INDEPENDENCE HOLDING CO
Form 10-Q
August 12, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

[X]

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the quarterly period ended **June 30, 2010.**

[ ]

Transition Report under Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the transition period from: _____ to _____

Commission File Number: **0-10306**

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, CONNECTICUT 06902

(Address of principal executive offices) (Zip Code)

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

NOT APPLICABLE

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 [ ] 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 definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer [ ]

Accelerated Filer [ ]

Non-Accelerated Filer [X]

Smaller Reporting Company [ ]

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

Class	**Outstanding at August 12, 2010**
Common stock, $ 1.00 par value	**15,232,865 Shares**

INDEPENDENCE HOLDING COMPANY

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Copies of the Company s SEC filings can be found on its website at www.ihcgroup.com.

Forward-Looking Statements

This report on Form 10−Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which are intended to be covered by the safe harbors created by those laws. We have based our forward-looking statements on our current expectations and projections about future events. Our forward-looking statements include information about possible or assumed future results of our operations. All statements, other than statements of historical facts, included or incorporated by reference in this report that address activities, events or developments that we expect or anticipate may occur in the future, including such things as the growth of our business and operations, our business strategy, competitive strengths, goals, plans, future capital expenditures and references to future successes may be considered forward-looking statements. Also, when we use words such as anticipate, believe, estimate, expect, intend, 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)

	June 30, 2010	**December 31, 2009**
	(Unaudited)	
ASSETS:		

Investments:		
Short-term investments	$ 53	$ 52
Securities purchased under agreements to resell	26,635	

	42,708
Fixed maturities, available-for-sale	
	787,216
	689,863
Equity securities, available-for-sale	
	50,416
	60,815
Other investments	
	36,668

		37,643
	Total investments	
		900,988
		831,081
	Cash and cash equivalents	
		12,599
		7,394

Due from securities brokers	
	33,685
	5,579
Investment in American Independence Corp. ("AMIC")	
	-
	19,234
Deferred acquisition costs	
	39,631
	44,244

Due and unpaid premiums		
	47,770	
	48,731	
Due from reinsurers		
	172,830	
	184,583	
Premium and claim funds		
	45,453	
	43,663	

Notes and other receivables	
	19,640
	13,528
Goodwill	
	51,700
	48,859
Other assets	
	64,821
	57,580

TOTAL ASSETS	$ 1,389,117	$ 1,304,476
LIABILITIES AND EQUITY:		

LIABILITIES:

Insurance reserves-health	$ 187,603	$ 184,146
Insurance reserves-life and annuity	275,586	270,987

Funds on deposit	
	410,331
	408,298
Unearned premiums	
	11,342
	13,217
Policy claims-health	
	18,599
	18,655
Policy claims-life	

	12,474
	11,392
Other policyholders' funds	
	20,158
	20,517
Due to securities brokers	
	39,555
	8,187
Due to reinsurers	

	36,230
	45,516
Accounts payable, accruals and other liabilities	
	71,758
	71,362
Liabilities related to discontinued operations	
	1,085
	1,546
Debt	

	9,000
	9,000
Junior subordinated debt securities	
	38,146
	38,146
TOTAL LIABILITIES	
	1,131,867

1,100,969

EQUITY:

IHC STOCKHOLDERS' EQUITY:

Preferred stock (none issued)

-

-

Common stock $1.00 par value, 20,000,000 shares authorized;

15,471,860 and 15,459,720 shares issued;

15,232,705 and 15,426,965 shares outstanding	
	15,472
	15,460
Paid-in capital	
	100,784
	100,447
Accumulated other comprehensive income (loss)	
	1,827
	(7,104)

Treasury stock, at cost 239,155 and 32,755 shares	(1,917)
	(326)
Retained earnings	111,817
	94,490
TOTAL IHC STOCKHOLDERS EQUITY	

	227,983
	202,967
NONCONTROLLING INTERESTS IN SUBSIDIARIES	
	29,267
	540
TOTAL EQUITY	

257,250

203,507

TOTAL LIABILITIES AND EQUITY

$ 1,389,117

$ 1,304,476

See the accompanying Notes to Condensed Consolidated Financial Statements.

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009		

	2010	2009
REVENUES:		
Premiums earned:		
Health	$ 75,822	

$

68,287

$

137,664

$

134,925

Life and annuity

8,792

8,794

17,834

18,589

Net investment income

10,131

11,428

19,502

					22,147
Fee income					
					9,681
					7,870
					17,241
					16,329
Net realized investment gains					
					1,634
					1,262
					1,983
					2,927
Other-than-temporary impairment losses					
					(1,039)

					-
					(2,665)
					(271)
					Equity income from AMIC
					-
					235
					280
					928
					Gain on bargain purchase of AMIC
					-
					-
					27,830

-

Other income	
	1,410
	2,107
	3,112
	3,204
	106,431
	99,983
	222,781
	198,778
EXPENSES:	

Insurance benefits, claims and reserves:	
Health	
	53,252
	48,444
	96,815
	92,240
Life and annuity	

			11,427	
			11,979	
			24,692	
			24,379	
	Selling, general and administrative expenses			
			36,390	
			34,991	
			67,825	
			71,469	
	Amortization of deferred acquisitions costs			
			1,720	
			1,300	

	3,038
	2,350
Interest expense on debt	
	477
	761
	948
	1,531
	103,266
	97,475
	193,318
	191,969
Income from continuing operations	

before income taxes	
	3,165
	2,508
	29,463
	6,809
Income taxes	
	847
	545

10,768

1,497

	Income from continuing operations
	2,318
	1,963
	18,695
	5,312

Discontinued operations:	
Loss from discontinued operations, net of tax	(55)
	(117)

(182)

(354)

Net income

2,263

1,846

18,513

4,958

(Income) loss from noncontrolling interests in subsidiaries	
	(565)
	13
	(781)
	20

	NET INCOME ATTRIBUTABLE TO IHC
	$
	1,698
	$
	1,859
	$
	17,732
	$
	4,978
Basic income per common share:	

Income from continuing operations	$	.11	$	.13	$	1.17	$	.35
Loss from discontinued operations		-		(.01)				

	(.01)
	(.03)
Basic income per common share	
	$ .11
	$ .12
	$ 1.16
	$ .32

WEIGHTED AVERAGE SHARES OUTSTANDING

	15,266
	15,419
	15,303
	15,413
Diluted income per common share:	

Income from continuing operations	$	.11	$	.13	$	1.17	$	.35
Loss from discontinued operations		-		(.01)		(.01)		(.03)
Diluted income per common share	$							

.11	
$	
.12	
$	
1.16	
$	
.32	

WEIGHTED AVERAGE DILUTED SHARES OUTSTANDING
15,268
15,419
15,306

15,415

See the accompanying Notes to Condensed Consolidated Financial Statements.

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Unaudited)

SIX MONTHS ENDED JUNE 30, 2010 (In thousands)

ACCUMULATED

NON-

OTHER

TREASURY

TOTAL IHC

CONTROLLING

COMMON

PAID-IN

COMPREHENSIVE

STOCK,

RETAINED

STOCKHOLDERS'

INTERESTS IN

TOTAL

STOCK

CAPITAL

INCOME (LOSS)

AT COST

EARNINGS

EQUITY

SUBSIDIARIES

EQUITY

BALANCE AT

	DECEMBER 31, 2009
$	15,460
$	100,447
$	(7,104)
$	(326)

	$	94,490	$	202,967	
	$	540	$	203,507	

Net income

	17,732
	17,732
	781
	18,513
Net change in unrealized	

gains (losses)

8,931

8,931

-

8,931

Total comprehensive

income

	26,663
	781
	27,444

Repurchase of common stock	
	(1,591)
	(1,591)
	-
	(1,591)
Acquisition of MedWatch	

-

480

480

Acquisition of HBA

-

480

480

Acquisition of American

Independence Corp.

(4)

	(4)
	26,960
	26,956
Common Stock dividend	

($0.025 Per share)

(381)

(381)

-

(381)

Share-based compensation

expenses and related

tax benefits	
	12
	292
	304
	-
	304
Other capital transactions	

49

(24)

25

26

51

BALANCE AT

JUNE 30, 2010

$

15,472

$

100,784

$

1,827

$

(1,917)

$

111,817

$

227,983

$

29,267

$

257,250

See the accompanying Notes to Condensed Consolidated Financial Statements.

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands) (Unaudited)

	Six Months Ended June 30,	
	2010	**2009**
CASH FLOWS PROVIDED BY (USED BY) OPERATING ACTIVITIES:		
Net income	$	

	18,513
	$
	4,958
Adjustments to reconcile net income to net change in cash from	
operating activities:	
Gain on bargain purchase of AMIC	
	(27,830)

-

Loss from discontinued operations	
	182
	354
Amortization of deferred acquisition costs	
	3,038
	2,350
Net realized investment gains	
	(1,983)
	(2,927)

Other-than-temporary impairment losses	2,665
	271
Equity income from AMIC and other equity method investments	(487)
	(1,346)
Depreciation and amortization	2,461
	2,742
Share-based compensation expenses	

	348
	341
Deferred tax (benefit) expense	
	12,811
	(996)
Other	
	666
	296
Changes in assets and liabilities:	

Change in insurance liabilities	(21,980)
	(8,724)
Additions to deferred acquisition costs, net	(2,170)
	(1,477)
Change in net amounts due from and to reinsurers	11,075
	(47,109)
Change in premium and claim funds	

	2,556
	6,455
Change in income tax liability	
	(2,820)
	4,526
Change in due and unpaid premiums	
	10,763
	4,627
Change in other assets	
	1,400

	3,768
Change in other liabilities	
	(11,182)
	1,582
Net change in cash from operating activities of continuing operations	
	(1,974)
	(30,309)
Net change in cash from operating activities of discontinued operations	
	(767)

	(1,598)
Net change in cash from operating activities	
	(2,741)
	(31,907)
CASH FLOWS PROVIDED BY (USED BY) INVESTING ACTIVITIES:	
Change in net amount due from and to securities brokers	

	2,913
	4,790
Net purchases of short-term investments	
	-
	(1)
Net sales of securities under resale and repurchase agreements	
	17,376
	37,025
Sales of equity securities	
	28,613

	13,672
Purchases of equity securities	
	(17,022)
	-
Sales of fixed maturities	
	379,878
	273,842
Maturities and other repayments of fixed maturities	
	67,702
	77,557

Purchases of fixed maturities	(473,161)
	(375,372)
Additional investments in other investments, net of distributions	1,428
	74
Cash acquired in acquisition of AMIC, net of cash paid	4,562
	-

Cash paid in acquisitions of companies, net of cash acquired	(3,469)
	(275)
Cash received in acquisition of policy blocks	1,192
	-
Change in notes and other receivables	(705)
	893
Other	

	(993)
	(1,182)
Net change in cash from investing activities	
	8,314
	31,023
CASH FLOWS PROVIDED BY (USED BY) FINANCING ACTIVITIES:	

Proceeds from issuance of common stock	-
	1
Repurchases of common stock	(1,591)
	-
Excess tax expense from expired stock options and vesting of restricted stock	(22)
	(95)

Proceeds of investment-type insurance contracts	1,587
	473
Dividends paid	
	(386)
	(385)
Other capital transactions	
	44
	-
Net change in cash from financing activities	

	(368)
	(6)
Net change in cash and cash equivalents	
	5,205
	(890)
Cash and cash equivalents, beginning of year	
	7,394
	7,767

Cash and cash equivalents, end of period	$	12,599
	$	6,877

See the accompanying Notes to Condensed Consolidated Financial Statements.

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 1.

Significant Accounting Policies and Practices

(A)

Business and Organization

Independence Holding Company, a Delaware corporation ("IHC"), is a holding company principally engaged in the life and health insurance business through: (i) its wholly owned insurance companies, Standard Security Life Insurance Company of New York ("Standard Security Life") and Madison National Life Insurance Company, Inc. ("Madison National Life"); (ii) its majority owned insurance company, Independence American Insurance Company (Independence American); and (iii) its marketing and administrative companies, including IHC Administrative Services, Inc., managing general underwriters ("MGUs") in which it owns a significant voting interest, IHC Health Solutions, Inc. (IHC Health Solutions), and Actuarial Management Corporation (AMC). These companies are sometimes collectively referred to as the "Insurance Group," and IHC and its subsidiaries (including the Insurance Group) are sometimes collectively referred to as the "Company." IHC also owns a 50.1% interest in American Independence Corp. (AMIC).

Geneve Corporation, a diversified financial holding company, and its affiliated entities held approximately 54% of IHC's outstanding common stock at June 30, 2010.

(B)

Basis of Presentation

The 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 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; (ii) the disclosure of contingent assets and liabilities at the date of the financial statements; and (iii) 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 Condensed Consolidated Financial Statements.

IHC acquired a controlling interest in AMIC on March 5, 2010. Prior to obtaining control, IHC recorded its investment in AMIC using the equity method. IHC recorded changes in its investment in AMIC in the Equity income from AMIC line in the Condensed Consolidated Statements of Operations. Upon achieving control, on March 5, 2010, AMIC s income and expense amounts became consolidated with IHC s results. The Condensed Consolidated Balance Sheet at June 30, 2010 includes the consolidated balance sheet of AMIC.

