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

### **INDEX**

PART I FINANCIAL INFORMATION

**PAGE** 

NO.

Item 1. Financial Statements

C o n d e n s e d C o n s o l i d a t e d Balance Sheets -

June 30, 2010 (unaudited) and December 31, 2009

Condensed Consolidated Statements of Operations -

5

Three Months and Six Months Ended June 30, 2010 and 2009 (unaudited)

Condensed Consolidated Statement of Changes in Equity

6

Six Months Ended June 30, 2010 (unaudited)

Condensed Consolidated Statements of Cash Flows -

7

Six Months Ended June 30, 2010 and 2009 (unaudited)

Notes to Condensed Consolidated Financial Statements (unaudited)

I tem 2. Management's Discussion and Analysis of Financial Condition

31

and Results of Operations

I t e m 3. Quantitative and Qualitative Disclosures about Market Risk

47

Item 4. Controls and Procedures

### PARTII -OTHER INFORMATION

Item 1. Legal Proceedings

48

Item 1A. Risk Factors

48

I t e m 2. Unregistered Sales of Equity Securities and Use of Proceeds

Item 3. Defaults Upon Senior Securities

48

Item 4. Removed and Reserved

48

Item 5. Other Information

48

Item 6. Exhibits

Signatures

50

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, <u>Risk Factors</u>, 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.

Edgar Filing: INDEPENDENCE HOLDING CO - Form 10-Q	
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
	June 30, 2010
	<b>December 31, 2009</b>
	(Unaudited)

**ASSETS:** 

Investments:

Short-term investments

\$

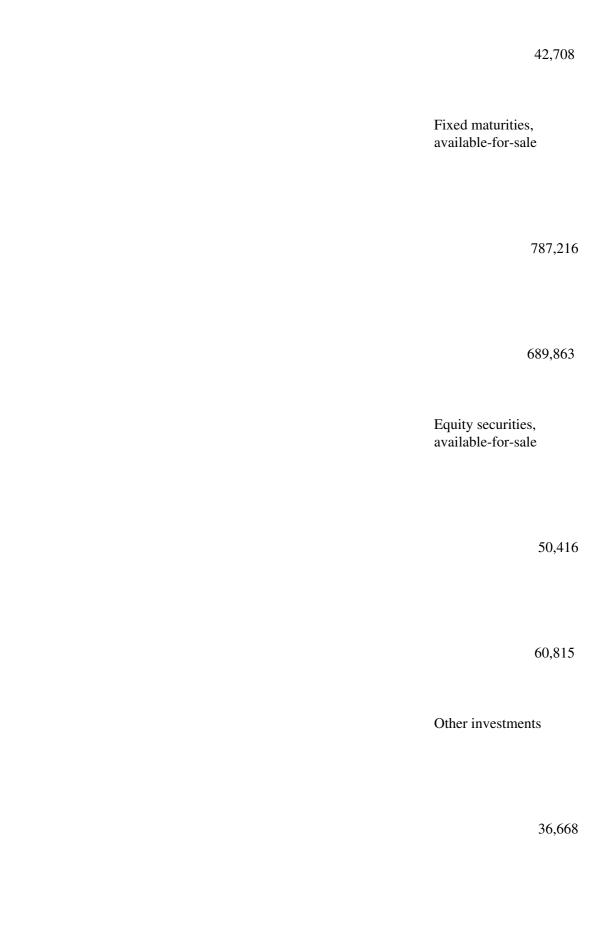
53

\$

52

Securities purchased under agreements to resell

26,635





Total investments

900,988

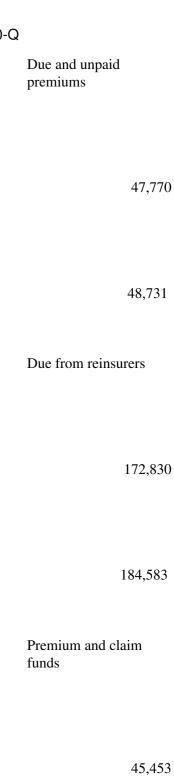
831,081

Cash and cash equivalents

12,599

7,394

Lagar Filling. II ADET ENDERVOE FIOLDING GO TO	III 10 Q
	Due from securities brokers
	33,685
	5,579
	Investment in American Independence Corp. ("AMIC")
	-
	19,234
	Deferred acquisition costs
	20.621
	39,631
	44,244



