Health Insurance Innovations, Inc.
Form 10-Q
November 14, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2013

or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number: 1-35811

Health Insurance Innovations, Inc.

(Exact name of registrant as specified in its charter)

Delaware 46-1282634

(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

15438 N. Florida Avenue, Suite 201 Tampa, FL	33613
(Address of Principal Executive Offices)	(Zip Code)

(877) 376-5831

(Registrant s telephone number, including area code)

N/A

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	x

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

As of November 7, 2013 the registrant had 5,265,321 shares of Class A common stock, $0.001 par value, outstanding and 8,566,667 shares of Class B common stock, $0.001 par value, outstanding.

HEALTH INSURANCE INNOVATIONS, INC.

(Prior to February 13, 2013 Health Plan Intermediaries, LLC and Subsidiaries)

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PART I FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

HEALTH INSURANCE INNOVATIONS, INC.

(Prior to February 13, 2013 Health Plan Intermediaries, LLC and Subsidiaries)

Consolidated Balance Sheets

($ in thousands, except share amounts)

	September 30, 2013 (unaudited)	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 19,444	$ 750
Cash held on behalf of others	4,072	3,839
Short-term investments	21,414	
Accounts receivable	974	861
Advanced commissions	1,397	297
Prepaid expenses and other current assets	429	217
Total current assets	47,730	5,964
Property and equipment, net of accumulated depreciation	383	213
Capitalized offering costs		1,819
Goodwill	18,014	5,906
Intangible assets, net of accumulated amortization	5,656	3,959
Other assets	30	100
Total assets	$ 71,813	$ 17,961
Liabilities and stockholders /member s equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 1,537	$ 2,062
Carriers and vendors payable	2,877	2,790
Commissions payable	1,166	1,533
Current portion of long-term debt		813
Current portion of noncompete obligation	161	155
Deferred revenue	863	268
Contingent acquisition consideration	2,062	
Income taxes payable	74	
Due to member of Health Plan Intermediaries, LLC		773
Other current liabilities	13	77
Total current liabilities	8,753	8,471
Long-term debt, less current portion		2,481
Contingent acquisition consideration	2,874	
Noncompete obligation	504	626
Due to related parties pursuant to tax receivable agreement	374	

Other liabilities		60		45
Total liabilities		12,565		11,623
Commitments and contingencies				
Stockholders /member s equity:				
Class A common stock (par value $0.001 per share, 100,000,000 shares authorized; 5,309,594 shares issued and 5,277,117 outstanding)		5		
Class B common stock (par value $0.001 per share, 20,000,000 shares authorized; 8,566,667 shares issued and outstanding)		9		
Preferred stock (par value $0.001 per share, 5,000,000 shares authorized; 0 shares issued and outstanding)				
Additional paid-in capital		26,837		
Treasury stock, at cost (32,477 shares)		(377)		
Accumulated deficit		(3,684)		
Member s equity of Health Plan Intermediaries, LLC				6,335
Noncontrolling interests		36,458		3
Total stockholders /member s equity		59,248		6,338
Total liabilities and stockholders /member s equity	$	71,813	$	17,961

See accompanying notes.

HEALTH INSURANCE INNOVATIONS, INC.

(Prior to February 13, 2013 Health Plan Intermediaries, LLC and Subsidiaries)

CONSOLIDATED STATEMENTS OF OPERATIONS

($ in thousands, except per share data)