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, 2010 are not necessarily indicative of the results to be anticipated for the entire year.

(C)

Recent Accounting Pronouncements

Recently Adopted Accounting Standards

In January 2010, the Financial Accounting Standards Board (FASB) issued standards requiring new disclosures regarding (i) transfers in and out of Level 1 and Level 2 fair value measurements and (ii) activity in Level 3 fair value measurements. This guidance also clarifies existing disclosures regarding (i) the level of asset and liability disaggregation and (ii) fair value measurement inputs and valuation techniques. The guidance is effective for interim and annual periods beginning after December 15, 2009, except for the requirement to provide Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2010; early adoption is permitted. The adoption of this guidance, effective January 1, 2010, did not have a material effect on the Company's consolidated financial statements.

In June 2009, the FASB issued standards which among other things, amends former guidance on the consolidation of variable interest entities. The standards (i) require an entity to perform an analysis to determine whether an entity's variable interest or interests give it a controlling financial interest in a variable interest entity; (ii) require ongoing reassessments of whether an entity is the primary beneficiary of a variable interest entity and eliminate the quantitative approach previously required for determining the primary beneficiary of a variable interest entity; (iii) amend previous guidance for determining whether an entity is a variable interest entity; and (iv) require enhanced disclosure that will provide users of financial statements with more transparent information about an entity's involvement in a variable interest entity. In December 2009, these standards were added to the Accounting Standards Codification (Codification). The adoption of this guidance, effective January 1, 2010, did not have a material effect on the Company's consolidated financial statements.

In June 2009, the FASB issued standards to revise previous authoritative guidance related to accounting for transfers of financial assets, and will require more disclosures about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. In December 2009, these standards were added to the Codification. Among other things, the guidance eliminates the concept of a "qualifying special-purpose entity", changes the requirements for derecognizing financial assets and enhances information reported to users of financial statements by providing greater transparency about transfers of financial assets and an entity's continuing involvement in transferred financial assets. The guidance was effective for the first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter with earlier application prohibited. The recognition and measurement provisions shall be applied to transfers that occur on or after the effective date. The adoption of this guidance, effective January 1, 2010, did not have a material effect on the Company's consolidated financial statements.

Recently Issued Accounting Standards Not Yet Adopted

In April 2010, the FASB issued guidance on the accounting effect, if any, that arises from the different signing dates between the Health Care and Education Reconciliation Act of 2010, which is a reconciliation bill that amends the Patient Protection and Affordable Care Act. This guidance is applicable for registrants with a period end that falls between the signing dates for which the timing difference could have an accounting impact. The adoption of this guidance is not expected to have a material effect on the Company's consolidated financial statements.

(D)

Reclassifications

Certain amounts in prior years' Condensed Consolidated Financial Statements and Notes thereto have been reclassified to conform to the 2010 presentation.

(E)

Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are issued or are available to be issued. The Company has evaluated all such events occurring subsequent to the balance sheet date herein of June 30, 2010. The effects of all subsequent events that provided additional evidence about conditions that existed at the date of the balance sheet, including estimates, if any, have been recognized in the accompanying Condensed Consolidated Balance Sheet and Condensed Consolidated Statements of Operations as of and for the three-month and six-month periods ended June 30, 2010. The Company did not recognize subsequent events that provided evidence about conditions that arose after the balance sheet date.

Note 2.

American Independence Corp.

AMIC is an insurance holding company engaged in the insurance and reinsurance business. AMIC does business with the Insurance Group, including reinsurance treaties under which, in 2009, Standard Security Life and Madison National Life ceded to Independence American an average of 23% of their medical stop-loss business, 9% of a majority of their fully insured health business and 20% of their New York Statutory Disability business.

In March 2010, IHC acquired a controlling interest in AMIC as a result of the purchase of AMIC common stock in the open market. The principal reasons for acquiring control were: (i) the low market price of the AMIC stock; (ii) the improved financial presentation for IHC resulting from the consolidation of financial reporting; and (iii) a closer relationship that will create greater long-term value for both companies. The acquisition furthers IHC's goal of creating efficiencies by integrating the back office operations of our MGUs and marketing companies. Share purchases of 27,668 shares, or $141,000, through March 5, 2010 (the "Acquisition Date"), totaling 0.33% of voting equity interest, brought the total of AMIC shares owned by the Company to more than 50% of AMIC's outstanding common stock and as a result, IHC has included AMIC s consolidated assets and liabilities and results of operations subsequent to the Acquisition Date in its condensed consolidated financial results as of and for the period ended June 30, 2010. At December 31, 2009, IHC owned 49.7% of AMIC's outstanding common stock which was purchased in various transactions from 2002 through 2008 and accounted for its investment in AMIC under the equity method. In the fourth quarter of 2009, under the equity method of accounting, due to the length of time, and the magnitude of the amount by which the quoted market price of AMIC had been below IHC s carrying value, the Company recorded an other-than-temporary impairment loss of $29,198,000 on its investment in AMIC. At December 31, 2009, the carrying value of IHC's investment in AMIC was $19,234,000.

In determining the bargain purchase gain with regard to the acquisition of the controlling interest in AMIC, IHC first recognized a gain of $2,201,000 as a result of remeasuring its equity interest in AMIC to its fair value of $22,013,000 immediately before the acquisition based on the closing market price of AMIC's common stock. Then, upon the acquisition of a controlling interest on March 5, 2010, the Company consolidated the net assets of AMIC. Accordingly, the Company determined the fair value of the identifiable assets acquired and liabilities assumed from AMIC on the Acquisition Date. The fair value of the net assets acquired exceeded the sum of: (i) the fair value of the consideration paid; (ii) the fair value of IHC s equity investment prior to the acquisition; and (iii) the fair value of the noncontrolling interests in AMIC, resulting in a bargain purchase gain of $25,629,000. The total gain, amounting to $27,830,000, pre-tax, is included in gain on bargain purchase of AMIC on the Company s Condensed Consolidated Statement of Operations. This gain is a result of the quoted market price of AMIC being significantly less than the fair value of the net assets of AMIC. This disparity is due to the low trading volume in AMIC shares, and a discount on the shares traded due to a lack of control by minority shareholders. The fair value of the noncontrolling interests in AMIC was based on the closing market price of AMIC s common stock on the Acquisition Date.

In connection with the acquisition, the Company recorded $12,200,000 of intangible assets. Of this amount, $1,700,000 represents the fair value of agent and marketing contracts and relationships, $1,000,000 represents the fair value of a domain name, and $2,000,000 represents the fair value of customer lists and all are amortizable over the life of the respective intangible asset. The remaining $7,500,000 represents non-amortizable intangible assets consisting of the fair value of insurance licenses with indefinite lives. As the AMIC acquisition was accounted for as a bargain purchase, the Company did not record goodwill in connection with the transaction.

The following table presents the identifiable assets acquired and liabilities assumed in the acquisition of AMIC on the Acquisition Date based on their respective fair values (in thousands).

Investments	$ 58,418
Cash and cash equivalents	4,761
Identifiable intangible assets	12,200
Deferred tax assets, net	

	10,654
Other assets	
	31,127
Total identifiable assets	
	117,160
Insurance liabilities	
	27,671

Other liabilities	
	19,023
Total liabilities	
	46,694
Net identifiable assets acquired	
	70,466

Purchase consideration	
	(71)
Fair value of equity investment prior to the acquisition	
	(22,013)
Noncontrolling interests in AMIC	
	(22,065)
Elimination of the fair value adjustment related to AMIC s investment in Majestic	

	(688)
Gain on bargain purchase	
	25,629
Gain on fair value of equity investment prior to the acquisition	
	2,201
Total gain on bargain purchase of AMIC, pretax	

	27,830
Deferred income taxes	
	11,097
Total gain on bargain purchase of AMIC, after tax	
	$ 16,733

For the three-months ended June 30, 2010, the Company s Condensed Consolidated Statement of Operations includes revenues and net income of $23,788,000 and $886,000, respectively, from AMIC.

For the period from the Acquisition Date to June 30, 2010, the Company s Condensed Consolidated Statement of Operations includes revenues and net income of $31,404,000 and $1,253,000, respectively, from AMIC.

The unaudited pro forma revenues and operating results had the acquisition occurred as of the beginning of each period are presented below. The unaudited pro forma information presented is not indicative of the results of operations in future periods, nor does it necessarily reflect the results of operations that would have resulted had the acquisition been completed as of the beginning of the applicable periods presented.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009

	(in thousands)
Revenues	
	$ 106,431
	$ 124,581
	$ 208,551
	$ 247,956

Net income	
	$
	2,304
	$
	2,418
$	
	2,292
$	
	6,496

Pro forma adjustments to revenues principally reflect the elimination of intercompany fee income, the elimination of the Company s equity income related to AMIC and, in 2010, the elimination of the gain resulting from the bargain purchase. Pro forma adjustments to net income principally reflect the elimination of the Company s equity income related to AMIC and, in 2010, the elimination of the gain resulting from the bargain purchase.

Subsequent to the Acquisition Date, IHC purchased an additional 9,537 shares of AMIC common stock for a total consideration of $58,000 through June 30, 2010.

During the period from January 1, 2010 to the Acquisition Date (the Stub Period) IHC recorded $280,000 of equity income from its investment in AMIC. During the three months and six months ended June 30, 2009, IHC recorded $235,000 and $928,000, respectively, of equity income from its investments in AMIC. These amounts represent IHC's proportionate share of income based on its ownership interests during those periods. AMIC paid no dividends on its common stock during the Stub Period in 2010 or the three-month and six-month periods ended June 30, 2009.

The following disclosures summarize the effects of certain transactions between IHC and its subsidiaries with AMIC during the Stub Period and other periods prior to the Acquisition Date. Subsequent to the Acquisition Date, the effects of these transactions are eliminated in consolidation. IHC and its subsidiaries recorded income of $208,000 during the Stub Period in 2010 and $271,000 and $506,000, respectively, for the three months and six months ended June 30, 2009 from service agreements with AMIC and its subsidiaries. These are reimbursements to IHC and its subsidiaries, at agreed upon rates including an overhead factor, for management services provided by IHC and its subsidiaries, including accounting, legal, compliance, underwriting and claims. The Company ceded premiums to AMIC of $5,867,000 during the Stub Period in 2010 and $11,840,000 and $23,734,000, respectively, for the three months and six months ended June 30, 2009. Benefits to policyholders on business ceded to AMIC were $3,020,000 during the Stub Period in 2010 and $7,969,000 and $14,655,000, respectively, for the three months and six months ended June 30, 2009. Additionally, AMIC subsidiaries market, underwrite and provide administrative services (including premium collection, medical management and claims adjudication) for a substantial portion of the Medical Stop-Loss business written by the insurance subsidiaries of IHC. IHC recorded gross premiums of $8,452,000 during the Stub Period in 2010 and $15,977,000 and $32,849,000, respectively, for the three months and six months ended June 30, 2009 and IHC recorded net commission expense of $326,000 during the Stub Period in 2010 and $666,000 and $1,408,000, respectively, for the three months and six months ended June 30, 2009 for these services. The Company

also contracts for several types of insurance coverage (e.g. directors and officers and professional liability coverage) jointly with AMIC. The cost of this coverage is allocated between the Company and AMIC according to the type of risk, and IHC s portion is recorded in Selling, General and Administrative Expenses.

Included in the Company s Condensed Consolidated Balance Sheet at December 31, 2009 are the following balances arising from transactions in the normal course of business with AMIC and its subsidiaries: Due from reinsurers $15,453,000; Other assets $2,632,000; and Other liabilities of $480,000.

Note 3.

Income Per Common Share

Income per share calculations are based on income from continuing operations attributable to the common shareholders of IHC for the three months and six months ended June 30, 2010 and 2009, as shown below (in thousands):

	Three Months Ended		**Six Months Ended**	
	June 30,		**June 30,**	
	2010	**2009**	**2010**	**2009**

	2010	2009
Income from continuing operations	$ 2,318	$ 1,963
	$ 18,695	$ 5,312

(Income) loss from noncontrolling interests in subsidiaries	(565)
	13
	(781)

Income from continuing operations

attributable to IHC shareholders, net of tax

1,753

	1,976
	17,914
	5,332
Loss from discontinued operations, net of tax	
	(55)
	(117)
	(182)
	(354)

Net income attributable to IHC shareholders	
	$
	1,698
	$
	1,859
	$
	17,732
	$
	4,978

Included in the diluted income per share calculations for the three months and six months ended June 30, 2010 are 2,000 and 3,000 of incremental shares, respectively, from the assumed exercise of dilutive stock options and the assumed vesting of dilutive restricted stock computed using the treasury stock method. Included in the diluted income per share calculations for the six months ended June 30, 2009 are 2,000 of incremental shares from assumed exercise of options and vesting of restricted stock using the treasury stock method. Such shares were deemed anti-dilutive for the three months ended June 30, 2009.

Note 4.