43,663

Edgar Filing: INDEPENDENCE HOLDING CO - Form 10-Q		
	Notes and other receivables	
		19,640
		13,528
	Goodwill	
		51 700
		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

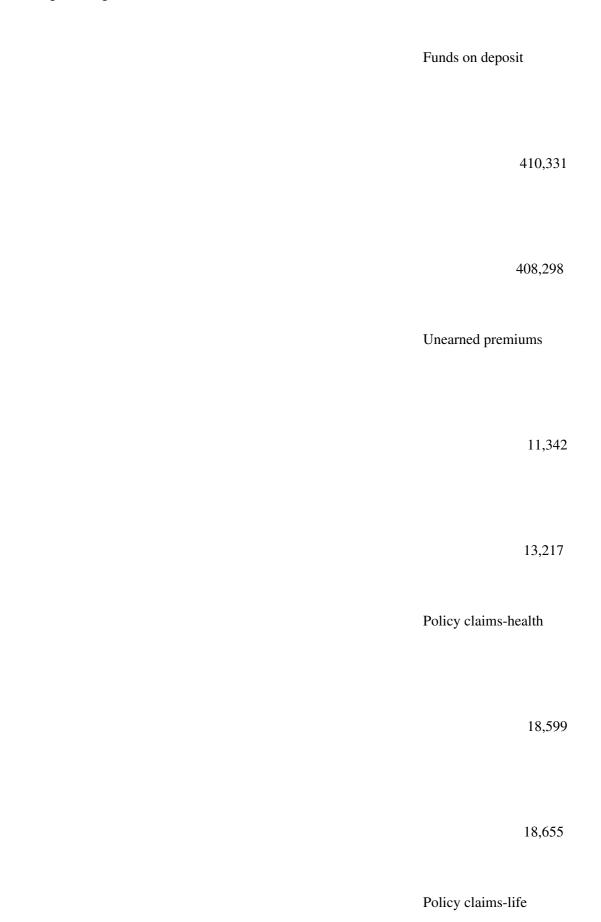
\$

184,146

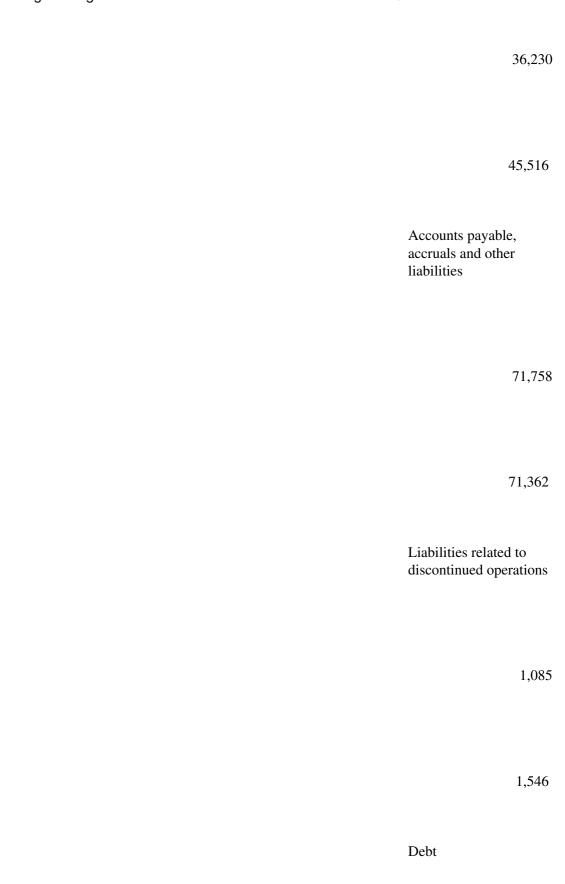
Insurance reserves-life and annuity

275,586

270,987







9,000

9,000

Junior subordinated debt securities

38,146

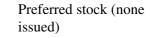
38,146

TOTAL LIABILITIES

1,100,969

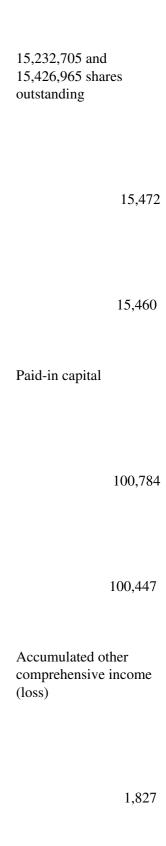
**EQUITY:** 

IHC STOCKHOLDERS' EQUITY:



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

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



(7,104)



**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

Edgar	Filina:	INDEP	ENDEN	ICE HOL	DING	CO -	Form	10-Q
_ugu:	9.	10	- 10 - 1	00_	-0	00		

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

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	2
3,204	-
106,431	
99,983	•

**EXPENSES:** 

222,781

Insurance benefits, claims and reserves:

Health

53,252

48,444

96,815

92,240

Life and annuity

### Edgar Filing: INDEPENDENCE HOLDING CO - Form 10-Q

1	1,427
1	1,979
2	24,692
2	4,379
Selling, general administrative expenses	and
3	6,390
3	4,991
(	67,825
7	1,469
Amortization of deferred acquisicosts	
	1,720

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

Edgar Filing	INDEPENDENCE HOLDING CO - Form 10-Q
	THE ENDERTOE HOLDING OF TOM TO Q

**Discontinued operations:** 

Loss from discontinued operations, net of tax

(55)

(117)

(182)

(354)

#### Net income

2,263

1,846

18,513

(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)

#### Edgar Filing: INDEPENDENCE HOLDING CO - Form 10-Q

(.01)

(.03)

Basic income per common share

\$

.11

\$

.12

\$

1.16

\$

.32

WEIGHTED AVERAGE SHARES OUTSTANDING

#### Edgar Filing: INDEPENDENCE HOLDING CO - Form 10-Q

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

## Income from continuing operations

\$

.11

\$

.13

---

\$

1.17

\$

.35

Loss from discontinued operations

-

(.01)

(.01)

(.03)

Diluted income per common share

\$

50

#### Edgar Filing: INDEPENDENCE HOLDING CO - Form 10-Q

.11

\$

.12

\$

1.16

\$

.32

WEIGHTED AVERAGE DILUTED SHARES OUTSTANDING

15,268

15,419

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	
COMPREHENS	IVE
STOCK,	
RETAINED	
STOCKHOLDE	RS'
INTERESTS I	N
TOTAL	
STOCK	
CAPITAL	
INCOME (LOS	SS)
AT COST	

**EARNINGS** 

**EQUITY** 

**SUBSIDIARIES** 

**EQUITY** 

**BALANCE AT** 

#### **DECEMBER 31,** 2009

\$

15,460

\$

\$

\$

100,447

(7,104)

(326)

### Edgar Filing: INDEPENDENCE HOLDING CO - Form 10-Q

\$

94,490

\$

202,967

\$

540

\$

17,732

17,732

781

18,513

Net change in unrealized

gains (losses)

8,931

8,931

-

Total comprehensive

income

26,663

781



(1,591)

(1,591)

(1,591)

Acquisition of MedWatch

.

480

480

Acquisition of HBA

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

Edgar Filing:	INDEPEN	IDENCE	HOLDING	CO - F	orm	10-Q
---------------	---------	--------	---------	--------	-----	------

expenses and related

tax benefits

12

292

304

-

304

Other capital transactions

(24)

**BALANCE AT** 

**JUNE 30, 2010** 

15,472

\$

\$

100,784

1,827

\$

(1,917)

\$

\$

\$

\$

111,817

227,983

29,267



# 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

1	8	.5	1	3

\$

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 acqui costs	
	3,038
	2,350

Net realized investment gains

(1,983)