	Three months ended September 30, 2013 (unaudited)	Three months ended September 30, 2012 (unaudited)	Nine months ended September 30, 2013 (unaudited)	Nine months ended September 30, 2012
Revenues (premium equivalents of $25,977 and $20,792 for the three months ended September 30, 2013 and 2012, respectively, and $72,256 and $54,549 for the nine months ended September 30, 2013 and 2012, respectively)	$ 14,749	$ 11,644	$ 40,818	$ 30,102
Third-party commissions	7,928	7,643	24,438	20,093
Credit cards and ACH fees	313	270	861	693
Contract termination expense			5,500	
Selling, general and administrative expenses	6,348	2,552	16,010	5,786
Depreciation and amortization	423	229	913	771
Total operating costs and expenses	15,012	10,694	47,722	27,343
(Loss) income from operations	(263)	950	(6,904)	2,759
Other expense (income):				
Interest (income) expense	(7)	67	14	194
Other expense (income)	53	(11)	437	(21)
Net (loss) income before income taxes	(309)	894	(7,355)	2,586
(Benefit) provision for income taxes	(823)		472	
Net income (loss)	514	894	(7,827)	2,586
Net income (loss) attributable to noncontrolling interests	106	(43)	(4,143)	(63)
Net income (loss) attributable to Health Insurance Innovations, Inc. and Health Plan Intermediaries, LLC	$ 408	$ 937	$ (3,684)	$ 2,649
Per share data				
Net income (loss) per share attributable to Health Insurance Innovations, Inc.				
Basic	$ 0.09		$ (0.77)	
Diluted	$ 0.08		$ (0.77)	
Weighted average Class A shares outstanding				
Basic	4,795,736		4,768,294	
Diluted	4,861,336		4,768,294	

See accompanying notes.

HEALTH INSURANCE INNOVATIONS, INC.

(Prior to February 13, 2013 Health Plan Intermediaries, LLC and Subsidiaries)

Consolidated Statements of Comprehensive Income (Loss) (unaudited)

($ in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Net income (loss)	$ 514	$ 894	$ (7,827)	$ 2,586
Other comprehensive income:				
Unrealized gain on available-for-sale securities	30			
Comprehensive income (loss)	544	894	(7,827)	2,586
Less: Comprehensive income attributable to noncontrolling interests	15			
Comprehensive income (loss) attributable to Health Insurance Innovations, Inc. and Health Plan Intermediaries, LLC.	$ 529	$ 894	$ (7,827)	$ 2,586

See accompanying notes.

HEALTH INSURANCE INNOVATIONS, INC.

(Prior to February 13, 2013 Health Plan Intermediaries, LLC and Subsidiaries)

Consolidated Statements of Stockholders /Member s Equity (unaudited)

($ in thousands, except share data)

Health Plan Intermediaries, LLC and Subsidiaries		Class A Common Stock		Class B Common Stock			Treasury Stock			
Member s Equity	Noncontrolling Interests	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Shares	Amount	Accumulated Deficit	Noncontroll Interests
$ 6,996	$		$		$	$		$	$	$
3,349	(89)									
	92									
(4,010)										
$ 6,335	$ 3		$		$	$		$	$	$
(248)	(11)									
	10									
(171)										
5,916	2									
(5,916)	(2)									5,918
										5,918
									(3,684)	(3,884
		4,666,667	5			57,750				

				8,666,667	9	(36,453)				36,444
		100,000				1,302				
				(100,000)						(1,302
		542,927				4,276				
						(38)				(52
		(32,477)					32,477	(377)		
										6
										(672
$	$	5,277,117	$ 5	8,566,667	$ 9	$ 26,837	32,477	(377)	$ (3,684)	$ 36,458

See accompanying notes.

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HEALTH INSURANCE INNOVATIONS, INC.

(Prior to February 13, 2013 Health Plan Intermediaries, LLC and Subsidiaries)

Consolidated Statements of Cash Flows

($ in thousands)

