FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-05-13** | Period of Report: **1994-03-31**
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FILER

PIONEER FINANCIAL SERVICES INC /DE
CIK:**799036**| IRS No.: **362479273** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **001-10522** | Film No.: **94528338**
SIC: **6321** Accident & health insurance

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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 March 31, 1994

[ ] Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 [No Fee Required]
For the transition period from to

Commission file number 1-10522

PIONEER FINANCIAL SERVICES, INC.
(Exact name of registrant as specified in its charter)

Delaware	36-2479273
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1750 East Golf Road, Schaumburg, Illinois	60173
(Address of principal executive, offices)	(Zip Code)

Registrant's telephone number, including area code (708) 995-0400

Indicate by a 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

The number of shares of the registrant's common stock, $1.00 par value per share, outstanding as of April 29, 1994 was 6,943,902.

This document consists of 15 sequentially numbered pages.

The exhibit index appears on page 13.

PIONEER FINANCIAL SERVICES, INC. AND SUBSIDIARIES

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEETS (In thousands, except share and per share amounts)

<TABLE>
<CAPTION>

<S>	March 31, 1994 (Unaudited) <C>	December 31, 1993 <C>
ASSETS		
Investments-Note 1		
Securities available for sale		
Fixed maturities, at fair value (cost: $241,821)	$ 238,638	$ -
Fixed maturities, at cost (fair value: $263,263)	-	257,717
Equity securities, at fair value (cost: 1994-$13,647; 1993-$12,382)	18,447	17,436
Fixed maturities held to maturity, at amortized cost (fair value: 1994-$343,734; 1993-$325,540)	365,455	326,512
Mortgage loans--at unpaid balance	2,532	3,201
Real estate--at cost, less accumulated depreciation	14,085	-
Policy loans--at unpaid balance	22,816	23,988
Short-term investments--at cost, which approximates fair value	23,884	45,352

Total Investments	685,857	674,206
Cash	15,532	23,379
Premiums and other receivables, less allowance for doubtful accounts	20,459	20,734
Amounts on deposit and due from reinsurers	73,534	74,366
Accrued investment income	9,028	8,482
Deferred policy acquisition costs	256,832	260,432
Land, building and equipment-at cost, less accumulated depreciation	22,225	22,248
Deferred federal income taxes	5,350	3,922
Other	20,499	20,502
	$1,109,316	$1,108,271

</TABLE>

<TABLE>
<CAPTION>

<S>	March 31, 1994 (Unaudited) <C>	December 31, 1993 <C>
LIABILITIES, REDEEMABLE PREFERRED STOCK, AND STOCKHOLDERS' EQUITY		
Policy liabilities:		
Future policy benefits	$ 605,642	$ 610,734
Unearned premiums	85,416	87,945
Policy and contract claims	187,933	189,389
Other	14,527	15,037
	893,518	903,105
General expenses and other liabilities	58,794	48,442
Short-term notes payable	4,609	5,575
Long-term notes payable	1,050	1,125
Convertible Subordinated Debentures	57,477	57,477
	1,015,448	1,015,724
Redeemable Preferred Stock, no par value: $2.125 cumulative convertible exchangeable preferred stock Authorized: 5,000,000 shares Issued and outstanding: (1994: 927,300 shares; 1993: 947,000 shares)	23,182	23,675
Stockholders' Equity		
Common Stock, $1 par value: Authorized: 20,000,000 shares Issued, including shares in treasury (1994-6,943,900; 1993-6,900,000)	6,944	6,900
Additional paid-in capital	29,101	28,814
Unrealized appreciation of available-for-sale securities	1,051	3,285
Retained earnings	38,412	34,645
Less treasury stock at cost	(4,822)	(4,772)
Total Stockholders' Equity	70,686	68,872
	$1,109,316	$1,108,271

See notes to condensed consolidated financial statements.

