% in the first six months of 2021 and 2020, respectively.

### Net Investment Gains

The Company had net investment gains of \$.1 million in both 2021 and 2020. 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 increased \$3.7 million for the six months ended June 30, 2021 compared to the six months ended June 30, 2020 primarily due an increase in lead generating fees partially offset by decreases in lifetime value commission accruals principally on Medicare advantage products by the IHC Agencies for multiple unaffiliated insurance carriers as well as lower commissions on lower STM policy sales for IHC carriers.

Other income in the first six months of both 2021 and 2020 was not significant.

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

In the first six months of 2021, insurance benefits, claims and reserves decreased \$8.5 million over the comparable period in 2020. The decrease is primarily attributable to: (i) a decrease of \$9.9 million in the Specialty Health segment primarily due to a decrease of \$4.4 million in the STM line and \$2.9 million in the fixed indemnity limited benefit line due to lower premium volume and lower loss ratios, \$1.9 million in the group gap line on lower premium volume, \$.5 million in the occupational accident line on favorable claim development and \$.3 million on dental lines due to lower loss ratios; partially offset by (ii) an increase of \$1.4 million in the Group disability and life segment primarily as a result of a \$2.8 million increase in group term life benefits and claims as result of higher loss ratios partially due to COVID-19 related claims; partially offset by a \$1.4 million decrease in LTD/STD benefits and claims as a result of lower loss ratios due in part to favorable loss development in the STD line, partially offset by higher loss ratios in the LTD line.

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

Total selling, general and administrative expenses decreased \$5.4 million over the comparable period in 2020. The decrease is principally due to: (i) a decrease of \$6.1 million in the Specialty Health line of business primarily due to 2020 results including \$3.7 million of expenses accrued for compliance with the MCE related to our STM, limited benefit and fixed indemnity limited benefit products with no comparable expenses in 2021, as well as decreases in commission and administrative expenses related to decreased volume in the fixed indemnity limited benefit, STM and group gap lines partially offset by increased lead generation expenses, compensation and system development related expenses in our marketing and administrative companies; partially offset by (ii) an increase of \$1.1 million in the Corporate segment primarily due to compensation related expenses.

### **Income Taxes**

The effective tax rate for the six months ended June 30, 2021 was (41.2)% compared to (37.8)% for the six months ended June 30, 2020. The effective income tax rates related to losses from continuing operations in 2021 were impacted by tax benefits from exercises of share-based compensation and state and local income tax benefits on certain subsidiaries. In 2020, the effective income tax rates related to losses from continuing operations reflect a benefit from capital losses attributable to the sale of a subsidiary, partially offset by certain non-deductible expenses recorded in connection with a Regulatory Settlement Agreement.

## **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 dividends were declared or paid by the Insurance Group during the six months ended June 30, 2021 or 2020.

It is anticipated that cash flows to be received upon the close of the disposal transactions will provide sources of corporate liquidity to offset the loss of cash flows previously derived from the insurance operations currently held in discontinued operations. The Company is evaluating the best use of liquidity derived from the disposal transactions.

The proceeds received from the sale of PetPartners were deposited into an escrow account owned by SBH and treated as a security deposit. The funds will be released from escrow upon either the consummation of the IAHC purchase or upon the exercise of the PPI Put/Call Option. At June 30, 2021, the security deposit is presented as funds held in escrow on the Condensed Consolidated Balance Sheet.

### **Cash Flows**

The Company had \$27.0 million and \$74.8 million of cash, cash equivalents and restricted cash from continuing and discontinued operations as of June 30, 2021 and December 31, 2020, respectively.

For the six months ended June 30, 2021, operating activities provided \$53.5 million of cash and investment activities utilized \$97.8 million of cash, primarily the result of the investment of cash and cash equivalents in resale agreements. Financing activities utilized \$3.5 million of cash, of which \$3.2 million was utilized to pay common stock dividends. For the six months ended June 30, 2021, cash flows from the operating and investing activities of discontinued operations were \$45.9 million and \$(88.5) million, respectively.

The Company had \$328.8 million of liabilities for future policy benefits and policy benefits and claims as of June 30, 2021 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 six months ended June 30, 2021, cash received from the maturities and other repayments of fixed maturities was \$44.5 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.