	Nine Months Ended September 30, 2013 (unaudited)	2012
Operating activities:		
Net (loss) income	$ (7,827)	$ 2,586
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Stock-based compensation	4,276	
Depreciation and amortization	913	771
Loss on extinguishment of debt	71	
Amortization of deferred financing costs	7	34
Fair value adjustments to contingent acquisition consideration	64	
Changes in operating assets and liabilities:		
Increase in cash held on behalf of others	(233)	(541)
Decrease (increase) in accounts receivable	202	(520)
Increase in advanced commissions	(1,100)	(276)
Decrease in gateway processor deposit		400
(Increase) decrease in prepaid expenses and other assets	(159)	5
Increase in carriers and vendors payable	87	722
(Decrease) increase in accounts payable, accrued expenses and other liabilities	(386)	1,207
(Decrease) increase in commissions payable	(367)	185
Increase in due to related parties pursuant to tax receivable agreement	374	
Increase in deferred revenue	595	196
Increase in income taxes payable	74	
Decrease in amounts due to member of Health Plan Intermediaries, LLC		(126)
Net cash (used in) provided by operating activities	(3,409)	4,643
Investing activities:		
Acquisitions of short-term investments, net	(21,414)	
Business acquisition, net of cash acquired	(9,909)	
Purchases of property and equipment	(113)	(118)
Loans to distributors	(174)	(220)
Proceeds from repayment of loans to distributors	139	125
Payments for deposits	(9)	
Net cash used in investing activities	(31,480)	(213)
Financing activities:		
Repayments of notes payable	(54)	(10)
Repayments of long-term debt	(3,294)	(573)

Payments under noncompete obligation		(116)		
Proceeds from note payable				100
Distributions to member of Health Plan Intermediaries, LLC		(1,617)		(2,763)
Payments for equity issuance		(1,643)		(862)
Purchase of treasury stock		(377)		
Payments under capital leases		(2)		(8)
Issuance of Class A common stock in initial public offering, net of underwriters discount		60,760		
Issuance of Class A common stock in underwriters exercise of over-allotment option		1,302		
Purchase of Series B Membership interests		(1,302)		
Acquisition of noncontrolling interest in subsidiary		(90)		
Contributions from noncontrolling interests		16		50
Net cash provided by (used in) financing activities		53,583		(4,066)
Net increase in cash and cash equivalents		18,694		364
Cash and cash equivalents at beginning of period		750		618
Cash and cash equivalents at end of period	$	19,444	$	982
Supplemental Disclosure of non-cash investing activities:				
Contingent consideration for business acquisition	$	4,937	$	
Software acquired through issuance of trade payable				45
Purchase of insurance through premium financing agreement				21
Noncompete agreement acquired through issuance of long-term payable				843

See accompanying notes.

HEALTH INSURANCE INNOVATIONS, INC.

(Prior to February 13, 2013 Health Plan Intermediaries, LLC and Subsidiaries)

Notes to Consolidated Financial Statements

(Unaudited)

1. Organization, Basis of Presentation and Summary of Significant Accounting Policies

In this quarterly report, unless the context suggests otherwise, references in this report to the Company, we, us and o refer (1) prior to the February 13, 2013 initial public offering (IPO) of the Class A common stock of Health Insurance Innovations, Inc. and related transactions, to Health Plan Intermediaries, LLC (HPI) and its consolidated subsidiaries and (2) after our IPO and related transactions, to Health Insurance Innovations, Inc. and its consolidated subsidiaries. The terms HII , HPIH and ICE refer to the stand-alone entities Health Insurance Innovations, Inc., Health Plan Intermediaries Holdings, LLC, and Insurance Center for Excellence, LLC, respectively. HPIH and ICE are consolidated subsidiaries of HII. The term Secured refers to (a) prior to or at the time of their July 17, 2013 acquisition by us, Sunrise Health Plans, Inc., Sunrise Group Marketing, Inc. and Secured Software Solutions, Inc., collectively, and (b) following our July 17, 2013 acquisition, the entities described in (a) and the limited liability companies into which such entities were converted shortly following such acquisition.

Business Description and Organizational Structure of the Company

Our Business

We are a developer and administrator of affordable individual health insurance plans and supplemental services that are sold throughout the United States. Our main product, short-term medical (STM) insurance, is an alternative to traditional individual major medical plans and generally offers comparable benefits for qualifying individuals. We also offer guaranteed-issue hospital indemnity plans for individuals under the age of 65 and a variety of ancillary products that are frequently purchased together with the STM and hospital indemnity plans as supplements. We design and structure insurance products on behalf of our contracted insurance carrier companies, market them to individuals through a network of distributors, including Secured, a significant distributor which we acquired on July 17, 2013, as described in Note 2 below, and manage our relationships with our customers whom are referred to as members, through our customer service agents. Our sales are primarily executed online and offer real-time fulfillment through our proprietary web-based technology platform, through which we receive credit card and automated clearing house (ACH) payments directly from the members at the time of sale. In certain cases, premiums are collected by the distributor and remitted to us. The plans are underwritten by contracted insurance carrier companies, and we assume no underwriting or insurance risk.