Investments

The cost (amortized cost with respect to certain fixed maturities), gross unrealized gains, gross unrealized losses and fair value of investment securities are as follows:

	June 30, 2010			
	AMORTIZED	GROSS UNREALIZED	GROSS UNREALIZED	

	FAIR
	COST
	GAINS
	LOSSES
	VALUE
	(In thousands)
FIXED MATURITIES	
AVAILABLE-FOR-SALE:	

Corporate securities	$	294,122	$	4,945	$	(1,465)	$	297,602
CMOs- residential [1]		74,523		4,916		(4,756)		74,683

CMOs - commercial				
	1,446			
	-			
	(653)			
	793			
U.S. Government obligations				
	11,461			
	326			
	-			
	11,787			
Agency MBS - residential [2]				
	5,971			
	219			

					-
					6,190
			GSEs [3]		
					57,913
					1,115
					(142)
					58,886
			States and political subdivisions		
					337,338
					3,268
					(3,331)
					337,275

Total fixed maturities	$	782,774	$	14,789	$	(10,347)	$	787,216

EQUITY SECURITIES

AVAILABLE-FOR-SALE:

Common stocks

$

8,866

$

								220	
							$	(614)	
							$	8,472	
Preferred stock - perpetuals									
								28,076	
								127	
								(853)	
								27,350	
Preferred stock - with maturities									
								14,039	
								555	
								-	
								14,594	

Total equity securities	
$	
50,981	
$	
902	
$	
(1,467)	
$	
50,416	

December 31, 2009

GROSS

GROSS

AMORTIZED

UNREALIZED

UNREALIZED

FAIR

COST

GAINS

LOSSES

VALUE

(In thousands)

FIXED MATURITIES

AVAILABLE-FOR-SALE:

Corporate securities

	$	207,554	$	332	$	(7,357)	$ 200,529
CMOs - residential [1]		78,889		3,620		(8,582)	73,927
CMOs - commercial		868		-		(402)	

466

U.S. Government obligations

6,319

44

-

6,363

Agency MBS - residential [2]

40,156

182

-

40,338

GSEs [3]

15,398

		-
		(251)
		15,147
	States and political subdivisions	
		358,012
		3,170
		(8,089)
		353,093

Total fixed maturities	$ 707,196	$ 7,348	$ (24,681)	$ 689,863

EQUITY SECURITIES

AVAILABLE-FOR-SALE:

Common stocks	$	3,790	$	151	$	(69)	$	3,872
Preferred stock - perpetuals								

				32,434
				3,509
				(215)
				35,728
		Preferred stock - with maturities		
				20,996
				747
				(528)
				21,215

	Total equity securities
$	
57,220	
$	
4,407	
$	
(812)	
$	
60,815	

(1)

Collateralized mortgage obligations (CMOs).

(2)

Mortgage-backed securities (MBS).

(3)

Government-sponsored enterprises (GSEs) which are the Federal Home Loan Mortgage Corporation, Federal National Mortgage Association and Federal Home Loan Banks. GSEs are private enterprises established and chartered by the Federal Government.

The cost basis of certain preferred stocks with maturities at June 30, 2010 and December 31, 2009 includes an adjustment of $2,394,000 related to other-than-temporary impairment losses recorded in accumulated other comprehensive income in prior periods.

Government-sponsored enterprise securities consist of Federal National Mortgage Association mortgage-backed securities and other fixed maturity securities issued by the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association.

The amortized cost and fair value of fixed maturities at June 30, 2010, by contractual maturity, are shown below. 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. The average life of mortgage-backed securities is affected by prepayments on the underlying loans and, therefore, is materially shorter than the original stated maturity.

% OF

AMORTIZED

	FAIR	TOTAL FAIR
	COST	VALUE
		VALUE
	(In thousands)	

Due after one year through five years	$ 191,382	$ 193,907	24.6%
Due after five years through ten years	142,580	144,232	18.3%
Due after ten years	339,277		

339,764

43.2%

673,239

677,903

86.1%

CMO and MBS

15 year

82,030

81,507

10.4%

20 year

5,136

5,101

0.6%

30 year

22,369

22,705

	2.9%
$	
782,774	
$	
787,216	
	100.0%

The following tables summarize, for all securities in an unrealized loss position at June 30, 2010 and December 31, 2009, respectively, the aggregate fair value and gross unrealized loss by length of time those securities that have continuously been in an unrealized loss position:

	Less than 12 Months	12 Months or Longer	Total

Fair

Unrealized

Fair

Unrealized

Fair

Unrealized

June 30, 2010

Value

Losses

Value

Losses

Value

Losses

(In thousands)

Corporate securities	$	37,323	$	624	$	22,462	$	841	$	59,785	$	1,465
CMOs - residential		4,414				597						

	24,601
	4,159
	29,015
	4,756
CMO's - commercial	
	317
	261
	476
	392
	793

	653
GSEs	
	14,076
	120
	1,800
	22
	15,876
	142
States and political	

subdivisions	
	112,758
	2,862
	11,699
	469
	124,457

	3,331
Total fixed maturities	
	168,888
	4,464
	61,038
	5,883
	229,926
	10,347
Common stocks	
	5,398
	614

-

-

5,398

614

Preferred stocks-perpetual

10,288

223

4,995

630

15,283

853

Total temporarily

impaired securities

$

184,574

$	
5,301	
$	
66,033	
$	
6,513	
$	
250,607	
$	
11,814	

	Less than 12 Months	12 Months or Longer	Total

Fair

Unrealized

Fair

Unrealized

Fair

	Unrealized			
December 31, 2009				
	Value			
	Losses			
	Value			
	Losses			
	Value			
	Losses			
	(In thousands)			

Corporate securities	$ 122,122
	$ 2,287
	$ 66,652
	$ 5,070

$

188,774

$

7,357

CMOs - residential

7,937

990

35,757

7,592

43,694

8,582

CMOs - commercial

-

-

466

402

466

402

GSEs

9,901

186

5,246

65

159

15,147

251

States and political

subdivisions

	132,180
	4,459
	52,196
	3,630
	184,376
	8,089
Total fixed maturities	
	272,140
	7,922
	160,317

16,759

432,457

24,681

Common stocks

1,861

69

-

-

1,861

69

Preferred stocks-perpetual

	416
	8
	8,060
	207
	8,476
	215
Preferred stocks-with	

maturities	
-	
-	
8,692	
528	
8,692	
528	

Total temporarily impaired securities	$ 274,417
	$ 7,999

$	
177,069	
$	
17,494	
$	
451,486	
$	
25,493	

At June 30, 2010 and December 31, 2009, a total of 48 and 75 fixed maturities, respectively, and 20 and 13 equity securities, respectively, were in a continuous unrealized loss position for less than 12 months. At June 30, 2010 and December 31, 2009 a total of 33 and 56 fixed maturities, respectively, and 1 and 5 equity securities, respectively, had continuous unrealized losses for 12 months or longer.

Substantially all of the unrealized losses on fixed maturities at June 30, 2010 and December 31, 2009 relate to investment grade securities and are attributable to changes in market interest rates and general disruptions in the credit market subsequent to purchase. The unrealized loss on corporate securities and state and political subdivisions are due to wider spreads. Spreads have widened as investors shifted funds to US Treasuries in response to the current market turmoil. Because the Company does not intend to sell, nor is it more likely than not that the Company will have to sell such investments before recovery of their amortized cost bases, the Company does not consider these investments to be other-than-temporarily impaired at June 30, 2010.

At June 30, 2010, the Company had $28,433,000 invested in whole loan CMOs backed by Alt-A mortgages. Of this amount, 41.3% were in CMOs that originated in 2005 or earlier and 58.7% were in CMOs that originated in 2006. The unrealized losses on all other CMO s relate to prime rate CMO s and are primarily attributed to general disruptions in the credit market subsequent to purchase.

Other-Than-Temporary Impairment Evaluations

The Company reviews its investment securities regularly and determines whether other-than- temporary impairments have occurred. If the Company intends to sell a debt security, or it is more likely than not that it would be required to sell a debt security before the recovery of its amortized cost basis, the entire difference between the security's amortized cost basis and its fair value at the balance sheet date would be recognized by a charge to total other-than-temporary impairment losses in the Consolidated Statement of Operations. For fixed maturities, if a decline in fair value is judged by management to be other-than-temporary, and the Company does not intend to sell the security and it is not more likely than not that it will be required to sell the security prior to recovery of the security s amortized cost, the impairment is bifurcated into (a) the amount of the total impairment related to the credit loss, and (b) the amount of the total impairment related to all other factors. The amount of the other-than-temporary impairment related to the credit loss is recognized by a charge to total other-than-temporary impairment losses in the Consolidated Statements of Operations, establishing a new cost basis for the security. The amount of the other-than-temporary impairment related to all other factors is recognized in other comprehensive income in the

Consolidated Balance Sheets. The factors considered by management in its regular review include, but are not limited to: the length of time and extent to which the fair value has been less than cost; the financial condition and near-term prospects of the issuer; adverse changes in ratings announced by one or more rating agencies; subordinated credit support; whether the issuer of a debt security has remained current on principal and interest payments; current expected cash flows; whether the decline in fair value appears to be issuer specific or, alternatively, a reflection of general market or industry conditions (including, in the case of fixed maturities, the effect of changes in market interest rates); and the Company's intent to sell, or be required to sell, the debt security before the anticipated recovery of its remaining amortized cost basis.

In assessing corporate debt securities for other-than-temporary impairment, the Company evaluates the ability of the issuer to meet its debt obligations and the value of the company or specific collateral securing the debt position. For transactions where loan level data is not available, the model uses a proxy based on the collateral characteristics. Assumptions about loss severity and defaults used in the model are primarily based on actual losses experienced and defaults in the collateral pool. Prepayment speeds, both actual and estimated, are also considered. The cash flows generated by the collateral securing these securities are then determined with these default, loss severity and prepayment assumptions. These collateral cash flows are then utilized, along with consideration for the issue s position in the overall structure, to determine the cash flows associated with the mortgage-backed security held by the Company. In addition, the Company evaluates other asset-backed securities for other-than-temporary impairment by examining similar characteristics referenced above for mortgage-backed securities. The Company evaluates U.S. Treasury securities and obligations of U.S. Government corporations, U.S. Government agencies, and obligations of states and political subdivisions for other-than-temporary impairment by examining similar characteristics referenced above for corporate debt securities.

To the extent that the present value of the cash flows generated by a debt security is less than the amortized cost, a credit loss exists, and an other-than-temporary impairment is recognized through earnings. It is reasonably possible that further declines in estimated fair values of such investments, or changes in assumptions or estimates of anticipated recoveries and/or cash flows, may cause further other-than-temporary impairments in the near term, which could be significant.

Equity securities may experience other-than-temporary impairment in the future based on the prospects for full recovery in value in a reasonable period of time and the Company s ability and intent to hold the security to recovery. If a decline in fair value is judged by management to be other-than-temporary or management does not have the intent or ability to hold a security, a loss is recognized by a charge to total other-than-temporary impairment losses in the Consolidated Statements of Operations. For the purpose of other-than-temporary impairment evaluations, preferred stocks are treated in a manner similar to debt securities. Declines in the creditworthiness of the issuer of debt securities with both debt and equity-like features requires the use of the equity model in analyzing the security for other-than-temporary impairment.

Subsequent increases and decreases, if not an other-than-temporary impairment, in the fair value of available-for-sale securities that were previously impaired, are included in other comprehensive income in the Condensed Consolidated Balance Sheet.

Based on management s review of the portfolio, which considered these factors, the Company recorded the following losses for other-than-temporary impairments in the Condensed Consolidated Statements of Operations for the three months and six months ended June 30, 2010 and 2009 (in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009

Other-than-temporary impairments:

Fixed maturities	$	1,039	$	-	$	2,665	$	-
Preferred stocks		-		-				
						(271)		
	$	1,039	$	-	$			

2,665

$

(271)

Other-than-temporary impairments of $1,039,000 and $2,665,000, respectively, were recorded on fixed maturities during the three months and six months ended June 30, 2010. Of these amounts, for the three months and six months ended June 30, 2010, $1,039,000 and $1,933,000, respectively, are credit losses resulting from expected cash flows of debt securities less than the debt securities amortized cost, and $732,000 was the result of the Company s intent to sell certain municipal debt securities prior to the recovery of their amortized cost bases. No losses for other-than-temporary impairments were recognized in other comprehensive income for the three months or six months ended June 30, 2010.

At June 30, 2010 and December 31, 2009, cumulative credit losses for other-than-temporary impairments recorded on securities for which a portion of an other-than-temporary impairment was recognized in other comprehensive income remained $ 2,394,000.

Further deterioration in credit quality of the companies backing the securities, further deterioration in the condition of the financial services industry, a continuation of the current imbalance in liquidity that exists in the marketplace, a continuation or worsening of the current economic recession, or additional 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 and the Company may incur additional write-downs.

Note 5.