</TABLE>

PIONEER FINANCIAL SERVICES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
(In thousands, except per share amounts)

<TABLE>
<CAPTION>

	Three Months Ended March 31,	
<S>	1994 <C>	1993 <C>
Income:		

Premiums and policy charges	$172,898	$155,343
Net investment income	11,104	10,041
Other income and realized gains from investments	7,263	4,328
	191,265	169,712
Benefits and expenses:		
Benefits	121,069	107,058
Insurance and general expenses	42,146	38,648
Interest expense	1,147	474
Amortization of deferred policy acquisition costs	19,980	20,056
	184,342	166,236
INCOME BEFORE INCOME TAXES	6,923	3,476
Federal income taxes	2,423	1,181
NET INCOME	4,500	2,295
PREFERRED STOCK DIVIDENDS	493	507
INCOME APPLICABLE TO COMMON STOCKHOLDERS	$ 4,007	$ 1,788
NET INCOME PER COMMON SHARE		
Primary	$ .60	$ .26
Fully Diluted	$ .40	$ .26
DIVIDENDS DECLARED PER COMMON SHARE	$ .0375	$ -
AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING		
Primary	6,731	6,796
Fully Diluted	13,107	8,321

See notes to condensed consolidated financial statements.
</TABLE>

PIONEER FINANCIAL SERVICES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

(Unaudited) (In thousands)	Three Months Ended March 31, 1994	1993
<S>	<C>	<C>
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 7,953	$ 8,791
INVESTING ACTIVITIES		
Net decrease in short-term investments	21,468	11,754
Purchases of investments	(78,254)	(68,134)
Sale of investments	16,381	25,619
Maturities of investments	27,018	26,474
Net purchase of property and equipment	(521)	(306)
NET CASH USED BY INVESTING ACTIVITIES	(13,908)	(4,593)
FINANCING ACTIVITIES		
Repayments of notes payable	(1,041)	(5,713)
Proceeds from sale of agent receivables	6,784	5,036
Transfer of collections on previously sold agent receivables	(6,920)	(4,969)
Dividends paid	(503)	(510)
Stock options exercised	294	--
Purchase of treasury stock	(50)	(244)
Retirement of preferred stock	(493)	(155)

Other	37	44
NET CASH USED BY FINANCING ACTIVITIES	(1,892)	(6,511)
DECREASE IN CASH	(7,847)	(2,313)
CASH AT BEGINNING OF PERIOD	23,379	18,686
CASH AT END OF PERIOD	$ 15,532	$ 16,373

See notes to condensed consolidated financial statements.

</TABLE>

PIONEER FINANCIAL SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

March 31, 1994

NOTE 1 -- ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month period ended March 31, 1994 are not necessarily indicative of the results that may be expected for the year ended December 31, 1994. For further information, refer to the consolidated financial statements and footnotes thereto included in the Pioneer Financial Services, Inc. ("Pioneer" or "the Company") Annual Report on Form 10-K for the year ended December 31, 1993.

EARNINGS PER SHARE

Primary earnings per share of Common Stock are determined by dividing net income for the period, less dividends on Preferred Stock, by the weighted average number of common stock and common stock equivalents (dilutive stock options) outstanding. Fully diluted earnings per share assumes conversion of the Preferred Stock outstanding and conversion of the Subordinated Debentures with related interest added back to net income. Where the effect of the assumed conversion on net earnings would be antidilutive, fully diluted earnings per share represents the primary amount. (See discussion in Exhibit 11 on page 14).

NEW ACCOUNTING STANDARD

In May 1993, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards 115, "Accounting for Certain Investments in Debt and Equity Securities". As of January 1, 1994 the Company adopted the provisions of that standard. The effect as of January 1, 1994 of adopting Statement 115 increased stockholders equity by $3,605,000 (net of adjustments to deferred income taxes) to reflect the net unrealized holding gains on securities previously carried at amortized cost; there was no effect on net income as a result of the adoption of Statement 115. In the three month period ended March 31, 1994 those net unrealized holding gains decreased by $5,674,000 (net of adjustments to deferred income taxes). The net unrealized depreciation in the first quarter was due to the recent increase in interest rates.