Our History

Our business began operations in 2008, and historically we operated through HPI. In August 2008, Naylor Group Partners, LLC (Naylor) made a capital contribution to HPI in exchange for a 50% ownership interest in HPI. In September 2011, HPI purchased all of the units owned by Naylor for $5.3 million plus financing costs of $135,000. HPI financed a portion of the purchase price by entering into a loan agreement with a bank for $4.3 million. The remaining purchase price was funded with HPI cash and a contribution from Michael Kosloske (Mr. Kosloske), our Chairman, President and Chief Executive Officer. Following the purchase, Mr. Kosloske became the sole member of

HPI.

Our Reorganization and the IPO

HII was incorporated in the State of Delaware on October 26, 2012 to facilitate the IPO and to become a holding company owning as its principal asset membership interests in HPIH. Since November 2012, we have operated our business through HPIH and its consolidated subsidiaries. See Note 6 for more information about the IPO.

In anticipation of the IPO, on November 7, 2012, HPI assigned the operating assets of our business through a series of transactions to HPIH, and HPIH assumed the operating liabilities of HPI.

Our Organizational Structure after the IPO

HII has two classes of outstanding capital stock: Class A common stock and Class B common stock. Class A shares represent 100% of the economic rights of the holders of all classes of our common stock to share in our distributions. Class B shares do not entitle their holders to any dividends paid by, or rights upon liquidation of, HII. Shares of our Class A common stock vote together with shares of our Class B common stock as a single class, except as otherwise required by law. Each share of our Class A common stock and our Class B common stock entitles its holder to one vote. As of September 30, 2013, Mr. Kosloske beneficially owns 61.9% of our outstanding Class A common stock and Class B common stock on a combined basis, which equals his combined economic interest in the Company, and has effective control over the outcome of votes on all matters requiring approval by our stockholders.

HPIH has two series of outstanding equity: Series A Membership Interests, which may only be issued to HII, as sole managing member, and Series B Membership Interests. The Series B Membership Interests are held by HPI and Health Plan Intermediaries Sub, LLC (HPIS), a subsidiary of HPI, and these entities are beneficially owned by Mr. Kosloske. As of September 30, 2013, (i) the Series A Membership Interests held by HII represent 38.1% of the outstanding membership interests, 38.1% of the economic interests and 100% of the voting interests in HPIH and (ii) the Series B Membership Interests held by the entities beneficially owned by Mr. Kosloske represent 61.9% of the outstanding membership interests, 61.9% of the economic interests and no voting interest in HPIH.

For greater detail regarding our organizational structure, our capitalization, the exchange agreement referenced below and related matters, see Item 1. Business Our History and the Reorganization of Our Corporate Structure set forth in our annual report on Form 10-K filed with the Securities and Exchange Commission on April 1, 2013.

Exchange Agreement

On February 13, 2013, we entered into an exchange agreement (the Exchange Agreement) with the holders of Series B Membership Interests. Pursuant to and subject to the terms of the Exchange Agreement and the amended and restated limited liability company agreement of HPIH, holders of Series B Membership Interests, at any time and from time to time, may exchange one or more Series B Membership Interests, together with an equal number of shares of our Class B common stock, for shares of our Class A common stock on a one-for-one basis, subject to equitable adjustments for stock splits, stock dividends and reclassifications. In connection with each exchange, HPIH will cancel the delivered Series B Membership Interests and Class B common stock and issue to us Series A Membership Interests on a one-for-one basis. Thus, as holders exchange their Series B Membership Interests for Class A common stock, our interest in HPIH will increase.