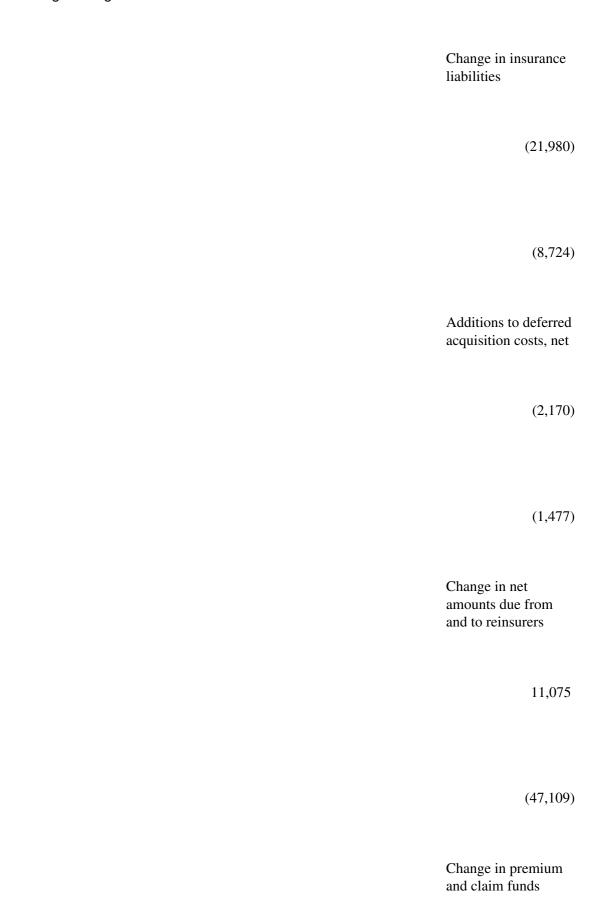
(2,927)

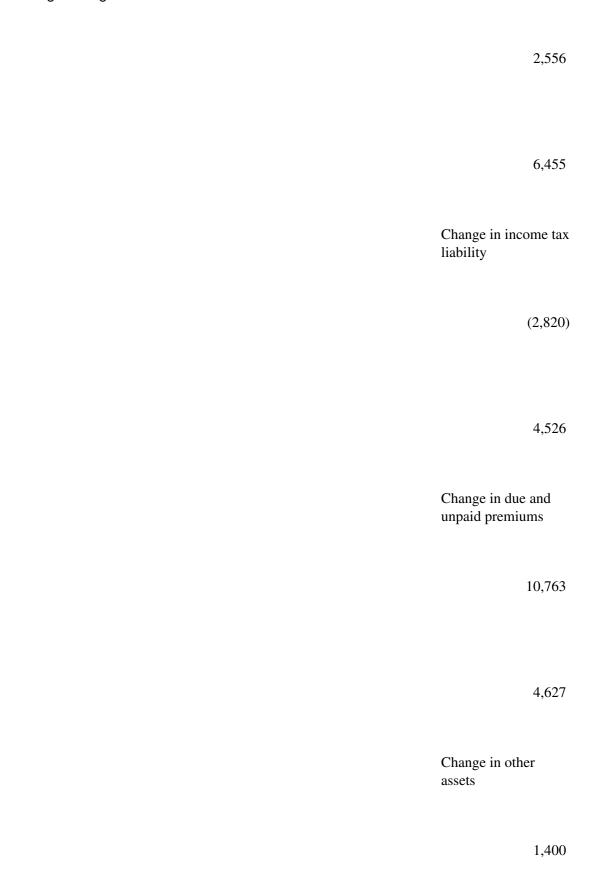
G CO - Form 10-Q	Other-than-temporary impairment losses
	2,665
	271
	Equity income from AMIC and other equity method investments
	(487)
	(1,346)
	Depreciation and amortization
	2,461
	2,742

79

Share-based compensation expenses

3	348
3	341
Deferred tax (bene expense	efit)
12,8	311
(9	96)
Other	
6	666
Changes in assets and liabilities:	296 s





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

13,672

Purchases of equity securities

(17,022)