There were no material negative impacts on the Company's cash flows or liquidity with regards to COVID-19 during the first six months of 2021. Depending on the length and severity of the outbreak, it is possible that cash flows may be negatively impacted due to increased claim activity as a result of mandated testing and treatment coverage, as well as delayed policy payments or an increase in cancelled policies due to non-payment in the future.

## **BALANCE SHEET**

The Company had receivables due from reinsurers of \$354.7 million at June 30, 2021 compared to \$357.2 million at December 31, 2020. All of such reinsurance receivables are from highly rated companies or are adequately secured. No allowance for doubtful accounts was necessary at June 30, 2021.

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

	<b>Policy Benefits and Claims</b>	
	<b>June 30, 2021</b>	<b>December 31, 2020</b>
Specialty Health	\$ 26,521	\$ 31,680
Group Disability	90,790	89,902
Individual A&H and Other	10,504	11,375
	<u>\$ 127,815</u>	<u>\$ 132,957</u>

For the Specialty Health business, incurred but not reported (“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. 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 \$78.7 million increase in IHC’s stockholders' equity in the first six months of 2021 is primarily due to \$82.5 million of net income attributable to IHC from discontinued operations, primarily \$62.7 million in after tax gains on the sale of PetPartners; reduced by \$3.2 million of common stock dividends.

## **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 \$3.4 million and gross unrealized losses of \$1.3 million on its fixed maturities available-for-sale securities at June 30, 2021. 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 June 30, 2021.

The Company reviews its investments regularly and monitors its investments continually for impairments. The Company did not record any other-than-temporary impairment losses in the six months ended June 30, 2021 or 2020.

The following table summarizes the carrying value of securities with fair values less than 80% of their amortized cost at June 30, 2021 by the length of time the fair values of those securities were below 80% of their amortized cost (in thousands):

		Greater than 3 months, less than 6 months	Greater than 6 months, less than 12 months	Greater than 12 months	Total
Fixed maturities	\$ -	\$ -	\$ -	\$ 641	\$ 641

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 June 30, 2021. 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 with its current activities. It is anticipated that any future acquisitions or other expansion of operations at the remaining entities of IHC 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 2021, and continuing in 2022, the Company anticipates that it will:

- Close on the sale of all of the issued and outstanding capital stock of Standard Security Life to Reliance Standard pursuant to the SSL Purchase Agreement signed on April 14, 2021 and amended on July 29, 2021. Reliance Standard believes that this transaction, which is subject to various regulatory approvals, will close in the second half of this year. Standard Security Life will dividend statutory surplus in excess of \$57 million to its parent at closing so earnings prior to closing will be retained by IHC.
- Close on the sale of all of the issued and outstanding capital stock of IAHC to Iguana Capital pursuant to the IAHC Purchase Agreement signed on May 17, 2021. We believe this transaction, which is subject to various regulatory approvals, will close in the second half of this year.
- Close on the sale of the stock of Madison National Life to Horace Mann Educators Corporation pursuant to the MNL Purchase Agreement signed on July 14, 2021. This transaction, subject to various regulatory approvals, is expected to close no earlier than January 1, 2022.
- Focus on the transition and consummation of all transactions entered into in 2021. The consummation of these transactions shall be the entire focus of the Company for the remainder of 2021. After all the transactions are consummated, IHC projects that it will hold approximately \$560 million in cash and investments, net of liabilities; a 30% interest in Iguana Capital with a carrying value of approximately \$115 million; and our health insurance agency and other assets with an aggregate carrying value of approximately \$20 million, resulting in an estimated book value of approximately \$47.00 per share which is calculated assuming the transactions occurred on June 30, 2021. These projections are based on information currently known to management and include the use of estimates and assumptions with regards to anticipated transaction costs, estimated tax rates and other potential changes.
- Improve the profitability and better integrate all of our agencies. IHC has experienced many changes in its agency model in 2021 as a result of a changing market and due to the decision to sell all three of IHC's carriers. Although we continue to record losses in our agency business, we expect that to improve in the future. IHC has re-evaluated and made significant changes to the direction of the Company. As we progress, our agency operations will be centered around INSXcloud.com (INSX), our CMS approved Web Broker. INSX provides an agent with the ability to quote, directly enroll and track applications on the Federally Facilitated Marketplace, plus much more. Specifically, brokers can quickly generate quotes, create PDF's of plan comparisons, enroll customers in plans, and invite customers to enroll themselves – all through an easy-to-use cloud-based web portal. IHC is expanding INSX to directly serve the consumer and partner market, as well as expanding product offerings on the platform.
- Continue to expand on our IHCSB agency. The balance of IHCSB includes our W-2 Call Centers and our captive independent Advisors unit, both of which sell into the under/over age 65 health insurance markets, as well as our Independence Brokerage Group (IBG) which recruits independent agents and agencies to sell via our platforms and contracts. We are refocusing a portion of our over 65 division into the under 65 market in order to take advantage of the positioning of INSX, IHCSB, our lead generation capabilities, and the market growth resulting from the American Rescue Plan Act.
- Continue to focus on administrative efficiencies and the transition of the three insurance carriers as we progress towards closing on all three sales in the next few quarters