Holders will not have the right to exchange Series B Membership Interests if we determine that such exchange would be prohibited by law or regulation or would violate other agreements to which we may be subject. We may impose additional restrictions on the exchange that we determine necessary or advisable so that HPIH is not treated as a publicly traded partnership for U.S. federal income tax purposes. If the Internal Revenue Service were to contend successfully that HPIH should be treated as a publicly traded partnership for U.S. federal income tax purposes, HPIH would be treated as a corporation for U.S. federal income tax purposes and thus would be subject to entity-level tax on its taxable income.

We and the exchanging holder will each generally bear our own expenses in connection with an exchange, except that, subject to a limited exception, we are required to pay any transfer taxes, stamp taxes or duties or other similar taxes in connection with such an exchange.

Tax Receivable Agreement

The purchase of Series B Membership Interests (together with an equal number of shares of our Class B common stock) with the net proceeds from the sale of shares reserved to cover over-allotments from the IPO, as well as subsequent exchanges of Series B Membership Interests (together with an equal number of shares of our Class B common stock, for shares of our Class A common stock) are expected to increase our tax basis in our share of HPIH s tangible and intangible assets. These increases in tax basis are expected to increase our depreciation and amortization income tax deductions and create other tax benefits and therefore may reduce the amount of income tax that we would otherwise be required to pay in the future.

On February 13, 2013, we entered into a tax receivable agreement with the holders of Series B Membership Interests (currently HPI and HPIS, which are beneficially owned by Mr. Kosloske). The agreement requires us to pay to such holders 85% of the cash savings, if any, in U.S. federal, state and local income tax we realize (or are deemed to realize in the case of an early termination payment, a change in control or a material breach by us of our obligations under the tax receivable agreement) as a result of any possible future increases in tax basis described above and of certain other tax benefits related to entering into the tax receivable agreement, including tax benefits attributable to payments under the tax receivable agreement itself. This is HII s obligation and not an obligation of HPIH. HII will benefit from the remaining 15% of any realized cash savings. For purposes of the tax receivable agreement, cash savings in income tax is computed by comparing our actual income tax liability with our hypothetical liability had we not been able to utilize the tax benefits subject to the tax receivable agreement itself. The tax receivable agreement became effective upon completion of the IPO and will remain in effect until all such tax benefits have been used or expired, unless HII exercises its right to terminate the tax receivable agreement for an amount based on the agreed payments remaining to be made under the agreement or HII breaches any of its material obligations under the tax receivable agreement in which case all obligations will generally be accelerated and due as if HII had exercised its right to terminate the agreement. Any potential future payments will be calculated using the market value of our Class A common stock at the time of the relevant exchange and prevailing tax rates in future years and will be dependent on us generating sufficient future taxable income to realize the benefit. Payments are generally due under the tax receivable agreement within a specified period of time following the filing of our tax return for the taxable year with respect to which payment of the obligation arises. For further information on the tax receivable agreement, see Note 14.

Basis of Presentation

The consolidated financial statements reflect the results of operations of HPI through the closing of the IPO on February 13, 2013, and HII subsequent to the IPO. Intercompany accounts and transactions have been eliminated in consolidation.

Our accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities Exchange Act of 1934 and do not include all of the information and notes required by U.S. generally accepted accounting principles (GAAP) for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments and accruals) considered necessary for a fair presentation of consolidated financial position, results of operations and cash flows have been included. The consolidated balance sheet data for the year ended December 31, 2012 was derived from our audited financial statements, but does not include all the disclosures required by GAAP. For further information, refer to our Annual Report on Form 10-K for the year ended December 31, 2012, including the consolidated financial statements and accompanying notes.

Noncontrolling interests are included in the consolidated balance sheets as a component of stockholders equity that is not attributable to the equity of HII. We report separately the amounts of consolidated net income or loss attributable to us and noncontrolling interests.