Net Realized Investment Gains

Net realized investment gains for the three months and six months ended June 30, 2010 and 2009 are as follows (in thousands):

Three Months Ended

	Six Months Ended	
	June 30,	June 30,
	2010	2009
	2010	2009
Net realized investment		

gains (losses):									
Fixed maturities	$	1,584	$	1,274	$	1,743	$	2,939	
Common stocks		65							

-

152

-

Preferred stocks

(15)

(12)

26

(12)

1,634

1,262

1,921

2,927

Other	
-	
-	
62	
-	

	Net realized investment gains
	$
	1,634
	$
	1,262
	$,262
	1,983
	$
	2,927

For the three months and six months ended June 30, 2010, the Company realized gross gains of $3,445,000 and $5,181,000, respectively, and realized gross losses of $1,811,000 and $3,260,000, respectively, on sales of available-for-sale securities. For the three months and six months ended June 30, 2009, the Company realized gross gains of $3,131,000 and $4,829,000, respectively, and gross losses of $1,869,000 and $1,902,000, respectively, on sales of available-for-sale securities.

Note 6.

Derivative Instruments

In connection with its previously outstanding line of credit, a subsidiary of IHC entered into an interest rate swap with the commercial bank lender, for a notional amount equal to the debt principal amount, under which the Company received a variable rate equal to the rate on the debt and paid a fixed rate (6.65%) in order to manage the risk in overall changes in cash flows attributable to forecasted interest payments. There was no hedge ineffectiveness on this interest rate swap which was accounted for as a cash flow hedge and, in August 2009, the interest rate swap expired. For the six months ended June 30, 2009, the Company recorded $118,000 of gains on the effective portion of the interest rate swap in accumulated other comprehensive loss on the accompanying Condensed Consolidated Balance Sheets, net of related taxes of $78,000.

Note 7.

Fair Value Disclosures of Financial Instruments

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.

Investments in fixed maturities and equity securities:

Available-for-sale securities included in Level 1 are equities with quoted market prices. Level 2 is primarily comprised of our portfolio of government securities, agency mortgage-backed securities, corporate fixed income securities, collateralized mortgage obligations, municipals, GSEs and certain preferred stocks that were priced with observable market inputs. Level 3 securities consist of CMO securities, primarily Alt-A mortgages. For these securities, we use industry-standard pricing methodologies, including discounted cash flow models, whose inputs are based on management s assumptions and available market information. Further we retain independent pricing vendors to assist in valuing certain instruments.

The following tables present our financial assets and liabilities measured at fair value on a recurring basis, at June 30, 2010 and December 31, 2009, respectively (in thousands):

	June 30, 2010			
	Level 1	Level 2	Level 3	Total

F I N A N C I A L ASSETS:

Fixed maturities available-for-sale:

Corporate securities						
	$	-	$	297,602	$	-
					$	297,602
CMOs - residential						
		-		33,082		
				41,601		
				74,683		

								CMOs - commercial	
									-
									-
									793
									793
								US Government obligations	
									-
									11,787
									-
									11,787
								Agency MBS - residential	

-

6,190

-

6,190

GSEs

-

58,886

-

58,886

States and political subdivisions

-

	337,275
	-
	337,275
Total fixed maturities	
	-
	744,822
	42,394
	787,216

Equity securities available-for-sale:				
Common stocks	8,472	-	-	8,472
Preferred stocks - perpetual				

					27,350
					-
					-
					27,350
				Preferred stocks - with maturities	
					12,044
					2,550
					-
					14,594
				Total equity securities	
					47,866

	2,550
	-
	50,416
Total	
	$
	47,866
	$
	747,372
	$
	42,394
	$
	837,632

December 31, 2009

Level 1

	Level 2	Level 3	Total
F I N A N C I A L ASSETS:			

Fixed maturities available-for-sale:				
Corporate securities	$	-	$ 200,529	$ -	$ 200,529
CMOs - residential				

					-
					34,885
					39,042
					73,927
				CMOs - commercial	
					-
					-
					466
					466
				US Government obligations	
					-

					6,363
					-
					6,363
			Agency MBS - residential		
					-
					40,338
					-
					40,338
			GSEs		
					-
					15,147

							-	
							15,147	
						States and political subdivisions		
							-	
							353,093	
							-	
							353,093	
						Total fixed maturities		
							-	
							650,355	
							39,508	
							689,863	

Equity securities available-for-sale:	
Common stocks	
	3,872

-

-

3,872

Preferred stocks - perpetual

35,728

-

-

35,728

Preferred stocks - with maturities

19,015

2,200

-

21,215

Total equity securities

58,615

2,200

-

60,815

Total

$	
58,615	
$	
652,555	
$	
39,508	
$	
750,678	

It is the Company s policy to recognize transfers of assets and liabilities between levels of the fair value hierarchy at the end of a reporting period. For the six months ending June 30, 2010, there were no transfers of assets and liabilities between Level 1 and Level 2 of the fair value hierarchy. No securities were transferred out of Level 2 and into the Level 3 category as a result of limited or inactive markets during the first three months of 2010. All transfers into the Level 3 category during 2010 were the result of the AMIC acquisition. The Company does not transfer out of Level 3 and into Level 2 until such time as observable inputs become available and reliable or the range of available independent prices narrow. No securities were sold or transferred out of the Level 3 category in 2010. For the six months ending June 30, 2010, the Company did not include in earnings any realized investment gains or losses related to sales of securities categorized as Level 3 securities. The changes in the carrying value of Level 3 assets and liabilities for the six months ended June 30, 2010 are summarized as follows (in thousands):

	June 30, 2010		
	CMOs		
	Residential	**Commercial**	**Total**

Beginning balance	$	39,042	$	466
	$	39,508		
Transfers into Level 3:				
Acquisition of AMIC				

	1,831
	305
	2,136
Gains (losses) included in earnings:	
Other-than-temporary impairments	(1,933)

-

(1,933)

Net unrealized gains (losses) included in accumulated other comprehensive loss

4,967

22

4,989

Repayments and amortization of fixed maturities	(2,306)
	-
	(2,306)
Balance at end of period	$ 41,601

$	
793	
$	
42,394	

The following methods and assumptions were used to estimate the fair value of financial instruments not disclosed elsewhere in the Notes to Condensed Consolidated Financial Statements:

(A)

Policy Loans

The fair value of policy loans is estimated by projecting aggregate loan cash flows to the end of the expected lifetime period of the life insurance business at the average policy loan rates, and discounting them at a current market interest rate.

(B)

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.

(C)

Debt

The fair value of debt with variable interest rates approximates its carrying amount. The fair value of fixed rate debt is estimated by discounting the cash flows using current market interest rates.

The estimated fair values of financial instruments not disclosed elsewhere in the Notes to Condensed Consolidated Financial Statements are as follows:

	June 30, 2010		December 31, 2009	
	Carrying Amount	Fair	Carrying Amount	Fair

	Value Amount	Value
	(In thousands)	
FINANCIAL ASSETS:		
Policy loans		

$	
23,743	
$	
27,364	
$	
23,833	
$	
27,422	

FINANCIAL

LIABILITIES:

Funds on deposit

	$		
	410,331		
	$		
	408,060		
	$		
	408,298		
	$		
	410,485		
Debt and junior			
subordinated debt			

securities

47,146

47,146

47,146

47,146

Note 8.

Goodwill and Other Intangible Assets

The change in the carrying amount of goodwill and other intangible assets (included in other assets in the Condensed Consolidated Balance Sheets) for the first six months of 2010 is as follows (in thousands):

	Other Intangible Assets	Total

Other

Definitive

Indefinite

Intangible

Goodwill

Lives

Lives

Assets

Balance at December 31, 2009	$	48,859	$	7,785	$	477
Acquisitions:						
	$	8,262				

AMIC

					-
					4,700
					7,500
					12,200
				Alliance Underwriters	
					1,459
					1,100
					-
					1,100
				MedWatch	
					568
					340
					20

360

HBA

814

200

-

200

Capitalized
software
development

-

132

-

132

Amortization expense

-

(1,121)

-

(1,121)

Balance at June 30, 2010

$

					51,700
				$	
					13,136
				$	
					7,997
				$	
					21,133

In connection with the acquisition of a controlling interest in AMIC discussed in Note 2, the Company recorded $12,200,000 of intangible assets. Of this amount, $1,700,000 represents the fair value of agent and marketing contracts and relationships, which is being amortized over a weighted average period of 7.6 years, $1,000,000 represents the fair value of a domain name being amortized over a 10 year period, and $2,000,000 represents the fair value of customer lists, which are being amortized over a period of 5.0 years. The remaining $7,500,000 represents non-amortizable intangible assets consisting of the fair value of insurance licenses with indefinite lives. The AMIC acquisition was accounted for as a bargain purchase and accordingly, the Company did not record goodwill in connection with the transaction.

In January 2010, the Company acquired the assets of a managing general underwriter, Alliance Underwriters, LLC (AU) for a $2,500,000 purchase price. The Company recorded goodwill of $1,459,000 and other intangible assets of $1,100,000, for the fair value of customer relationships, which is being amortized over a weighted average period of 8.0 years. AU is a managing general underwriter that controls approximately $30 million of employer medical stop-loss business.

In January 2010, IHC Health Holdings Corp., a wholly owned subsidiary of the Company (IHC Health Holdings), acquired a 51% interest in the stock of MedWatch, LLC (MedWatch) for a $500,000 purchase price. The Company recorded goodwill of $568,000 and other intangible assets of $360,000, primarily for the fair value of customer relationships, which is being amortized over a weighted average period of 11.6 years. MedWatch provides utilization review and medical management services to fully insured and self-funded health plans.

In January 2010, IHC Health Holdings acquired a 51% interest in the stock of Hospital Bill Analysis, LLC (HBA), a hospital bill review company, for a $500,000 purchase price. The Company recorded goodwill of $814,000 and other intangible assets of $200,000, primarily for the fair value of customer relationships, which is being amortized over a weighted average period of 11.0 years.

Note 9.

Discontinued Operations

The Company sold its credit life and disability segment by entering into a 100% coinsurance agreement with an unaffiliated insurer effective December 31, 2007. Unearned premium reserves of this block and the corresponding amount in due from reinsurers of $7,009,000 and $8,847,000 are included in the Condensed Consolidated Balance Sheets at June 30, 2010 and December 31, 2009, respectively.

The Company recorded losses from discontinued operations representing expenses and changes in claims and reserves related to the insurance liabilities (currently in run-off status) for claims incurred prior to the sale on December 31, 2007 as follows (in thousands):

	Three Months Ended	**Six Months Ended**

	June 30,	June 30,		
	2010	2009	2010	2009
Pretax loss from discontinued operations				

	$
	(85)
	$
	(181)
	$
	(280)
	$
	(545)

Tax benefits allocated to discontinued operations	
	30
	64
	98

191

Loss from discontinued operations, net	
	$
	(55)
	$
	(117)
	$
	(182)
	$
	(354)

Changes in the liabilities related to discontinued operations for the six months ended June 30, 2010 were as follows (in thousands):

	Claims Accrued	Termination Liability	Expenses	Benefits	Total

Balance at beginning of year	$	1,522	$	-	$
					24
					$ 1,546

Loss from discontinued operations:

Changes in claims and reserves

related to block in run-off

259

-

-

259

Expenses incurred related to block in run-off

-

21

-

21

280

Payments of expenses accrued to administer

the business sold

(21)

(24)

(45)

Claim payments related to block in run-off	
	(696)
	-
	-
	(696)

					Balance at June 30, 2010
					$
					1,085
					$
					-
					$
					-
					$
					1,085

The Company believes that the net liabilities of discontinued operations at June 30, 2010 adequately estimate the remaining costs associated with the credit life and disability discontinued operations.

Note 10.

Share-Based Compensation

IHC and AMIC each have share-based compensation plans. The following is a summary of the activity pertaining to each of these plans. AMIC disclosures reflect the activity subsequent to the Acquisition Date.

A)

IHC Share-Based Compensation Plans

Total share-based compensation was $143,000 and $74,000 for the three months ended June 30, 2010 and 2009, respectively and $322,000 and $341,000 for the six months ended June 30, 2010 and 2009, respectively. Related tax benefits of $57,000 and $29,000 were recognized for the three months ended June 30, 2010 and 2009, respectively and $128,000 and $136,000 for the six months ended June 30, 2010 and 2009, respectively.

Under the terms of IHC s stock-based compensation plans, option exercise prices are more than or equal to the quoted market price of the shares at the date of grant; option terms range from five to ten years; and vesting periods are three years for employee options. The Company may also grant shares of restricted stock, share appreciation rights (SARs) and share-based performance awards. Restricted shares are valued at the quoted market price of the shares at the date of grant and have a three year vesting period. Exercise prices of SARs are more than or equal to the quoted market price of IHC shares at the date of the grant and have three year vesting periods. At June 30, 2010, there were 730,059 shares available for future stock-based compensation grants under the IHC stock incentive plans.