- Continue to monitor the COVID-19 outbreak as it evolves. The duration of COVID-19 and its potential effects on our business cannot be certain, so we currently cannot predict if there will be a material impact to our business, results of operations or financial condition in 2021. During the COVID-19 pandemic, we have fully transitioned our existing sales teams to work from home. Our customer facing agents have transitioned to a full-time work at home model, and although we have implemented enhanced technology solutions, sales may be impacted as COVID-19 continues to develop.

Subject to making additional repurchases of IHC common stock, dividends to shareholders and various investments, the Company will maintain a highly liquid and high quality portfolio.

Our financial results in the future will depend on: (i) our ability to execute on our revised agency model and develop the agencies into a much larger and profitable operation; and (ii) any increase in the value of our minority interest in Iguana Capital where we participate on the board of directors.

### **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 June 30, 2021 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”) commenced an action on May 17, 2017 in the United States District Court, Northern District of Texas, Dallas Division (the “Texas Action”), naming IHC, Madison National Life, Standard Security Life, and Independence Brokerage Group, Inc. (formerly IHC Carrier Solutions, Inc.) as defendants (“Defendants”). The Plaintiff seeks contractual payments allegedly owed by the Defendants 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. The court had previously stayed the proceedings during the pendency of two arbitrations. The first arbitration resulted in a judicially-confirmed award in favor of Standard Security Life and Madison National Life in the amount of \$5,641,000, which the Plaintiff has satisfied. The Company received payment on September 9, 2020 and recorded it in other income on the Consolidated Statement of Income in the third quarter of 2020. The second arbitration resulted in no monetary obligations owed by any of the parties. The Plaintiff has filed a motion for leave to file a Second Amended Complaint. The Defendants have until August 9, 2021 to file an opposition to the motion for leave to amend.

#### **Multistate Market Conduct Examination**

As previously disclosed, our subsidiaries Standard Security Life, Madison National Life and Independence American Insurance Company were selected for MCE related to our STM, limited medical and fixed indemnity limited 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) served as lead states, and the District of Columbia Department of Insurance, Securities and Banking and the Delaware Department of Insurance served as the managing lead states of the MCE. In addition to the five lead states, 37 other states participated in the MCE. Each of Standard Security Life, Madison National Life and Independence American Insurance Company responded to inquiries and document production requests in the MCE and proactively communicated and cooperated with the applicable regulatory agencies for the MCE. Each of these subsidiaries also provided a detailed action plan to regulators that summarized its enhanced compliance and control mechanisms.

In an effort to avoid long-term litigation and/or administrative proceedings that would be required to resolve disputes between Standard Security Life, Madison National Life and Independence American Insurance Company and the states involved in the MCE, the Lead States and Standard Security Life, Madison National Life and Independence American Insurance Company entered into separate RSAs on July 14, 2020. The RSAs require the implementation of a compliance plan, impose certain requirements related to specified business practices and monetary payments. The thirty-seven participating states adopted the RSAs. The Company accrued \$3,660,000 in accounts payable, accruals and other liabilities on the Consolidated Balance Sheet in the second quarter of 2020 and processed payment in October 2020. As set forth in the RSAs, Standard Security Life, Madison National Life and Independence American Insurance Company deny any wrongdoing or violation of any applicable laws or regulations, and the entry into the RSAs is not an admission or acknowledgment of any wrongdoing or liability. In accordance with the RSAs, the Monitoring Period commenced and Standard Security Life, Madison National Life and Independence American Insurance Company continue to comply.