As an emerging growth company as defined in the Jumpstart Our Business Startups Act of 2012 (the JOBS Act), we intend to take advantage of certain temporary exemptions from various reporting requirements, including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act and reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements. We have also elected to delay the adoption of new and revised accounting standards until those standards would otherwise apply to nonpublic entities. Our financial statements may therefore not be comparable to those of companies that comply with such new or revised accounting standards. These exemptions will apply for a period of five years following the completion of our IPO although if the market value of our common stock that is held by non-affiliates exceeds $700 million as of any June 30 before that time, we would cease to be an emerging growth company as of the following December 31.

Reclassifications

Certain amounts in the prior year s consolidated financial statements have been reclassified to conform to the current year presentation.

Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements. These estimates also affect the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

Significant Accounting Policies

Except as discussed below, our accounting policies are described in Note 1, Organization, Basis of Presentation and Summary of Significant Accounting Policies, in each of our audited consolidated financial statements for the year ended December 31, 2012 on Form 10-K and our consolidated financial statements for the three and six months ended June 30, 2013 on Form 10-Q.

Recent Accounting Pronouncements

In the following summary of recent accounting pronouncements, all references to effective dates of Financial Accounting Standards Board (FASB   ) guidance relate to nonpublic entities. As noted above, we have elected to delay the adoption of new and revised accounting standards until those standards would otherwise apply to nonpublic companies under provisions of the JOBS Act.

In July 2013, the FASB issued guidance which states that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available as of the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2014, with early adoption permitted. We plan to adopt this guidance during the quarter ended March 31, 2015 and are assessing the potential impact to our consolidated financial statements.

In February 2013, the FASB issued guidance that expanded disclosures for items reclassified out of accumulated other comprehensive income. The standard requires presentation of information about reclassification adjustments from accumulated other comprehensive income in a single note to or on the face of the financial statements. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. We plan to adopt the guidance during the quarter ended March 31, 2014, and do not expect it to have a significant impact our consolidated financial statements.

In July 2012, the FASB issued amended guidance relating to goodwill and other intangible assets which permits an entity to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test in accordance with GAAP. The more-likely-than-not threshold is defined as having a likelihood of more than 50%. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then no further action is required. This guidance was adopted effective as of January 1, 2013. Since this guidance only changes the manner in which we assess indefinite-lived intangible assets for impairment, adoption is expected not have a material effect on our consolidated financial statements.

In December 2011, the FASB issued guidance which requires disclosures of both gross and net information about instruments and transactions eligible for offset as well as transactions subject to an agreement similar to a master netting agreement. This guidance was adopted effective January 1, 2013. As this guidance is limited to presentation only, adoption of this guidance did not have a material impact on our consolidated financial statements.

2. Business Acquisitions

Acquisition of Sunrise Health Plans, Inc. and Affiliates

On July 17, 2013, we consummated a Stock Purchase Agreement (the Purchase Agreement) with Joseph Safina, Howard Knaster and Jorge Saavedra (collectively, the Sellers), pursuant to which we acquired from the Sellers all of the outstanding equity of each in Sunrise Health Plans, Inc., a licensed insurance broker, Sunrise Group Marketing, Inc., a call center and sales lead management company, and Secured Software Solutions, Inc., an intellectual property holding company, each of which was converted to a limited liability company shortly after closing, for a cash payment of $10.0 million plus $6.7 million of contingent consideration described below. The funding of the $10.0 million cash portion of the purchase price was provided primarily from net proceeds from the IPO.