-

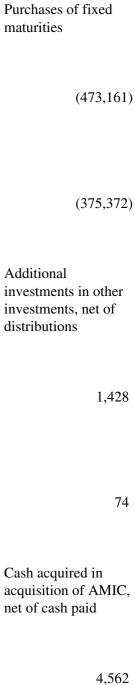
Sales of fixed maturities

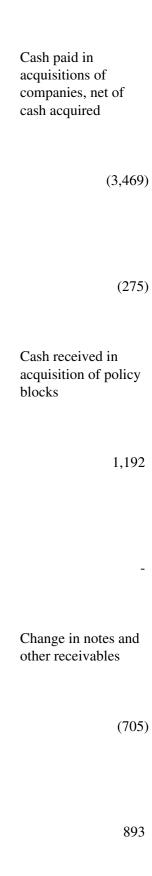
379,878

273,842

Maturities and other repayments of fixed maturities

67,702





Other



(993)

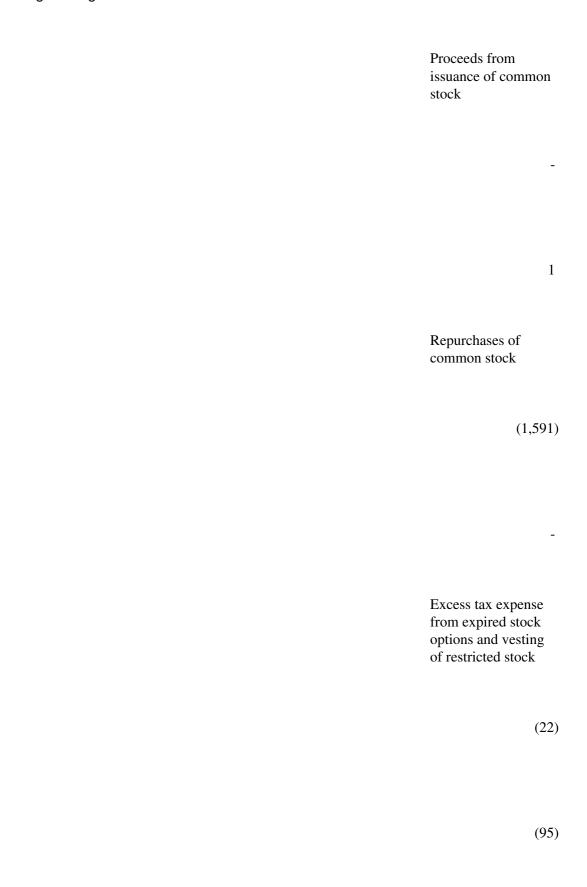
(1,182)

Net change in cash from investing activities

8,314

31,023

CASH FLOWS PROVIDED BY (USED BY) FINANCING ACTIVITIES:



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

Cash and cash equivalents, end of period

\$

12,599

\$

6,877

See the accompanying Notes to Condensed Consolidated Financial Statements.

7

#### INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES

#### **Notes to Condensed Consolidated Financial Statements**

(Unaudited)

Note 1.
<b>Significant Accounting Policies and Practices</b>

#### **Business and Organization**

(A)

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.

9

**(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

# Edgar Filing: INDEPENDENCE HOLDING CO - Form 10-Q Other liabilities

19,023

Total liabilities

46,694

Net identifiable assets acquired

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

\$

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,
<b>June 30</b> ,
2010
2009
2010
2009

(in thousands)

Revenues

\$

106,431

\$

124,581

\$

208,551

\$

## Net income

\$

2,304

\$

2,418

\$

2,292

\$



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.

# Income Per Common Share

Note 3.

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

0,075

(Income) loss f r o m noncontrolling interests

in subsidiaries

(565)

13

(781)

Income from continuing operations

attributable to I H C shareholders, net of tax

1	0	7	6
- 1	.9	/	o

17,914

5,332

Loss from discontinued operations, net of tax

(55)

(117)

(182)

(354)

Net income attributable to I H C shareholders

\$

1,698

\$

1,859

\$

\$

17,732

11,132

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 gain fair value of investment securities are as follows:	s, gross unrealized losses and
	June 30, 2010
	GROSS
	GROSS
	AMORTIZED
	UNREALIZED
	UNREALIZED

Edgar Filing: INDEPENDENCE HOLDING CO - Form	10-Q
	FAIR
	COST
	2001
	GAINS
	LOSSES
	VALUE
	(In thousands)
	FIXED MATURITIES
	THE WITTENESS