Stock Options

IHC s stock option activity for the six months ended June 30, 2010 is as follows:

	Shares Under Option	Weighted-Average Exercise Price
December 31, 2009	312,170	$ 14.62

Granted	461,800	10.00
Expired	(6,490)	20.07
June 30, 2010	767,480	11.79

The following table summarizes information regarding IHC s outstanding and exercisable options as of June 30, 2010:

	Outstanding	**Exercisable**

Number of options	
	767,480
	239,010
Weighted average exercise price per share	
	$ 11.79
	$ 15.48
Aggregate intrinsic value for all options	
	$ -
	$ -
Weighted average contractual term remaining	
	3.6 years
	2.0 years

The fair value of an option award is estimated on the date of grant using the Black-Scholes option valuation model. The weighted average grant-date fair-value of options granted during the six months ended June 30, 2010 was $1.57 per share. No options were granted during the six months ended June 30, 2009. The assumptions set forth in the table below were used to value the stock options granted during the six-month period ended June 30, 2010:

Weighted-average risk-free interest rate	2.3%
Annual dividend rate per share	$ .05
Weighted-average volatility factor of the Company's common stock	45.0%
Weighted-average expected term of options	

4.5 years

Compensation expense of $135,000 and $15,000 was recognized in the three months ended June 30, 2010 and 2009, respectively, and $254,000 and $206,000 in the six months ended June 30, 2010 and 2009, respectively, for the portion of the grant-date fair value of stock options vesting during that period.

No options were exercised during the three months and six months ended June 30, 2010 or 2009.

As of June 30, 2010, the total unrecognized compensation expense related to non-vested stock options was $775,000 which is expected to be recognized over the remaining requisite weighted-average service period of 2.0 years.

Restricted Stock

IHC issued 2,250 shares of restricted stock during both the six months ended June 30, 2010 and 2009. The total fair value of IHC s restricted stock that vested during the first six months of 2010 and 2009 was $23,000 and $70,000, respectively. Restricted stock expense was $7,000 and $28,000 for the three months ended June 30, 2010 and 2009, respectively, and was $19,000 and $80,000 for the six months ended June 30, 2010 and 2009, respectively.

The following table summarizes restricted stock activity for the six months ended June 30, 2010:

	No. of Non-vested Shares	**Weighted-Average Grant-Date Fair Value**
December 31, 2009	5,380	

	$	
	12.43	
Granted		
	2,250	
	$	
	7.01	
Vested		
	(3,130)	
	$	
	15.19	

June 30, 2010

	4,500
	$
	7.80

As of June 30, 2010, the total unrecognized compensation expense related to IHC s non-vested restricted stock awards was $34,000 which is expected to be recognized over the remaining requisite weighted-average service period of 2.3 years.

SARs and Share-Based Performance Awards

The fair value of SARs is calculated using the Black-Scholes valuation model at the grant date and each subsequent reporting period until settlement. Compensation cost is based on the proportionate amount of the requisite service that has been rendered to date. Once fully vested, changes in fair value of the SARs continue to be recognized as compensation expense in the period of the change until settlement. No SARs were exercised in the six months ended June 30, 2010 or 2009. Other liability-classified awards include share-based performance awards. Compensation costs for these plans are recognized and accrued as performance conditions are met, based on the current share price. The intrinsic value of all of IHC s share-based liabilities paid in the six months ended June 30, 2010 and 2009 was $54,000 and $35,000, respectively. Included in Other Liabilities on the Company s Condensed Consolidated Balance Sheets at June 30, 2010 and December 31, 2009 are liabilities of $53,000 and $58,000, respectively, pertaining to IHC s SARs and share-based performance awards.

B.

AMIC Share-Based Compensation Plans

Total AMIC share-based compensation expense was $19,000 and $26,000, respectively, for the three months ended June 30, 2010 and the period between the Acquisition Date and June 30, 2010. Related tax benefits of $7,000 and $10,000, respectively, were recognized for the three months ended June 30, 2010 and the period between the Acquisition Date and June 30, 2010.

Under the terms of the AMIC s stock-based compensation plan, option exercise prices are equal to the quoted market price of the shares at the date of grant; option terms are ten years; and vesting periods range from three to four years. AMIC may also grant shares of restricted stock, stock appreciation rights and share-based performance awards. Restricted shares are valued at the quoted market price of the shares at the date of grant, and have a three year vesting

period. At June 30, 2010, there were 6,537,222 shares available for future stock-based compensation grants under the AMIC stock incentive plan.

Stock Options

The following table summarizes information regarding AMIC s outstanding and exercisable options for the period between the Acquisition Date and June 30, 2010:

	Shares Under Option	Weighted-Average Exercise Price
March 5, 2010	355,900	$ 10.00

Granted	13,334	4.60
Exercised	(10,000)	4.50
June 30, 2010	359,234	9.95

The following table summarizes information regarding AMIC s outstanding and exercisable options as of June 30, 2010:

	Outstanding	**Exercisable**

Number of options	
359,234	
337,330	
Weighted average exercise price per share	
$ 9.95	
$ 10.20	
Aggregate intrinsic value for all options	
$ 36,251	
$ 29,584	
Weighted average contractual term remaining	
3.8 years	

	3.5 years

The fair value of an option award is estimated on the date of grant using the Black-Scholes option valuation model. The weighted average grant-date fair-value of options granted during the period between the Acquisition Date and June 30, 2010 was $2.79 per share. The assumptions set forth in the table below were used to value the stock options granted during the period between the Acquisition Date and June 30, 2010:

Weighted-average risk-free interest rate	3.69%
Annual dividend rate per share	$ -
Weighted-average volatility factor of the Company's common stock	45.00
Weighted-average expected term of options	

5 years

Compensation expense of $14,000 and $19,000 was recognized for the three months ended June 30, 2010 and the period between the Acquisition Date and June 30, 2010, respectively, for the portion of the grant-date fair value of AMIC s stock options vesting during those periods.

AMIC received cash proceeds of $45,000 upon the exercise of 10,000 options with an intrinsic value of $1,000 during the period between the Acquisition Date and June 30, 2010.

As of June 30, 2010, the total unrecognized compensation expense related to AMIC s non-vested options was $78,000 which will be recognized over the remaining requisite service periods.

Restricted Stock

AMIC issued 12,000 restricted stock awards in the second quarter of 2008, with a weighted average grant-date fair value of $6.92 per share. No restricted stock awards were issued in 2010. The total fair value of AMIC s restricted stock that vested during the period between the Acquisition Date and June 30, 2010 was $13,000. Restricted stock expense was $5,000 and $7,000 for the three months ended June 30, 2010 and the period between the Acquisition Date and June 30, 2010, respectively.

The following table summarizes AMIC s restricted stock activity for the period between the Acquisition Date and June 30, 2010:

	No. of	**Weighted-Average**
Non-vested	**Shares**	**Grant-Date Fair Value**
March 5, 2010	6,333	

	$	
	6.92	
Vested		
	(2,500)	
	$	
	6.92	
Forfeited		
	(1,333)	
	$	
	6.92	

June 30, 2010

	2,500
	$
	6.92

As of June 30, 2010, there was approximately $17,000 of total unrecognized compensation expense related to AMIC s non-vested restricted stock which will be recognized over the remaining requisite service periods.

Note 11.

Income Taxes

The provision for income taxes shown in the Condensed Consolidated Statements of Operations was computed based on the Company's actual results which approximate the effective tax rate expected to be applicable for the balance of the current fiscal year in accordance with consolidated life/non-life group income tax regulations. Such regulations adopt a subgroup method in determining consolidated taxable income, whereby taxable income is determined separately for the life insurance company group and the non-life insurance company group.

The deferred income tax expense allocated to stockholders' equity (principally for net unrealized gains on investment securities) for the six months ended June 30, 2010 was $4,986,000, representing the decrease in the related net deferred tax liability to $1,018,000 at June 30, 2010 from a tax asset of $3,968,000 at December 31, 2009.

At June 30, 2010, AMIC, had net operating loss carryforwards of approximately $273,900,000 for federal income tax purposes which expire between 2019 and 2029. The federal deferred tax asset relative to AMIC included in other assets on IHC s Condensed Consolidated Balance Sheet at June 30, 2010 was $10,633,000, net of a valuation allowance of $86,400,000. AMIC continues to file its own separate income tax return and is not included in the consolidated tax return of IHC.

Note 12.

Supplemental Disclosures of Cash Flow Information

Tax payments, net of tax refunds, were $436,000 during the six months ended June 30, 2010. Tax refunds, net of tax payments, were $1,961,000 during the six months ended June 30, 2009

Cash payments for interest were $938,000 and $1,687,000 during the six months ended June 30, 2010 and 2009, respectively.

Note 13.

Comprehensive Income (Loss)

The components of comprehensive income (loss) include: (i) net income or loss reported in the Condensed Consolidated Statements of Operations; (ii) 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 (iii) the portion of other-than-temporary impairments of fixed maturities related to all other factors than those deemed to be a credit loss.

The comprehensive income for the three months and six months ended June 30, 2010 and 2009 is summarized as follows (in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009

Net income	$	2,263	$	1,846	$	18,513	$	4,958	
Unrealized gains arising									

during the period, net of income taxes	
	4,507
	20,913
	8,931
	28,316
Comprehensive income	
	6,770
	22,759

	27,444
	33,274
Comprehensive (income) losses attributable to	
noncontrolling interest	
	(565)
	13
	(781)
	20

	Comprehensive income attributable to IHC
$	6,205
$	22,772
$	26,663
$	33,294

No losses for other-than-temporary impairments of fixed maturities were recognized in other comprehensive income during the three months or six months ended June 30, 2010.

Note 14.

Segment Reporting

The Insurance Group principally engages in the life and health insurance business. Information by business segment for the three months and six months ended June 30, 2010 and 2009 is presented below (in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009

Revenues:

Medical Stop-Loss (A)	$	37,446	$	35,879	$	65,346	$	72,314
Fully Insured Health (B)		37,478						

								30,376	
								68,352	
								59,511	
Group disability, life, annuities and DBL [C]									
								16,632	
								16,632	
								33,790	
								32,858	
Individual life, annuities and other									
								14,074	
								14,961	
								28,169	
								30,785	
Corporate									

206

873

27,806

654

105,836

98,721

223,463

196,122

Net realized investment gains

1,634

1,262

1,983

2,927

Other-than-temporary impairment losses, net	
	(1,039)
	-
	(2,665)
	(271)
$	
	106,431
	$
	99,983
	$
	222,781

$

198,778

Income Before Income Taxes:

Medical Stop-Loss (A)

$

1,859

$

1,127

$

2,452

$

2,776

Fully Insured Health(B) (D)

(75)

(751)

1,079

(750)

Group disability, life, annuities and DBL (C)

1,829

1,027

1,314

3,381

Individual life, annuities and other

761

491

894

1,801

Corporate

(1,327)

113

25,354

(1,524)

3,047

2,007

31,093

5,684

Net realized investment gains	
	1,634
	1,262
	1,983
	2,927
Other-than-temporary impairment losses, net	
	(1,039)
	-
	(2,665)
	(271)
Interest expense	
	(477)
	(761)

	(948)
	(1,531)
$	
	3,165
$	
	2,508
$	
	29,463
$	
	6,809

(A)

The amount includes equity income from AMIC (prior to its acquisition) of $165,000 for the three months ended June 30, 2009, and $14,000 and $653,000 for the six months ended June 30, 2010 and 2009, respectively.

(B)

The amount includes equity income from AMIC (prior to its acquisition) of $47,000 for the three months ended June 30, 2009 and $244,000 and $186,000 for six months ended June 30, 2010 and 2009, respectively.

(C)

The amount includes equity income from AMIC (prior to its acquisition) of $23,000 for the three months ended June 30, 2009, and $22,000 and $89,000 for six months ended June 30, 2010 and 2009, respectively.

(D)

The Fully Insured Health segment includes amortization of intangible assets recorded as a result of purchase accounting for the recent acquisitions. Total amortization expense was $669,000 and $616,000 for the three months ended June 30, 2010 and 2009, respectively, and $1,160,000 and $1,228,000 for the six months ended June 30, 2010 and 2009, respectively. Amortization expense for the other segments is insignificant.

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, 2009, as filed with the Securities and Exchange Commission, and our unaudited Condensed Consolidated Financial Statements and related Notes thereto appearing elsewhere in this quarterly report.

Overview

Independence Holding Company, a Delaware corporation ("IHC"), is a holding company principally engaged in the life and health insurance business through: (i) its wholly owned insurance companies, Standard Security Life Insurance Company of New York ("Standard Security Life") and Madison National Life Insurance Company, Inc. ("Madison National Life"); (ii) its majority owned insurance company, Independence American Insurance Company (Independence American); and (iii) its marketing and administrative companies, including IHC Administrative Services, Inc., managing general underwriters ("MGUs") in which it owns a significant voting interest, IHC Health Solutions, Inc. (IHC Health Solutions), and Actuarial Management Corporation (AMC). These companies are sometimes collectively referred to as the "Insurance Group," and IHC and its subsidiaries (including the Insurance Group) are sometimes collectively referred to as the "Company." IHC also owns a 50.1% interest in American Independence Corp. (AMIC).

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

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

The results of operations for the three months and six months ended June 30, 2010 and 2009 are summarized as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	**2009**	**2010**	**2009**

Revenues							
	$	106,431	$	99,983	$	222,781	$	198,778
Expenses							
		103,266		97,475		193,318		191,969

Income from continuing operations before income taxes	3,165
	2,508

29,463

6,809

Income taxes

847

545

10,768

1,497

Income from continuing operations

2,318

	1,963
	18,695
	5,312
Discontinued operations:	
Loss from discontinued operations	

(55)

(117)

(182)

(354)

Net income

2,263

1,846

18,513

4,958

(Income) loss from noncontrolling interests in subsidiaries	(565)

(781)

20

	Net income attributable to IHC
	$
	1,698
	$
	1,859
	$
	17,732
	$
	4,978

.