The Sellers may receive contingent cash consideration under an adjustable promissory note issued by us with an initial face amount of $2.75 million, due on June 30, 2015 bearing an interest rate of 5%. Based upon the level of commission revenue attained by the acquired business operations between July 1, 2013 and June 30, 2015, the principal amount may be decreased if such commission revenue does not increase to a minimum threshold that the parties established (the threshold) based upon actual commission revenues during the calendar year ended December 31, 2012. Alternatively, in the event growth in commission revenue increases above the threshold, the note s principal amount may be increased to allow the Sellers to share a portion of the commission growth above the threshold. We and each of the Sellers entered into agreements providing for equity earn-out consideration whereby the Sellers have contingent rights to receive up to $3.75 million based on the achievement of certain performance and financial targets over the three years following the closing. To the extent that such targets are achieved, such earn-out consideration will be paid in our Class A common stock. The stock price used to determine the number of shares to be issued in connection with such earn-out consideration will be determined at the end of the respective performance periods as set forth in each of the forms of Performance Based Stock Award (A) Agreement and Performance Based Stock Award (B) Agreement, copies of which are incorporated by reference to the Current Report on Form 8-K filed on July 23, 2013. The estimated range of potential total contingent consideration is approximately $150,000 to $9.0 million. In connection with the Purchase Agreement, on July 17, 2013, we also entered into employment agreements with the Sellers.

This transaction is expected to provide us with additional benefits such as reduced enterprise risk from enhanced oversight of our distribution, addition of sales lead management expertise to maximize the number of new insurance policies produced by each dollar invested in sales leads, and opportunities through technological and cost-saving synergies.

The following table summarizes the fair value of the consideration for the acquisition as of July 17, 2013 ($ in thousands). The fair values are derived using discount rates related to the probability of the Sellers meeting the thresholds for payment and other risk factors including credit risk.

Cash paid at closing	$ 10,000
Contingent consideration:	
Note payable	1,671
Contingent equity consideration	3,051
Other contingent consideration	150
Total consideration	$ 14,872

The fair value of the note payable and equity contingent consideration is $1.7 million and $3.1 million, as of September 30, 2013 respectively, and is included in contingent acquisition consideration on the accompanying consolidated balance sheet.

The following table summarizes the allocation of the total purchase prices for the acquisition as of July 17, 2013 ($ in thousands):

Cash		$ 91
Accounts receivable and other assets (1)		332
Property and equipment (1)		128
Accounts payable and accrued expenses		(326)
Intangible asset	brand	76
Intangible asset	noncompete agreements	99
Intangible asset	customer relationships-distributors	1,050
Intangible asset	customer relationships-direct	788
Intangible asset	capitalized software	526
Goodwill (2)		12,108
		$ 14,872

(1) The carrying value of accounts receivable and property and equipment acquired approximated fair value; as such, no adjustments to these accounts were recorded in association with the acquisition.

(2) As of September 30, 2013, the amount of goodwill acquired that we expect to be deductible for income tax purposes is $5.6 million.

The goodwill allocated to the purchase price was calculated as the fair value of the consideration less the assets acquired and liabilities assumed. This value is primarily related to expected results of future operations of Secured and the operational and technological synergies we expect to realize as a result of the acquisition.

Related to the acquisition of Secured, during the three and nine months ended September 30, 2013, we recognized $107,000 and $301,000 in transaction costs, respectively. Transaction costs were expensed as incurred and are included in Selling, general and administrative expenses in the accompanying consolidated statements of operations.

As a result of acquiring Secured, our consolidated results of operations include the results of Secured since the acquisition date. Secured s revenues and pre-tax net loss included in our results of operations since the acquisition were $1.3 million and $205,000, respectively, for each of the three and nine months ended September 30, 2013. Net loss before taxes included $166,000 of amortization expense related to the identified intangible assets recorded as a result of the acquisition.

The following table presents unaudited pro forma information for the Company assuming the acquisition of Secured had occurred as of January 1, 2012. This pro forma information does not purport to represent what our actual results would have been if the acquisition had occurred as of the date indicated or what such results would be for any future periods.