**AVAILABLE-FOR-SALE:** 

## Corporate securities

\$

294,122

\$

4,945

\$

(1,465)

\$

297,602

CMOs- residential (1)

74,523

4,916

(4,756)

74,683

121



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)

\$

Edgar Filing:	: INDEPENDENCE	HOLDING	CO - Form	10-Q
---------------	----------------	---------	-----------	------

<b>EQUITY</b>	<b>SECURITIES</b>
---------------	-------------------

## **AVAILABLE-FOR-SALE:**

Common stocks

\$

8,866

\$

125

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

## Total equity securities

\$

50,981

\$

902

\$

\$

(1,467)

December 3	31, 2	009
------------	-------	-----

GROSS
GROSS
AMORTIZED
UNREALIZED
UNREALIZED
FAIR
COST
GAINS

LOSSES

Edgar Filing:	INDEPEN	1DENCE	HOLDING	CO - For	m 10-Q
---------------	---------	--------	---------	----------	--------

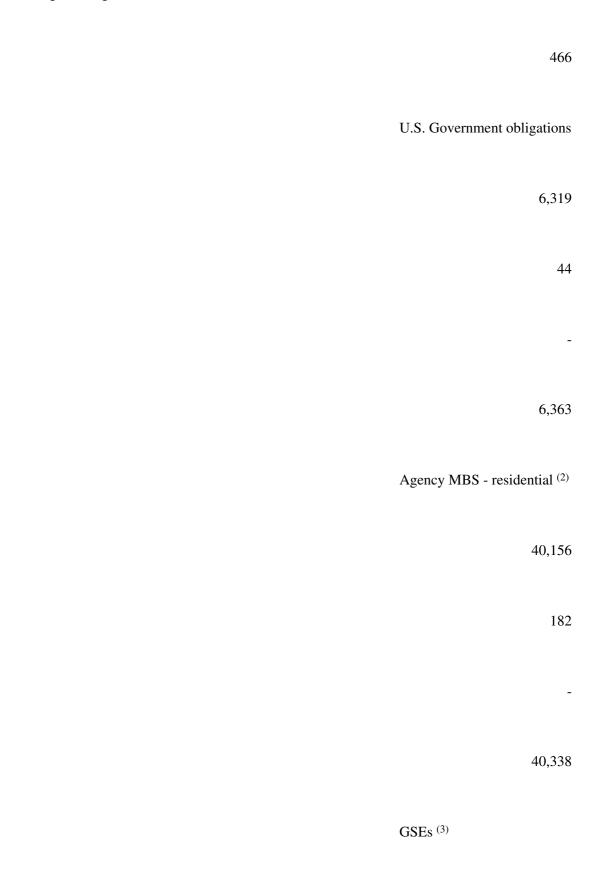
	VALUE
	(In thousands) FIXED MATURITIES
	AVAILABLE-FOR-SALE:

Corporate securities

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

(402)

130



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

#### Total fixed maturities

\$

707,196

\$

7,348

\$

\$

(24,681)

(21,001)

689,863

**EQUITY SECURITIES** 

#### **AVAILABLE-FOR-SALE:**

#### Common stocks

\$

3,790

\$

151

\$

(69)

\$

3,872

Preferred stock - perpetuals

m 10-Q	
10 Q	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)

(012)

\$

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** 

Edgar Filing: INDEPENDENCE HOLDING CO - Form 10-Q  FAIR	
FAIR	
TOTAL FAIR	
COST	
VALUE	
VALUE	

(In thousands)