Income from continuing operations increased $.3 million to $2.3 million for the three months ended June 30, 2010 from $2.0 million for the three months ended June 30, 2009. Income from continuing operations increased $13.4 million to $18.7 million for the six months ended June 30, 2010 from $5.3 million for the six months ended June 30, 2009 primarily due to the $16.8 million after-tax gain on the bargain purchase of AMIC (see Note 2 of Notes to Condensed Consolidated Financial Statements);

.

Consolidated investment yields (on an annualized basis) of 4.5% and 4.4%, respectively, for the three months and six months ended June 30, 2010 compared to 5.3% and 5.1% for the respective periods in 2009;

.

Revenues of $106.4 million and $222.8 million for the three months and six months ended June 30, 2010, respectively, representing increases of 6.4% and 11.4% over the respective three-month and six-month periods in 2009; and

.

Book value of $14.97 per common share, representing a 13.8% increase from December 31, 2009, primarily reflecting net income (including the gain on bargain purchase) and net unrealized gains on securities for the six months ended June 30, 2010.

32

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

.

The Medical Stop-Loss segment reported income before taxes of $1.9 million and $1.1 million for the three months ended June 30, 2010 and 2009, respectively, and reported income from continuing operations of $2.5 million and $2.8 million for the six months ended June 30, 2010 and 2009, respectively. The increase in the quarterly results is primarily attributable to the consolidation of AMIC results in addition to business produced by a managing general underwriter acquired in 2010 for which there are no comparable amounts in 2009. For the six months ended June 30, 2010, the aforementioned increases were offset by the cancellation of underperforming managing general underwriters and market conditions;

o

Premiums earned decreased $.5 million and $9.5 million for the three and six months ended June 30, 2010, respectively, when compared to the same periods in 2009. Excluding $10.5 million and $13.7 million of earned premiums related to the consolidation of AMIC s results for the three months and six months ended June 30, 2010, respectively, premiums earned decreased $11.0 million and $23.2 million, respectively, due to reduced production volume for the reasons stated above;

o

Combined ratios for the three months and six months ended June 30, 2010 include reported stop-loss combined ratios from AMIC of 101.6% and 101.9%, respectively, as adjusted for purchase accounting;

o

Underwriting experience for the Medical Stop-Loss segment, as indicated by its GAAP combined ratios, are as follows for the periods indicated (in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009

Premiums Earned	$	33,947	$	34,361	$	59,796	$	69,289
Insurance Benefits, Claims & Reserves		24,458		24,850		43,274		49,363
Expenses		8,633						

	9,302
	15,409
	18,931
Loss Ratio[A]	
	72.0%
	72.3%
	72.4%
	71.3%
Expense Ratio [B]	

				25.5%
				27.1%
				25.7%
				27.3%
Combined Ratio [C]				
				97.5%
				99.4%
				98.1%
				98.6%

(A)

Loss ratio represents insurance benefits, claims and reserves divided by premiums earned.

(B)

Expense ratio represents net commissions (including profit commissions), administrative fees, premium taxes and other underwriting expenses divided by premiums earned.

(C)

Combined ratio is equal to the sum of the loss ratio and the expenses ratio.

.

The Fully Insured Health segment reported losses before taxes of $.1 million and $.8 million for the three months ended June 30, 2010 and 2009, respectively, and reported $1.1 million of income before taxes for the six months ended June 30, 2010 as compared to losses of $.8 million for the same period in 2009;

o

Fee and other income decreased $.7 million and $2.7 million for the three months and six months ended June 30, 2010, respectively, as compared to the same periods in 2009. Excluding AMIC fee income of $2.1 million and $2.9 million, respectively, fee and other

income decreased by $2.8 million and $5.6 million, respectively, primarily due to a decrease in non-IHC carrier business administered by IHC Administrative Services and reduced profit commissions from the comparable 2009 period. The Company also experienced a decrease in general expenses due to its lower volume of business;

o

Premiums earned increased $7.7 million and $11.2 million for the three months and six months ended June 30, 2010, respectively, over the comparable periods in 2009. Excluding AMIC premiums of $8.0 million and $10.8 million during these respective periods, earned premiums decreased $.3 million for the three months ended June 30, 2010 and increased $.4 million for the six months ended June 30, 2010 compared to the prior year;

o

Underwriting experience for the Fully Insured segment, as indicated by its GAAP combined ratios, for the three months and six months ended June 30, 2010 and 2009 is as follows (in thousands):

	Three Months Ended		**Six Months Ended**	
	June 30,			

	June 30,			
	2010	2009	2010	2009
Premiums Earned	$ 29,541	$ 21,765	$	

53,508

$

42,253

Insurance
Benefits,
Claims &
Reserves

21,241

15,329

36,367

28,577

Expenses

8,048

6,267

15,338

13,082

Loss Ratio	
	71.9%
	70.4%
	68.0%
	67.6%
Expense Ratio	
	27.2%
	28.8%
	28.6%
	31.0%
Combined Ratio	

99.1%

99.2%

96.6%

98.6%

o

The underwriting expense ratio decreased primarily as a result of a decrease in profit commission and other general expenses in 2010;

.

Income before taxes from the Group disability, life, annuities and DBL segment increased $.8 million for the three months ended June 30, 2010 and decreased $2.1 million for the six months ended June 30, 2010 compared to the same periods in 2009. Group term life lines experienced higher death claims in the first quarter. Fluctuations in death claims occur from time to time, but can be expected to return to projected levels over an extended period. Higher LTD claims attributable to significant cuts in state and municipal budgets as a result of the recession occurred early in the first quarter of 2010 but returned to expected levels in the second quarter of 2010;

.

Income before taxes from the Individual life, annuities and other segment increased $.3 million for the three months ended June 30, 2010 compared to 2009 but decreased $.9 million for the six months ended June 30, 2010 compared to the same period in 2009 primarily as a result of decreased investment income in 2010;

.

Income before taxes from the Corporate segment decreased $1.5 million for the three months ended June 30, 2010 compared to 2009 due in part to lower partnership income in 2010; and increased $26.9 million for the six months ended June 30, 2010 over 2009 primarily due to the inclusion of a $27.8 million gain as a result of the March 2010 acquisition of a controlling interest in AMIC;

.

Net realized investment gains were $1.6 million and $2.0 million for the three months and six months ended June 30, 2010, respectively, compared to $1.3 million and $2.9 million for the comparable periods in 2009. Other-than-temporary impairment losses for the three months and six

months ended June 30, 2010 were $1.0 million and $2.7 million, respectively, compared to $.3 million for the six months ended June 30, 2009. No other-than-temporary impairment losses were recorded in the three months ended June 30, 2009, and;

.

Premiums by principal product for the three months and six months ended June 30, 2010 and 2009 are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	Gross Direct and Assumed			

	Earned Premiums:			
	2010	2009	2010	2009
Medical Stop-Loss	$ 42,600	$ 54,119	$ 81,600	$

					108,447
Fully Insured Health		54,212		48,978	
				103,546	
					95,431
Group disability, life, annuities and DBL		26,089		25,846	
				52,844	
					51,483
Individual, life, annuities and other		7,816		7,690	
				15,740	
					15,557

$	
130,717	
$	
136,633	
$	
253,730	
$	
270,918	

Three Months Ended	
Six Months Ended	
June 30,	
June 30,	

Net Premiums Earned:			
	2010	**2009**	**2010**	**2009**
Medical Stop-Loss	$ 33,947	$ 34,361		

			$	
			59,796	
			$	
			69,289	
Fully Insured Health				
		29,541		
		21,765		
		53,508		
		42,253		
Group disability, life, annuities and DBL				
		14,272		
		14,091		
		28,596		
		27,815		
Individual, life, annuities and other				
		6,854		
		6,864		
		13,598		

	14,157
$	84,614
$	77,081
$	155,498
$	153,514

CRITICAL ACCOUNTING POLICIES

The accounting and reporting policies of the Company conform to U.S. generally accepted accounting principles ("GAAP"). The preparation of the Condensed Consolidated Financial Statements in conformity with 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, 2009. Management has identified the accounting policies related to *Insurance Premium Revenue Recognition and Policy Charges, Insurance Reserves, Deferred Acquisition Costs, 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, 2009. During the six months ended June 30, 2010, there were no additions to or changes in the critical accounting policies disclosed in the 2009 Form 10-K except for the recently adopted accounting standards discussed in Note 1(C) of the Notes to Condensed Consolidated Financial Statements.

Results of Operations for the Three Months Ended June 30, 2010 Compared to the Three Months Ended June 30, 2009

Income from continuing operations was $2.3 million for the three months ended June 30, 2010, an increase of $.3 million compared to $2.0 million for the three months ended June 30, 2009. The Company's income from continuing operations before taxes increased $.7 million to $3.2 million for the three months ended June 30, 2010 from $2.5 million for the three months ended June 30, 2009. Information by business segment for the three months ended June 30, 2010 and 2009 is as follows:

Equity

Benefits,

Amortization

Selling,

	Net Income Fee and Claims of Deferred General	Premiums Investment From Other and Acquisition And				
June 30, 2010	**Earned Income AMIC Income Reserves Costs Administrative Total**					

(In thousands)

	Medical Stop-Loss
$	
33,947	
1,012	
-	
2,487	
24,458	
-	
302	

11,129

$

1,859

Fully Insured Health

29,541

377

-

7,560

21,241

7

16,305

(75)

Group disability,

life, annuities

						and DBL	
							14,272
							2,411
							-
							(51)
							10,278
							125
							4,400
							1,829
						Individual life,	

annuities and	
other	
	6,854
	6,125
	-
	1,095
	8,702
	1,588
	3,023
	761
Corporate	

-

206

-

-

-

-

1,533

(1,327)

Sub total

$

84,614

$

10,131

$

-

$

11,091

$

64,679

$

1,720

$

36,390

3,047

Net realized investment gains	
	1,634
Other-than-temporary impairment losses	
	(1,039)
Interest expense	

	(477)
Income from continuing operations before income taxes	
	3,165
Income taxes	
	847
Income from continuing operations	
	$

2,318

Equity

Benefits,

Amortization

Selling,

Net

Income

Fee and

Claims

of Deferred

General

Premiums

Investment

From

Other

and

	Acquisition And					
June 30, 2009	**Earned Income**	**AMIC Income**	**Reserves**	**Costs**	**Administrative**	**Total**
(In thousands)						

Medical Stop-Loss	
	$
	34,361
	974
	165
	379
	24,850
	-
	9,902
	$
	1,127
Fully Insured Health	
	21,765
	220
	47
	8,344
	15,329
	7
	15,791
	(751)
Group disability,	

life, annuities	
and DBL	
	14,091
	2,424
	23
	94
	312

11,142

51

4,412

1,027

Individual life,

annuities and

6,864

6,937

-

1,160

9,102

1,242

4,126

491

other

Corporate

-

873

-

-

-

-

760

113

Sub total

$

77,081

$

11,428

$	
235	
$	
9,977	
$	
60,423	
$	
1,300	
$	
34,991	
2,007	

Net realized investment gains

	1,262
Other-than-temporary impairment losses	
	-
Interest expense	
	(761)
Income from continuing operations before income taxes	
	2,508
Income taxes	

	545
Income from continuing operations	
	$
	1,963

Acquisition of AMIC

On March 5, 2010, IHC acquired a controlling interest in AMIC as a result of the purchase of AMIC common stock in the open market. In determining the bargain purchase gain with regard to the acquisition of the controlling interest in AMIC, IHC first recognized a gain of $2.2 million as a result of remeasuring its equity interest in AMIC to its fair value of $22.0 million immediately before the acquisition based on the closing market price of AMIC's common stock. Then, upon the acquisition of a controlling interest on March 5, 2010, the Company consolidated the net assets of AMIC. Accordingly, the Company determined the fair value of the identifiable assets acquired and liabilities assumed from AMIC on such date. The fair value of the net assets acquired exceeded the sum of: (i) the fair value of the consideration paid; (ii) the fair value of IHC s equity investment prior to the acquisition; and (iii) the fair value of the noncontrolling interests in AMIC, resulting in a bargain purchase gain of $25.6 million. The total gain, amounting to $27.8 million pre-tax, is included in gain on bargain purchase of AMIC on the Company s Condensed Consolidated Statement of Operations. This gain is a result of the quoted market price of AMIC being significantly less than the fair value of the net assets of AMIC. This disparity is due to the low trading volume in AMIC shares, and a discount on the shares traded due to a lack of control by minority shareholders. The fair value of the noncontrolling interests in AMIC was based on the closing market price of AMIC s common stock.

Prior to obtaining control, IHC recorded its investment in AMIC using the equity method. IHC recorded changes in its investment in AMIC in the Equity income from AMIC line in the Condensed Consolidated Statements of Operations. Upon achieving control, on March 5, 2010, AMIC s income and expense amounts became consolidated with IHC s results. Accordingly, the individual line items on the Condensed Consolidated Statement of Operations for 2010 reflect approximately four months of the operations of AMIC with no corresponding amounts for 2009.