NOTE 2 -- STOCKHOLDERS' EQUITY

The statutory accounting practices prescribed for Pioneer's insurance subsidiaries by regulatory authorities differ from GAAP. The combined statutory-basis capital and surplus of Pioneer's direct insurance subsidiaries was $106,628,000 and $106,567,000 at March 31, 1994 and December 31, 1993, respectively. Statutory net income of the insurance subsidiaries amounted to $692,000 and $1,034,000 for the three month periods ended March 31, 1994 and 1993, respectively.

NOTE 3 -- INVESTMENTS

Realized investment gains for the three month periods ended March 31, 1994 and 1993 were $253,000 and $187,000, respectively.

NOTE 4 -- CONTINGENCIES

Pioneer and its subsidiaries are named as defendants in various legal actions, some claiming significant damages, arising primarily from claims under insurance policies, disputes with agents, and other items. On May 11, 1994 the California Insurance Department filed complaints against a subsidiary of the Company for alleged violations of California consumer protection rules. Pioneer's management and its legal counsel are of the opinion that the disposition of these actions will not have a material adverse effect on Pioneer's financial position.

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

Results of Operations - First Three Months of 1994 Compared to First Three Months of 1993.

Division Overview

The income (loss) before income taxes by division for the first quarter of 1994 and 1993 respectively, are as follows (in thousands):

	Three Months Ended March 31, 1994	1993
Insurance:		
Accident and Health	$ 3,627	$ 1,322
Life and Annuity	2,442	2,203
Marketing	3,066	824
Managed Care	101	61
Corp. Expenses & Interest	(2,313)	(934)
Total	$ 6,923	$ 3,476

Accident and Health

The increase in pre-tax income for the three month period was primarily due to continued cost reduction programs which reduced the general expense ratio approximately 1%. The 1994 accident and health loss ratios were consistent with the prior year. The continued improvement in medicare supplement experience was offset by higher than projected claims on the Company's major hospital products.

Life and Annuity

The results for the first quarter of 1994 were consistent with prior year amounts. The unit cost per policy in-force decreased from $80 in 1993 to $72 in the first quarter of 1994. The mortality in the first quarter of 1994 was slightly higher than levels experienced in the same period last year. Despite the overall decline in the Company's investment yields in 1994, the interest spread on life and annuity business continued to improve due to an aggressive crediting rate strategy.

Marketing

The increase in pre-tax income in 1994 as compared to 1993 is due to a 28% increase in revenue coupled with cost reductions from the consolidation of the division's career agent distribution system.

Managed Care

Managed care operations showed a small profit for the quarter similar to the first quarter of 1993. The improvement compared to losses experienced the last three quarters of 1993 was due to the elimination of an unprofitable operating subsidiary in the fourth quarter of 1993.

Corporate Expenses and Interest

Interest expense increased in 1994 as compared to 1993 due to the issuance of the convertible subordinated debentures in July 1993. Corporate general expense also increased due to the Company's increased investor relations programs.

CONSOLIDATED FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company reported consolidated net income of $4,500,000 for the quarter ended March 31, 1994 as compared to $2,295,000 for the comparable period in 1993.

Total premiums and policy charges increased $17,555,000 or 11% for the three month period in 1994 as compared to 1993. Accident and health premiums increased $16,708,000 or 11% for the three month period in 1994 compared to 1993. The premium increase was primarily attributable to increased premiums from major hospital products. A major portion of this increase in premiums was due to the acquisition of Continental Life & Accident Company (CLAC) completed in August 1993. Total premiums attributable to the remaining mix of Medicare supplement and long-term care products decreased $7,620,000 or 13% for the three month period in 1994 as compared to 1993.

Net investment income increased $1,063,000 or 11% for the three month period in 1994 as compared to 1993. Annualized investment yields decreased for the three month period from 7.3% to 6.6% in 1994 as compared to 1993. The decrease in the investment yield is due to the shortening of the Company's average duration and the excess cash position maintained in the first two months of the quarter due to the volitility of the financial markets.

Other income and realized investment gains increased $2,935,000 or 68% for the three month period in 1994 as compared to 1993. The increase in other income was due to the acquisition of Healthcare Review Corporation and CLAC. In addition, the Company realized increased sales to unaffiliated customers in both the Marketing and Managed Care Divisions. Realized investment gains as well as the remaining other income generated by the Company's non-insurance subsidiaries remained relatively unchanged.