Due after one year through five years
\$
191,382
171,302
\$
193,907
24.6%
Due after five years through ten years
142,580
144,232
18.3%
Due after ten

years

339,764

43.2%

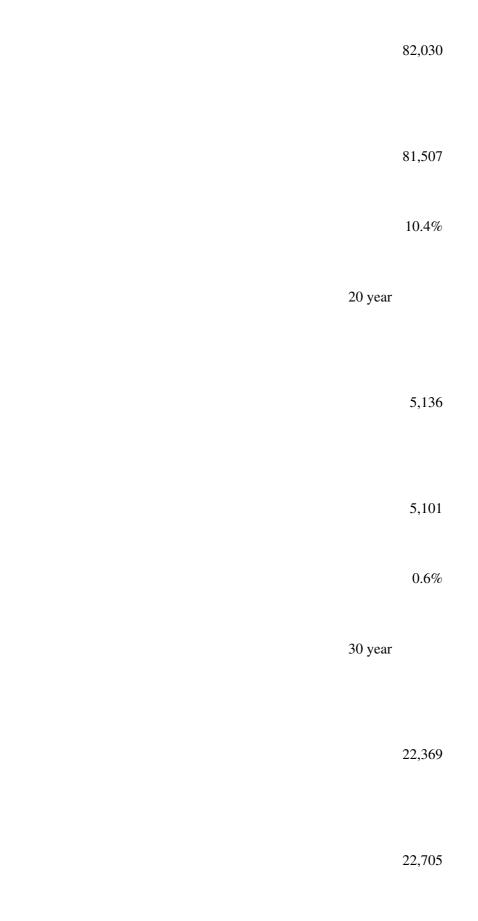
673,239

677,903

86.1%

CMO and MBS

15 year







\$

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

Fai	r
Unreal	lized
Fai	r
Unreal	lized
Fai	r
Unreal	lized
June 30, 2	2010
Valu	ue
Loss	ses
Valu	ue

Los	ses
Val	lue
Los	SCOC
Lus	SCS
(In thou	ısands)

C orporate securities

\$

37,323

\$

624

\$

22,462

\$

841

\$

59,785

\$

1,465

C M O s residential

4,414

4,159

29,015

4,756

C M O 's - commercial

317

261

476

392

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

-

-

5,398

614

Preferred stocks-perpetual

10,288

223

4,995

853

T o t a 1 temporarily

i m p a i r e d 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)	

C or p or a t e securities

\$

122,122

\$

2,287

\$

66,652

\$

5,070

\$

188,774

\$

7,357

C M O s residential

7,937

990

35,757

7,592

43,694

8,582

C M O s commercial

-

-

466

402

466

402

GSEs

9,901

186

5,246

65

251

States and political

subdivisions



52,196

3,630

184,376

8,089

Total fixed maturities

272,140

7,922

160,317

432,457

24,681

Common stocks

1,861

69

1,861

69

Preferred stocks-perpetual

416

8

8,060

207

8,476

215

Preferred stockswith

maturities

-

8,692

528

8,692

528

T o t a l temporarily

i m p a i r e d 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):

ionalis and six months ended Julie 50, 2010 and 2009 (in thousands).	
	Three Months Ended
	Six Months Ended
	June 30,
	June 30,
	<b>June 30</b> ,
	2010
	2009
	2010
	2009

Edgar Filing:	: INDEPENDENCE	HOLDING	CO - Form	10-Q
---------------	----------------	---------	-----------	------

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.

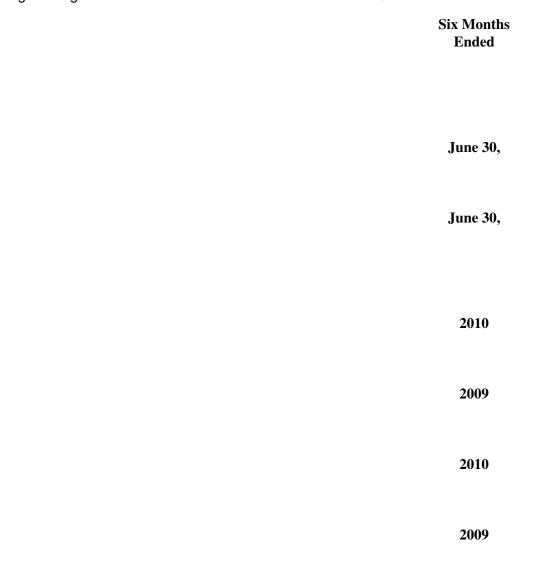
Further deterioration in credit quality of the companies backing the securities, further deterioration in the condition of the financial services industry, a continuation of the current imbalance in liquidity that exists in the marketplace, a continuation or worsening of the current economic recession, 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



gains (losses):

Fixed maturities

\$

1,584

\$

1,274

\$

\$

1,743

2,939

Common stocks

\_

152

-

Preferred stocks

(15)

(12)

26

(12)

1,634

1,262

1,921

2,927

Other

\_

62

\_

investment gains \$ 1,634 \$ 1,262 \$,262 1,983 \$ 2,927

Net realized

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.