Premiums Earned

Total premiums earned increased $7.5 million to $84.6 million in the second quarter of 2010 from $77.1 million in the comparable period of 2009. Included in second quarter 2010 premiums are $19.4 million of earned premiums related to AMIC with no comparable 2009 amounts. Excluding these amounts, earned premiums decreased $11.9 million compared to the second quarter of 2009. The decrease is primarily due to: (i) the Medical Stop-Loss segment which decreased $11.0 million, primarily due to the termination of certain non-owned managing general underwriters and market conditions; and (ii) the Fully Insured Health segment which had a $.3 million decrease in premiums in the second quarter of 2010 compared to the second quarter of 2009, comprised primarily of a $1.1 million increase in dental premiums as a result of increased production and a $.5 million net increase in all other lines of this segment due to increased production principally in the vision and limited medical lines which was more than offset by a $1.1 million decrease in the production of small group medical business in 2010 and a $.8 million decrease in student accident premiums as a result of the cancellation of a producer of this product; and (iii) a $.6 million decrease in the Group disability, life, annuities and DBL segment primarily a result of the point of service business currently in run-off.

Net Investment Income

Total net investment income decreased $1.3 million. The overall annualized investment yields were 4.5% and 5.3% (approximately 4.7% and 5.6%, on a tax advantaged basis) in the second quarter of 2010 and 2009, respectively. The annualized investment yields on bonds, equities and short-term investments were 4.4% and 4.9% in the second quarter of 2010 and 2009, respectively. The decrease in investment income is due to a decrease in yields and the shorter duration of our portfolio. IHC has approximately $120 million in highly rated shorter duration securities earning on average 1.4%. A portfolio that is shorter in duration enables us, if we deem prudent, the flexibility to reinvest in higher yielding longer-term securities in an increasing interest rate environment.

Net Realized Investment Gains and Other-Than-Temporary Impairment Losses, Net

Net realized investment gains increased $.3 million to $1.6 million in 2010 compared to $1.3 million in 2009. These amounts include gains and losses from sales of fixed maturities and equity securities available-for-sale 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. For the three months ended June 30, 2010, the Company recorded $1.0 million of other-than-temporary impairment losses, pre-tax. This credit loss is a result of expected cash flows of debt securities that are less than the debt securities amortized cost. For the three months ended June 30, 2009, the Company did not record any losses for other-than-temporary impairments.

Fee Income and Other Income

Fee income increased $1.8 million to $9.7 million in the three months ended June 30, 2010 from $7.9 million in the three months ended June 30, 2009. Excluding AMIC related fee income of $3.6 million, fee income for the second quarter of 2010 decreased $1.8 million over the comparable 2009 period. The decrease is primarily a result of decreased profit commissions and a decrease in other fully-insured business administered by IHC Administrative Services.

Total other income decreased $.7 million in the three months ended June 30, 2010 to $1.4 million from $2.1 million in the three months ended June 30, 2009.

Insurance Benefits, Claims and Reserves

Benefits, claims and reserves increased $4.3 million for the three months ended June 30, 2010 compared to the same period in 2009. Included in the second quarter 2010 are $14.0 million of claims and reserves related to AMIC with no comparable amounts in 2009. Excluding these amounts, benefits, claims and reserves decreased $9.7 million in the second quarter of 2010 compared to 2009. The decrease is primarily attributable to: (i) a decrease of $8.4 million in the Medical Stop-Loss segment, largely resulting from a decrease in premiums earned; (ii) a decrease of $1.3 million in the Group disability, life, annuities and DBL segment primarily related to reduced production from the point of service line of business currently in run-off; and (iii) a $.4 million decrease in the Individual life, annuities and other segment primarily resulting from the ceding of a block of life and annuity policies in 2009; partially offset by (iv) an increase of $.4 million in the Fully Insured Health segment principally due to a $1.7 million increase in claims and reserves on dental, short term medical and vision lines of business, partially offset by a $1.3 million decrease primarily as a result of a decrease in small group medical business in 2010.

Amortization of Deferred Acquisition Costs

Amortization of deferred acquisition costs increased $.4 million.

-

Interest Expense on Debt

Interest expense decreased $.3 million primarily as a result of principal repayments and lower interest rates.

Selling, General and Administrative Expenses

Total selling, general and administrative expenses decreased $1.4 million in the second quarter of 2010 compared to the second quarter of 2009. Excluding expenses related to AMIC, totaling $8.6 million, total selling, general and administrative expenses decreased $7.2 million. The decrease is primarily due to: (i) a $2.8 million decrease in commissions and other general expenses in the Medical Stop-Loss segment due to a decrease in volume as a result of reduced production; (ii) a $3.4 million decrease in the Fully Insured Health segment largely due to a decrease in general expenses as a result of lower business volume

and a reduction in work force, and (iii) a $1.1 million decrease in commission, other general and administrative expenses associated with the Individual life, annuities and other segment, partially related to the ceding of a block of life and annuity business in 2009.

Income Taxes

Income tax expense increased $.3 million to $.8 million for the second quarter ended June 30, 2010 from $.5 million for the second quarter of 2009. The effective tax rate was 25.0% for the second quarter of 2010 compared to 20.0% for the second quarter of 2009. The increase in the effective tax rate is primarily attributable to higher jurisdictional tax rates on income from the non-life businesses.

Results of Operations for the Six Months Ended June 30, 2010 Compared to the Six Months Ended June 30, 2009

Income from continuing operations was $18.7 million for the six months ended June 30, 2010, an increase of $13.4 million compared to $5.3 million for the six months ended June 30, 2009. The Company's income from continuing operations before taxes increased $22.7 million to $29.5 million for the six months ended June 30, 2010 from $6.8 million for the six months ended June 30, 2009. Information by business segment for the six months ended June 30, 2010 and 2009 is as follows:

Gain on

Bargain

Equity

Purchase,

Benefits,

Amortization

Selling,

Net

Income

Fee and

Claims

of Deferred

General

Premiums

Investment

From

Other

and

Acquisition

And

	June 30, 2010
	Earned Income
	AMIC Income
	Reserves
	Costs
	Administrative
	Total
	(In thousands)

Medical Stop-Loss	
$	
59,796	
1,725	
14	
3,811	
43,274	
-	
19,620	
$	
2,452	
Fully Insured Health	
53,508	
581	
244	
14,019	
36,367	
14	
30,892	
1,079	
Group disability,	

	life, annuities	
	and DBL	
		28,596
		4,800
		22
		372
		23,552
		248

8,676

1,314

Individual life,

annuities and other

13,598

12,420

-

2,151

18,314

2,776

6,185

894

Corporate

-

(24)

-

27,830

-

-

2,452

25,354

Sub total

$

155,498

$

19,502

$

280

$

48,183

$

121,507

$

3,038

$

67,825

31,093

Net realized investment gains	
	1,983
Other-than-temporary impairment losses	
	(2,665)
Interest expense	

	(948)
Income from continuing operations before income taxes	
	29,463
Income taxes	
	10,768
Income from continuing operations	
	$
	18,695

	Equity	Benefits, Amortization	Selling,	Net Income	Fee and Claims	of Deferred	General	Premiums	Investment From	Other and	Acquisition

						And
						June 30, 2009
						Earned
						Income
						AMIC
						Income
						Reserves
						Costs
						Administrative
						Total
						(In thousands)

Medical Stop-Loss	
$	
69,289	
1,796	
653	
576	
49,363	
-	
20,175	
$	
2,776	
Fully Insured Health	
42,253	
383	
186	
16,689	
28,577	
14	
31,670	
(750)	
Group disability,	

life, annuities	
and DBL	
	27,815
	4,773
	89
	181
	19,930

104

9,443

3,381

Individual life,

annuities and other

14,157

14,541

-

2,087

18,749

2,232

8,003

1,801

Corporate

-

654

-

-

-

-

2,178

(1,524)

Sub total

$

153,514

$

22,147

$

928

$

19,533

$

116,619

$

2,350

$

71,469

5,684

Net realized investment gains	2,927
Other-than-temporary impairment losses	(271)
Interest expense	

	(1,531)
Income from continuing operations before income taxes	
	6,809
Income taxes	
	1,497
Income from continuing operations	
	$

5,312

Premiums Earned

Total premiums earned increased $2.0 million to $155.5 million in the first six months of 2010 from $153.5 million in the comparable period of 2009. Included in 2010 premiums earned are $25.5 million of earned premiums related to AMIC with no comparable 2009 amounts. Excluding these amounts, earned premiums decreased $23.5 million from the second quarter of 2009. The decrease is primarily due to: (i) the Medical Stop-Loss segment which decreased $23.2 million, primarily due to reduced production from the termination of certain non-owned managing general underwriters and market conditions; (ii) a $.2 million decrease in the Group disability, life, annuities and DBL segment primarily from a decrease of $1.4 million in the point of service line and other lines offset by an increase of 1.2 million from the LTD line due to new business written; and (iii) a decrease of $.6 million in premiums earned in the Individual life, annuities and other segment primarily as a result of the ceding and commutation of certain ordinary life and annuity business during 2010; partially offset by (iv) the Fully Insured Health segment which had a $.5 million increase in premiums in the first six months of 2010 compared to the first six months of 2009, comprised primarily of a $1.7 million increase in dental premiums as a result of increased production and a $1.3 million net increase in all other lines of this segment due to increased production principally in the vision and limited medical lines, offset by a $1.1 million decrease in the production of small group medical business in 2010 and a $1.4 million decrease in student accident premiums as a result of the cancellation of a producer of this product.

Net Investment Income

Total net investment income decreased $2.6 million. The overall annualized investment yields were 4.4% and 5.1% (approximately 4.6% and 5.3%, on a tax advantaged basis) in the first six months of 2010 and 2009, respectively. The annualized investment yields on bonds, equities and short-term investments were 4.4% and 5.0% in the first six months of 2010 and 2009, respectively. The decrease in investment income is due to a decrease in yields and the shorter duration of our portfolio. IHC has approximately $120 million in highly rated shorter duration securities earning on average 1.4%. A portfolio that is shorter in duration enables us, if we deem prudent, the flexibility to reinvest in higher yielding longer-term securities in an increasing interest rate environment.

Net Realized Investment Gains and Other-Than-Temporary Impairment Losses, Net

Net realized investment gains decreased $.9 million to $2.0 million in 2010 compared to $2.9 million in 2009. These amounts include gains and losses from sales of fixed maturities and equity securities available-for-sale 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. For the six months ended June 30, 2010 and 2009, the Company recorded $2.7 million and $.3 million, respectively, of other-than-temporary impairment losses, pre-tax. Of the amount recorded in 2010, $1.9 million are credit losses resulting from expected cash flows of debt securities that are less than the debt securities amortized cost, and $.8 million are the result of the Company s intent to sell certain municipal debt securities prior to the recovery of their amortized cost bases.

Fee Income and Other Income

Fee income increased $.9 million to $17.2 million in the six months ended June 30, 2010 from $16.3 million in the six months ended June 30, 2009. Excluding AMIC related fee income of $4.8 million, fee income for the first six months of 2010 decreased $3.9 million over the comparable 2009 period. The decrease is primarily a result of decreased profit commissions and a decrease in other fully-insured business administered by IHC Administrative Services.

Total other income in the six months ended June 30, 2010 was $3.1 million compared to $3.2 million in the six months ended June 30, 2009.

Insurance Benefits, Claims and Reserves

Benefits, claims and reserves increased $4.9 million for the first six months of 2010 compared to the first six months of 2009. Included in the first six months of 2010, are $18.1 million of claims and reserves related to AMIC with no comparable amounts in 2009. Excluding these amounts, benefits, claims and reserves decreased $13.2 million in the first six months of 2010 compared to 2009. The decrease is primarily attributable to: (i) a decrease of $16.5 million in the Medical Stop-Loss segment, largely resulting from a decrease in premiums earned; (ii) a $.5 million decrease in the Individual life, annuity and other segment; partially offset by (iii) an increase of $3.0 million in the Group disability, life, annuities and DBL segment largely as a result of higher claims on the LTD and GTL lines of business; and (iv) an increase of $.8 million in the Fully Insured Health segment, principally due to a $3.1 million increase in claims and reserves on dental, short term medical and vision lines of business partially offset by a $2.3 million decrease primarily as a result of a decrease in small group medical business in 2010.

Amortization of Deferred Acquisition Costs

Amortization of deferred acquisition costs increased $.6 million.

-

Interest Expense on Debt

Interest expense decreased $.6 million primarily as a result of principal repayments and lower interest rates.

Selling, General and Administrative Expenses

Total selling, general and administrative expenses decreased $3.7 million in the first six months of 2010 as compared to the first six months of 2009. Excluding $11.6 million in AMIC related expenses included in the first six months of 2010 with no comparable 2009 amount, total selling, general and administrative expenses decreased $15.3 million. The decrease is primarily due to: (i) a $5.8 million decrease in commissions and other general expenses in the Medical Stop-Loss segment due to a decrease in volume as a result of reduced production; (ii) a $6.2 million decrease in the Fully Insured Health segment largely due to a decrease in general expenses as a result of lower business volume and a reduction in work force, (iii) a $1.0 million decrease in the Group disability, life, annuities and DBL segment primarily due to decreased premiums; (iv) a $1.8 million decrease in commission, other general and administrative expenses associated with the Individual life, annuities and other segment, partially related to the ceding of a block of life and annuity business in 2009; and (v) a $.5 million decrease in corporate general and administrative expenses.