	($ in thousands, except per share data)			
	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Revenues	$ 15,162	$ 12,045	$ 43,383	$ 31,997
Net (loss) income before income taxes	(209)	1,170	(5,491)	4,045
Net (loss) income	(226)	1,170	(5,885)	4,045
Net (loss) income attributable to Health Insurance Innovations, Inc. and Health Plan Intermediaries, LLC	(93)	1,213	(1,219)	4,108
Loss per share basic	(0.02)		(0.26)	
Loss per share diluted	(0.02)		(0.26)	

Acquisition of Insurance Center for Excellence, LLC and Other Transactions

On June 1, 2012, HPI and TSG Agency, LLC (TSG) acquired ICE. ICE is a call center training facility for the Company s distributors. In connection with the transaction, HPI received an 80% controlling interest in ICE and was required to contribute $80,000 in capital contributions, and TSG received a 20% noncontrolling interest in the business and was required to contribute $20,000 in capital contributions. Subsequent to the initial contributions, HPI contributed an additional $240,000, and TSG contributed an additional $60,000, respectively, to ICE during the year ended December 31, 2012. During the nine months ended September 30, 2013, we contributed $40,000 to ICE, and TSG contributed $16,000 to ICE. On June 30, 2013, we purchased TSG s 20% interest in ICE for $90,000 and, as a result, ICE is our wholly-owned subsidiary.

ICE entered into employment agreements with employees of The Amacore Group, Inc. (Amacore) contemporaneously with the June 1, 2012 formation of ICE, and at the date of formation, former Amacore employees comprised the full staff of ICE. ICE additionally assumed a month-to-month lease for space that was occupied by Amacore immediately prior to the formation of ICE.

Concurrent with the formation of ICE, ICE additionally entered into a sublease agreement (Lease Agreement) with Amacore for additional space effective June 1, 2012. Under the Lease Agreement, ICE assumed all rights, responsibilities, obligations, terms and conditions of the original lease, which expires on April 30, 2015. Amacore agreed to transfer to ICE a security deposit previously paid by Amacore of approximately $13,000, and Amacore contributed $15,000 to ICE for the purchase of property and equipment, certain office and computer equipment and rights to certain 800 numbers, to ICE that have minimal value. We are recognizing the consideration provided by Amacore as a lease incentive that is being amortized over the term of the lease on a straight-line basis.

Additionally, concurrent with its June 1, 2012 formation, ICE entered into an Agent Producer Agreement and an Assignment of Commissions Agreement with Amacore (collectively referred to as Agent Agreement). Under the Agent Agreement, ICE assigned its commissions with respect to Assurant dental sales to Amacore in return for production incentives, training, marketing materials, commission payments and reporting, advances on commissions and ongoing sales support.

The transaction with Amacore as described above is a business combination, and no assets or liabilities, including intangible assets or goodwill, were recognized other than those described above.

In March 2013, we paid $5.5 million to terminate certain contract rights with TSG. As a result of this transaction, Ivan Spinner, who controls TSG, became an employee of the Company. This transaction was expensed during the nine months ended September 30, 2013, and is included within contract termination expense on the accompanying consolidated statement of operations.

3. Goodwill and Intangible Assets

Goodwill

Our goodwill balance as of January 1, 2012 arose from the acquisition of the Naylor units of HPI as described in Note 1. Our goodwill balance as of September 30, 2013 arose from the Secured acquisition described in Note 2 as well as our goodwill balance existing prior to such acquisition.

The changes in the carrying amounts of goodwill were as follows ($ in thousands):

Balance as of January 1, 2012	$ 5,906
Goodwill acquired	
Impairment of goodwill	
Balance as of December 31, 2012	$ 5,906
Goodwill acquired	12,108
Impairment of goodwill	
Balance as of September 30, 2013	$ 18,014

Other intangible assets

Our other intangible assets arose primarily from the acquisitions described above and consist of a brand, the carrier network, distributor relationships, customer relationships, noncompete agreements and capitalized software. Finite-lived intangible assets are amortized over their useful lives from two to fifteen years.

Major classes of intangible assets as of September 30, 2013 consisted of the following ($ in thousands):

	Weighted-average Amortization	Gross Carrying Amount	Accumulated Amortization	Intangible Asset, net
Brand	2.0	$ 476	$ (408)	$ 68
Carrier network	5.0	40	(16)	24
Distributor relationships	8.8	4,660	(1,046)	3,614
Noncompete agreements	4.8	942	(204)	738
Customer relationships	2.0	788	(82)	706
Capitalized software	2.2	571	(65)	506
Total intangible assets	6.6			