Edgar Filing: INDEPENDENCE HOLDING CO - Form 10-Q	
The following tables present our financial assets and liabilities measured at fair value on a recurred 2010 and December 31, 2009, respectively (in thousands):	ring basis, at June 30,
Ju	ine 30, 2010
	Level 1
	Level 2
	Level 3
	LCCCI J

Total

Edgar Filing:	INDEPEN	<b>IDENCE F</b>	HOLDING	CO -	Form	10-Q
---------------	---------	-----------------	---------	------	------	------

FINANCIAL ASSETS:

Fixed maturities available-for-sale:

# Corporate securities

\$

\_

\$

297,602

\$

\_

\$

297,602

CMOs - residential

\_

33,082

41,601

Edgar Filing: INDEPENDENCE HOLDING CO - Form 10-Q	
	CMOs - commercial
	-
	-
	793
	7,53
	793
	173
	US Government
	obligations
	-
	11,787
	-
	11,787
	Agency MBS - residential

-

6,190

-

6,190

**GSEs** 

-

58,886

-

58,886

States and political subdivisions

-

227	$\sim$	_
441	, ,	-
. ). ) /	- Z I	

-

337,275

Total fixed maturities

744,822

42,394



perpetual

27,350

\_

-

27,350

Preferred stocks - with maturities

12,044

2,550

-

14,594

Total equity securities

2,550

-

50,416

Total

\$

47,866

\$

747,372

\$

42,394

\$

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

States and political subdivisions

-

353,093

-

353,093

Total fixed maturities

-

650,355

39,508



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

\$

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):

politics for the six months ended June 30, 2010 are summarized as follows (in thousands):
I 20, 2010
June 30, 2010
CMOs
Residential
Commercial
Total
10tai

### Beginning balance

\$

39,042

\$

466

\$

39,508

Transfers into Level 3:

Acquisition of AMIC



\_

(1,933)

Net unrealized gains (losses) included in

accumulated other comprehensive loss

4,967

22

Repayments and amortization of fixed maturities

(2,306)

-

(2,306)

Balance at end of period

\$

193
\$
42,394
The following methods and assumptions were used to estimate the fair value of financial instruments not disclose elsewhere in the Notes to Condensed Consolidated Financial Statements:
$(\mathbf{A})$
Policy Loans
The fair value of policy loans is estimated by projecting aggregate loan cash flows to the end of the expected lifetim period of the life insurance business at the average policy loan rates, and discounting them at a current market interestrate.
<b>(B)</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 i 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 Financial Statements are as follows:	Condensed Consolidated
	June 30, 2010
	December 31,
	2009
	Carrying
	Fair
	<b>1 u</b>
	Carrying
	Fair
	2 444
	Amount

Value
Amount
Value
(In thousands) FINANCIAL ASSETS:

23,743 \$ 27,364 \$ 23,833

27,422

\$

FINANCIAL

Edgar Filing:	<b>INDEPENDENCE</b>	HOLDING (	CO - Form	10-C
Luuai i iiiilu.		TIOLDING (	JO - 1 01111	יט־עו

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 an	nount of goodwill and oth	her intangible assets	(included in otl	her assets in the	Condensed
Consolidated Balance Sheets)	for the first six months o	f 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

HBA

814

200

-

200

Capitalized software development

-

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

Pretax loss from discontinued operations

\$

(85)

\$

(181)

\$

(280)

\$

(545)

Tax benefits allocated to discontinued operations

30

64

98

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 follow (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

\_

Expenses incurred related to block in run-off

-

Payments of expenses accrued to administer

the business sold

(21)

(24)

230

(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, 20 remaining costs associated with the credit life and disability discontinued operations.	10 adequately estimate the
Note 10.	

Note

### **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