**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, 2020 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 June 30, 2021, 1,535,393 shares were still authorized to be repurchased.

Share repurchases during the second quarter of 2021 are summarized as follows:

2021			
Month of Repurchase	Shares Repurchased	Average Price of Repurchased Shares	Maximum Number of Shares Which Can be Repurchased
April	-	\$ -	1,535,393
May	-	\$ -	1,535,393
June	-	\$ -	1,535,393

**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 \(Filed as Exhibit 3.2 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2013 and incorporated herein by reference\).](#)
- 4.1 [Description of the registrant's securities registered pursuant to Section 12 of the Securities and Exchange Act of 1934, as amended \(Filed as Exhibit 4.1 to our Annual Report on Form 10-K for the year ended December 31, 2020 and incorporated herein by reference\).](#)
- 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 [Amended and Restated Officer Employment Agreement, dated as of March 24, 2020, by and between AMIC Holdings, Inc. and Vincent Furfaro \(filed as Exhibit 10.1 to our Current Report on Form 8-K/A filed with the SEC on April 9, 2020 and incorporated herein by reference\).](#)
- 10.11 [Sale Bonus Agreement, dated July 25, 2018, by and between Independence American Holdings Corp. and Vincent Furfaro \(Filed as Exhibit 10.10 to our Annual Report on Form 10-K for the year ended December 31, 2018 and incorporated herein by reference\).](#)
- 10.12 [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 \(Filed as Exhibit 10.11 to our Annual Report on Form 10-K for the year ended December 31, 2018 and incorporated herein by reference\).](#)
- 10.13 [Sale Bonus Agreement, dated October 15, 2019, by and between Independence American Holdings Corp. and Gary J. Balzofiore \(Filed as Exhibit 10.12 to our Annual Report on Form 10-K for the year ended December 31, 2019 and incorporated herein by reference\).](#)
- 10.14 [Stock Purchase Agreement, dated April 14, 2021, by and among Reliance Standard Life Insurance Company, Independence Capital Corp. and Independence Holding Company \(Filed as Exhibit 10.14 to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2021 and incorporated herein by reference\).](#)
- 10.15 [Stock Purchase Agreement, dated as of May 17, 2021, by and among Independence American Holdings Corp., IHC SB Holdings, LLC, Iguana PP Holdings, Inc., Iguana Capital, Inc. and JAB Holdings B.V.\\*](#)
- 10.16 [Stock Purchase Agreement, dated as of May 17, 2021, by and among Independence Holding Company, Madison Investors Corp., AMIC Holdings Inc., Iguana Acquisition LLC, and JAB Holdings B.V.\\*](#)
- 10.17 [Transaction Bonus Agreement, made and entered into effective as of June 30, 2021, by and among AMIC Holdings Inc., Independence Holding Company, Independence American Holdings Corp., and David T. Kettig.\\*](#)
- 10.18 [Officer Employment Agreement, made as of May 20, 2011, by and between Independence Holding Company and Colleen P. Maggi.\\*](#)

- 10.19 [First Amendment to the Stock Purchase Agreement, dated as of June 28, 2021, by and among Independence American Holdings Corp., IHC SB Holdings, LLC, Iguana PP Holdings, Inc., Iguana Capital, Inc., and JAB Holdings B.V.](#) \*
- 10.20 [Stockholders Agreement, made and entered into as of June 30, 2021, by and among Iguana Capital, Inc., Iguana Holdings Ltd., Iguana Acquisition, LLC and IHC SB Holdings, LLC.](#) \*
- 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. \*
- 104 Cover page formatted as inline XBRL and contained in Exhibit 101.

\* 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: August 9, 2021

By: /s/Colleen P. Maggi  
Colleen P. Maggi  
Corporate Vice President and  
Chief Financial Officer

Date: August 9, 2021