Total benefits increased $14,011,000 or 13% for the three month period in 1994 as compared to 1993. Accident and health benefits, which include the change in unearned premiums, increased $14,132,000 or 15% for the three month period in 1994 as compared to 1993. The increase for the three month period was due primarily to the increased amount of collected premiums. The accident and health loss ratio increased to 68% from 66% for the three month period in 1994 as compared to the same period in 1993. The higher loss ratios were primarily due to the change in product mix from the acquisition of CLAC. The loss ratio on the existing block of business was consistent with prior year levels. Improved loss ratios on the medicare supplement products were offset by higher than projected claims on the major hospital business. Life and annuity benefits decreased $121,000 or 1% for the three month period in 1994 as compared to 1993. The decrease is due to a decrease in crediting rates on interest sensitive life and annuity products.

The general expenses as a percent of premiums decreased for the three month period in 1994 as compared to the same period in 1993 due to the continued emphasis on cost reduction in the Accident and Health and Life Insurance Units. However, insurance and general expenses (which includes commission compensation to agents) increased $3,498,000 or 9% for the three month period in 1994 as compared to 1993 due to the 11% increase in premium and policy charges primarily from the acquisition of CLAC.

Amortization of deferred policy acquisition costs decreased $76,000 for the three months in 1994 as compared to 1993 due to slightly reduced levels of new business. The Company continues to monitor the profitability of its business on a quarterly basis. Increased lapses or unprofitability on the business could result in an increase in the amortization rate of deferred policy acquisition costs, which would adversely impact future earnings.

The effective federal income tax rates increased in 1994 due to the Revenue Reconciliation Act of 1993.

President Clinton presented his health care reform policy in September 1993. Numerous proposals have been introduced to Congress and the state legislatures to reform the current health care system. Proposals have included, among other things, modifications to the existing employer-based insurance system, a quasi-regulated system of "managed competition" among health plans and a single payer, public program which would replace some of the Company's current major hospital products. Changes in health care policy could significantly affect the Company's Health Unit. The Company is unable to accurately predict what effects these reforms may have on its future operations and is unable to evaluate what impact the expectations of such reforms may have had on past consumer behavior. The Company expects the final package approved by Congress will differ significantly from the program presented by President Clinton.

The Company acquired its corporate headquarters in Schaumburg, Illinois in January 1994. General expenses and other liabilities increased due to the timing of payments due reinsurers. The remaining balance sheet accounts remained relatively consistent with December 31, 1993.

LIQUIDITY AND CAPITAL RESOURCES

The Company's consolidated liquidity requirements are created and met primarily by operations of its insurance subsidiaries. The insurance subsidiaries' primary sources of cash are premiums, investment income, and investment sales and maturities. The primary uses of cash are operating costs, policy acquisition costs, payments to policyholders and investment purchases.

In addition, liquidity requirements of the Company are created by the dividend requirements of the $2.125 Preferred Stock, common stock dividends, interest payments on the Convertible Subordinated Debentures and other debt service requirements. The Company's liquidity requirements are met primarily by dividends declared by its subsidiaries. Payments of dividends by the insurance subsidiaries to the Company is subject to certain regulatory restrictions.

The Company's life and health insurance subsidiaries require capital to fund acquisition costs incurred in the initial year of policy issuance and to maintain adequate surplus levels for regulatory purposes. These capital requirements have been met principally from internally generated funds, including premiums and investment income, and capital provided from reinsurance and the financing or sale of agent debit balances.

The Company has offered agent commission financing to certain of its agents and marketing organizations which consists primarily of annualization of first year commissions. This means that when the first year premium is paid in installments, the Company will advance a percentage of the commissions that the agent would otherwise receive over the course of the first policy year. On October 31, 1990, the Company through a subsidiary entered into an agreement with an unaffiliated corporation to provide financing for its agent commission financing program through the sale of agent receivables. Proceeds from such sales for the three month period ended March 31, 1994 and 1993 were $6.7 million and $5.0 million, respectively. This financing program was replaced with an amended agreement which was executed on October 1, 1992, to provide such subsidiary with the same type of financing. Pursuant to this amended agreement the termination date of the program is December 31, 1994, subject to extension or termination as provided therein.