Income Taxes

Income tax expense increased $9.3 million to $10.8 million for the six months ended June 30, 2010 from $1.5 million for the first six months of 2009. The increase in tax expense is primarily related to the gain on the acquisition of the controlling interest in AMIC during the first quarter of 2010. The effective tax rate was 36.6% for the first six months of 2010 compared to 22.1% in 2009. The increase in the effective tax rate is primarily attributable to higher jurisdictional tax rates on the gain related to the AMIC acquisition.

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.

Cash Flows

As of June 30, 2010, the Company had $12.6 million of cash and cash equivalents compared with $7.4 million as of December 31, 2009.

Net cash used by operating activities of continuing operations for the six months ended June 30, 2010 was $2.0 million. Net cash used by operating activities of discontinued operations for the six months ended June 30, 2010 was $.8 million.

Net cash provided by investing activities of continuing operations for the six months ended June 30, 2010 was 8.3 million primarily as a result of $29.0 million in net proceeds on sales of equity securities and securities under resale and repurchase agreements, a $2.9 million increase in net amounts due from brokers, $1.1 million of net cash acquired in the acquisitions of AMIC and other companies and $1.2 million received in acquisitions of policy blocks partially offset by $25.6 million in net purchases of fixed maturities.

The Company has $463.2 million of insurance reserves 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, 2010, cash received from the maturities and other repayments of fixed maturities was $67.7 million.

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

BALANCE SHEET

Total investments, net of amounts due from brokers, increased $66.6 million to $895.1 million during the six months ended June 30, 2010 from $828.5 million at December 31, 2009 largely due to $57.3 million of investments acquired through the acquisition of AMIC and $17.8 million in unrealized pre-tax gains on available-for-sale securities for the period.

The Company had net receivables from reinsurers of $136.6 million at June 30, 2010. All of such reinsurance receivables are highly rated companies or are adequately secured. No allowance for doubtful accounts was necessary at June 30, 2010.

Other assets increased $7.2 million primarily due to intangible assets recorded during the first quarter of 2010 as a result of the acquisitions of AMIC and other subsidiaries partially offset by a decrease in tax assets.

The Company's health reserves by segment are as follows (in thousands):

	Total Health Reserves	
	June 30,	December 31,
	2010	2009
Medical Stop-Loss	$ 65,899	

	$
	71,504
Fully Insured Health	
	35,264
	34,817
Group Disability	
	92,231
	84,592
Individual A&H and Other	
	12,808
	11,888
	$
	206,202

$

202,801

Major factors that affect the Projected Net Loss Ratio assumption in reserving for medical stop-loss relate to: (i) frequency and severity of claims; (ii) changes in medical trend resulting from the influences of underlying cost inflation, changes in utilization and demand for medical services, the impact of new medical technology and changes in medical treatment protocols; and (ii) the adherence by the MGUs that produce and administer this business to the Company's underwriting guidelines. Changes in these underlying factors are what determine the reasonably likely changes in the Projected Net Loss Ratio.

The primary assumption in the determination of fully insured reserves is that historical claim development patterns tend to be representative of future claim development patterns. Factors which may affect this assumption include changes in claim payment processing times and procedures, changes in product design, changes in time delay in submission of claims, and the incidence of unusually large claims. 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 minimal. The time delay in submission of claims tends to be stable over time and not subject to significant volatility. 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 on the Company s financial condition, results of operations, or liquidity.

The $25.0 million increase in IHC s stockholders' equity in the first six months of 2010 is primarily due to a $16.7 million after tax gain on the bargain purchase of AMIC and $8.9 million in net unrealized gains on investments during the period.

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. Although the Company's gross unrealized losses on available-for-sale securities totaled $11.8 million at June 30, 2010, approximately 96.2% of the Company s fixed maturities were investment grade and continue to be rated on average AA. The Company marks all of its available-for-sale securities 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. At June 30, 2010, approximately 3.8% (or $29.7 million) of the carrying value of fixed maturities was invested in non-investment grade fixed maturities (primarily mortgage securities) (investments in such securities have different risks than investment grade securities, including greater risk of loss upon default, and thinner trading markets). The increase in non-investment grade securities is primarily due to the downgrades in credit ratings of certain Alt-A mortgage securities. The Company does not have any non-performing fixed maturities at June 30, 2010.

The Company reviews its investments regularly and monitors its investments continually for impairments. For the six months ended June 30, 2010, the Company recorded $2.7 million of losses for other-than-temporary impairments. The unrealized losses on all remaining available-for-sale securities have been evaluated in accordance with the Company's impairment policy and were determined to be temporary in nature at June 30, 2010. The following table summarizes the carrying value of securities with fair values less than 80% of their amortized cost at June 30, 2010 by the length of time the fair values of those securities were below 80% of their amortized cost (in thousands):

	Greater than 3 months, 6 months,	**Greater than 6 months,**

Less than	**3 months**
less than	**6 months**
less than	**12 months**
Greater than	**12 months**
	Total

Fixed maturities	$ 651	$ -	$ -	$ 2,052	$ 2,703
Equity securities	203				

-

-

-

203

Total

$

854

$

-

$

-

$	
2,052	
$	
2,906	

In 2010, the Company experienced an increase in net unrealized gains of $17.8 million which, net of deferred taxes of $5.0 million, and net of deferred policy acquisition costs of $3.9 million, increased stockholders' equity by $8.9 million (reflecting net unrealized gains of $1.8 million at June 30, 2010 compared to net unrealized losses of $7.1 million at December 31, 2009). 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, a continuation of the current imbalances in liquidity that exist in the marketplace, a continuation or worsening of the current economic recession, or additional 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 and the Company may incur additional write-downs.

CAPITAL RESOURCES

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

IHC enters into a variety of contractual obligations with third parties in the ordinary course of its operations, including liabilities for insurance reserves, funds on deposit, debt and operating lease obligations. However, IHC does not believe that its cash flow requirements can be fully assessed based solely upon an analysis of these obligations. Future cash outflows, whether they are contractual obligations or not, also will vary based upon IHC s future needs. Although some outflows are fixed, others depend on future events. The maturity distribution of the Company s obligations, as of June 30, 2010, is not materially different from that reported in the schedule of such obligations at December 31, 2009 which was included in Item **7** of the Company s Annual Report on Form 10-K.

OUTLOOK

The Company remained highly liquid for the first six months of the year, with a shorter duration portfolio. As a result, the yields on our investment portfolio were, and continue to remain, lower than in prior years and investment income may continue to be depressed for the balance of the year. IHC has approximately $120 million in highly rated shorter maturity securities earning on average 1.4%; our portfolio as a whole is rated, on average, AA. The low duration of our portfolio enables us, if we deem

prudent, the flexibility to reinvest in much higher yielding longer-term securities, which would significantly increase investment income. A low duration portfolio such as ours also mitigates the adverse impact of potential inflation. IHC will continue to monitor the financial markets and invest accordingly.

In March 2010, IHC acquired control of AMIC through the purchase of additional shares of AMIC common stock in the open market; at June 30, 2010, IHC owned approximately 50.1% of the outstanding common stock of AMIC. The acquisition furthers our goal of creating efficiencies by integrating the back office operations of our MGUs and marketing companies. The Company will consider acquiring additional shares of AMIC stock in the market and/or in private transactions as opportunities arise.

For 2010, we will continue to emphasize:

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Preparing for health care reform by proactively adjusting our mix of Fully Insured Health products and distribution strategies to take advantage of changing market demands, while continuing to increase the efficiency of our administrative companies.

.

Seeking to acquire additional Medical Stop-Loss business to increase our premiums in a controlled underwriting environment. We have determined that the results of MGUs in which we have ownership generally outperform those of ones we do not own by a substantial margin, which is why we have reduced our block to focus primarily on business written by owned MGUs.

.

Emphasizing cost containment strategies by integrating our new subsidiaries into our fully insured and medical stop-loss businesses.

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Improving the experience on our Group disability, life annuities and DBL business. The Company experienced a much higher than expected incidence of death and LTD claims in the first quarter of 2010. Fluctuations in death claims occur from time to time, but can be expected to return to projected levels over an extended period. The large influx of LTD claims in the first quarter is attributable to significant cuts in state and municipal budgets as a result of the recession. LTD claims have returned to expected levels in the second quarter.

We will continue to focus on our strategic objectives, including expanding our distribution network. However, the success of a portion of our Fully Insured Health business may be affected by the passage of the Patient Protection and Affordable Care and Education Reconciliation Act of 2010 signed by President Obama in March 2010. Since detailed implementation regulations have not yet been issued, we are still assessing the full extent of the laws' impact on our business. We have begun a comprehensive review of all the options for IHC and we are continuing a thorough

evaluation of our options for those health insurance products that may be affected. Although the law will generally require insurers to operate with a lower expense structure for major medical plans in the small employer and individual markets, the law may make exceptions for smaller carriers. Non-essential lines of business are not impacted by health care reform.

Our results depend on the adequacy of our product pricing, our underwriting and the accuracy of our reserving methodology, returns on our invested assets and our ability to manage expenses. Therefore, factors affecting these items, including unemployment and global financial markets, may have a material adverse effect on our results of operations and financial condition.

ITEM 3.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company manages interest rate risk by seeking to maintain an investment portfolio with a duration and average life that falls within the band of the duration and average life of the applicable liabilities. Options may be utilized to modify the duration and average life of such assets.

The Company monitors its investment portfolio on a continuous basis and believes that the liquidity of the Insurance Group will not be adversely affected by its current investments. This monitoring includes the maintenance of an asset-liability model that matches current insurance liability cash flows with current investment cash flows. This is accomplished by first creating an insurance model of the Company's in-force policies using current assumptions on mortality, lapses and expenses. Then, current investments are assigned to specific insurance blocks in the model using appropriate prepayment schedules and future reinvestment patterns.

The results of the model specify whether the investments and their related cash flows can support the related current insurance cash flows. Additionally, various scenarios are developed changing interest rates and other related assumptions. These scenarios help evaluate the market risk due to changing interest rates in relation to the business of the Insurance Group.

The expected change in fair value as a percentage of the Company's fixed income portfolio at June 30, 2010 given a 100 to 200 basis point rise or decline in interest rates is not materially different than the expected change at December 31, 2009 included in Item 7A of the Company s Annual Report on Form 10-K.

In the Company's analysis of the asset-liability model, a 100 to 200 basis point change in interest rates on the Insurance Group's liabilities would not be expected to have a material adverse effect on the Company. With respect to its liabilities, if interest rates were to increase, the risk to the Company is that policies would be surrendered and assets would need to be sold. This is not a material exposure to the Company since a large portion of the Insurance Group's interest sensitive policies are burial policies that are not subject to the typical surrender patterns of other interest sensitive policies, and many of the Insurance Group's universal life and annuity policies were acquired from liquidated companies which tend to exhibit lower surrender rates than such policies of continuing companies. Additionally, there are charges to help offset the benefits being surrendered. If interest rates were to decrease substantially, the risk to the Company is that some of its investment assets would be subject to early redemption. This is not a material exposure because the Company would have additional unrealized gains in its investment portfolio to help offset the future reduction of investment income. With respect to its investments, the Company employs (from time to time as warranted) investment strategies to mitigate interest rate and other market exposures.

ITEM 4.

CONTROLS AND PROCEDURES

IHC s Chief Executive Officer and Chief Financial Officer 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 Chief Executive Officer and Chief Financial Officer concluded that IHC s disclosure controls and procedures are effective.

There has been no change in IHC s internal control over financial reporting during the six months ended June 30, 2010 that has materially affected, or is reasonably likely to materially affect, IHC's 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.

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, 2009 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 January 2010, the Board of Directors authorized the repurchase of up to 500,000 shares of IHC s common stock, inclusive of prior authorizations, under the 1991 plan. As of June 30, 2010, 293,600 shares were still authorized to be repurchased under the plan. Share repurchases during the second quarter of 2010 are summarized as follows:

2010

				Maximum Number
		Average Price		
		Of Shares Which		
		Month of		
		Shares		
		of Repurchased		
		Can be		
	Repurchase			
	Repurchased			
	Shares			
	Repurchased			
April				

		5,000	
		9.73	
		338,300	
	May		
		2,000	
		7.52	
		336,300	
	June		
		42,700	
		6.38	
		293,600	

ITEM 3.

DEFAULTS UPON SENIOR SECURITIES

Not applicable

ITEM 4.

(REMOVED AND RESERVED)

Not applicable

ITEM 5.

OTHER INFORMATION

Not applicable

ITEM 6.

EXHIBITS

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

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

Date:

August 12, 2010

Roy T.K. Thung

Chief Executive Officer and President

By:

/s/Teresa A. Herbert

Date:

August 12, 2010

Teresa A. Herbert

Senior Vice President and

Chief Financial Officer