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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PART II - OTHER INFORMATION

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

(Income) loss from noncontrolling interests

in subsidiaries

(565)

13

(781)

20

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

GROSS

GROSS

AMORTIZED

UNREALIZED

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

C M O ' 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

15

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

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

FINANCIAL 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

FINANCIAL 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

20

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.

21

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
Fair
Carrying
Fair
Amount

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

$

8,262

Acquisitions:

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.

22

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	Weighted-Average
	Under Option	Exercise Price