In July 1993 the Company issued $57.5 million of 8% convertible subordinated debentures due 2000. Net proceeds from the offering totaled approximately $54 million. The debentures are convertible into the Company's common stock at any time prior to maturity, unless previously redeemed, at a conversion price of $11.75 per share.

In August 1993 a subsidiary of the Company borrowed $1,500,000 to finance the acquisition of Healthcare Review Corporation. Interest on the note is payable quarterly at six percent. The note requires principal repayments of $75,000 per quarter through July 31, 1998.

The Company has a line of credit arrangement for short-term borrowings with three banks amounting to $20,000,000 through April 1996, all of which was unused at March 31, 1994. The line of credit arrangement can be terminated, in accordance with the agreement, at the Company's option.

In March 1994, the Company's Board of Directors announced a quarterly Common Stock dividend of 3.75 cents per share, with an expectation of a total of 15 cents per share to be paid for 1994.

Management believes that the diversity of the Company's investment portfolio and the liquidity attributable to the large concentration of investments in highly liquid United States government agency securities provide sufficient liquidity to meet foreseeable cash requirements. Because the Company's insurance subsidiaries experience strong positive cash flows, including sizeable monthly cash flows from mortgage-backed securities, the Company does not expect its insurance subsidiaries to be forced to sell the held to maturity investments prior to their maturities and realize material losses or gains. However, if the Company experiences changes in credit risk, it may be required to sell assets whose fair value is less than carrying value and incur losses.

Life insurance and annuity liabilities are generally long term in nature although subject to earlier surrender as a result of the policyholder's ability to withdraw funds or surrender the policy, subject to surrender and withdrawal penalties. The Company believes its policyholder liabilities should be backed by an investment portfolio that generates predictable investment returns. The Company seeks to limit exposure to risks associated with interest rate fluctuations by concentrating its invested assets principally in high quality, readily marketable debt securities of intermediate duration and by attempting to balance the duration of its invested assets with the estimated duration of benefit payments arising from contract liabilities.

The Company has no material commitments for capital expenditures at the present time.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit 11 - Statement of Computation of Per Share Earnings

(b) Reports on Form 8-K

The Company filed no reports on Form 8-K during the first quarter of 1994.

EXHIBIT 11

PIONEER FINANCIAL SERVICES, INC.
STATEMENT OF COMPUTATION OF PER SHARE EARNINGS

(In thousands, except per share amounts)
(Unaudited)

<TABLE>
<CAPTION>

	Three Months Ended March 31, 1994	Three Months Ended March 31, 1993
<S>	<C>	<C>
Net income	$ 4,500	$ 2,295
Average shares outstanding	6,380	6,796
Common Stock equivalents from dilutive stock options, based on the treasury stock method using average market price	351	--
TOTAL-PRIMARY	6,731	6,796
Additional shares assuming conversion of Preferred Stock	1,484	1,525
Additional shares assuming conversion of		

Subordinated Debentures	4,892	--
TOTAL-FULLY DILUTED	13,107	8,321
Net income per share- Primary*	$ .60	$ .26
Net income per share- Fully Diluted**	$ .40	$ .26

* Primary earnings per share were calculated after deducting dividends on Preferred Stock of $493,000 in 1994 and $507,000 in 1993.

** Fully diluted net income per share was calculated after adding tax effected interest on Subordinated Debentures of $747,000 for the three month period ending March 31, 1994. Fully diluted net income per share for the three month period ending March 31, 1993 is equivalent to primary net income per share because conversion of the Preferred Stock was antidilutive.

SIGNATURES

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

Pioneer Financial Services, Inc.

/s/ Peter W. Nauert
Date Peter W. Nauert
Chairman and Chief Executive Officer

/s/ David I. Vickers
Date David I. Vickers
Treasurer and Chief Financial Officer

</TABLE>