INDEPENDENCE HOLDING CO
Form 10-Q
August 08, 2013

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, 2013.**

[ ]

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 [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer [ ]	Accelerated Filer [X]
Non-Accelerated Filer [ ]	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 2, 2013
Common stock, $ 1.00 par value	**17,667,526 Shares**

INDEPENDENCE HOLDING COMPANY

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

Forward-Looking Statements

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

Numerous risks and uncertainties may impact the matters addressed by our forward-looking statements, any of which could negatively and materially affect our future financial results and performance. We describe some of these risks and uncertainties in greater detail in Item 1A, Risk Factors, of IHC s annual report on Form 10-K as filed with Securities and Exchange Commission.

Although we believe that the assumptions underlying our forward-looking statements are reasonable, any of these assumptions, and, therefore, also the forward-looking statements based on these assumptions, could themselves prove to be inaccurate. In light of the significant uncertainties inherent in the forward-looking statements that are included in this report, our inclusion of this information is not a representation by us or any other person that our objectives and plans will be achieved. Our forward-looking statements speak only as of the date made, and we will not update these forward-looking statements unless the securities laws require us to do so. In light of these risks, uncertainties and assumptions, any forward-looking event discussed in this report may not occur.

PART I - FINANCIAL INFORMATION

Item 1.

Financial Statements

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	June 30, 2013 (Unaudited)	December 31, 2012
ASSETS:		
Investments:		
Short-term investments	$ 50	$ 50
Securities purchased under agreements to resell	10,588	33,956
Trading securities	7,997	7,016
Fixed maturities, available-for-sale	573,527	719,602
Equity securities, available-for-sale	5,594	15,598
Other investments	25,648	35,134
Total investments	623,404	811,356
Cash and cash equivalents	18,977	23,945
Deferred acquisition costs	29,624	33,401
Due and unpaid premiums	73,146	49,430
Due from reinsurers	383,848	166,880
Premium and claim funds	36,524	40,596
Goodwill	50,318	50,318
Other assets	77,548	86,382
TOTAL ASSETS	$ 1,293,389	$ 1,262,308
LIABILITIES AND STOCKHOLDERS EQUITY:		
LIABILITIES:		
Claims and claim adjustment expenses-health	$ 240,155	$ 194,480
Future policy benefits-life and annuity	289,726	290,238
Funds on deposit	276,287	278,084
Unearned premiums	11,106	8,453
Other policyholders' funds	24,990	22,373
Due to reinsurers	45,454	48,192
Accounts payable, accruals and other liabilities	71,425	71,495
Debt	8,000	8,000
Junior subordinated debt securities	38,146	38,146
TOTAL LIABILITIES	1,005,289	959,461

STOCKHOLDERS EQUITY:
IHC STOCKHOLDERS' EQUITY:

Preferred stock (none issued)		- -		-
Common stock $1.00 par value, 23,000,000 shares authorized; 18,473,958 and 18,461,992 shares issued; 17,665,051 and 17,932,954 shares outstanding		18,474		18,462
Paid-in capital		127,187		126,589
Accumulated other comprehensive income (loss)		(3,459)		15,013
Treasury stock, at cost; 808,907 and 529,038 shares		(7,431)		(4,533)
Retained earnings		137,921		130,153
TOTAL IHC STOCKHOLDERS EQUITY		272,692		285,684
NONCONTROLLING INTERESTS IN SUBSIDIARIES		15,408		17,163
TOTAL EQUITY		288,100		302,847
TOTAL LIABILITIES AND EQUITY	$	1,293,389	$	1,262,308

See the accompanying Notes to Condensed Consolidated Financial Statements.

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INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
(In thousands, except per share data)

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
REVENUES:				
Premiums earned	$ 125,465	$ 85,469	$ 242,833	$ 169,243
Net investment income	7,002	7,609	15,003	16,360
Fee income	6,039	5,889	12,581	13,310
Other income	1,659	1,247	3,011	2,403
Net realized investment gains	11,735	1,850	16,354	2,987
Other-than-temporary impairment losses:				
Total other-than-temporary impairment losses	-	(909)	-	(992)
Portion of losses recognized in other comprehensive income	-	288	-	288
Net impairment losses recognized in earnings	-	(621)	-	(704)
	151,900	101,443	289,782	203,599
EXPENSES:				
Insurance benefits, claims and reserves	89,276	60,265	174,736	117,400
Selling, general and administrative expenses	44,862	33,331	87,742	69,803
Amortization of deferred acquisitions costs	10,948	1,631	12,388	3,225
Interest expense on debt	490	540	977	1,079
	145,576	95,767	275,843	191,507
Income from operations before income taxes	6,324	5,676	13,939	12,092
Income taxes	2,166	1,846	4,741	3,932
Net income	4,158	3,830	9,198	8,160
Less: Income from noncontrolling interests in subsidiaries	(467)	(299)	(806)	(707)
NET INCOME ATTRIBUTABLE TO IHC	$ 3,691	$ 3,531	$ 8,392	$ 7,453
Basic income per common share	$ .21	$ .20	$ .47	$ .41
WEIGHTED AVERAGE SHARES OUTSTANDING	17,753	17,987	17,836	18,008
Diluted income per common share	$ .21	$ .20	$ .47	$ .41
WEIGHTED AVERAGE DILUTED SHARES OUTSTANDING	17,805	18,025	17,922	18,100

See the accompanying Notes to Condensed Consolidated Financial Statements.

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)
(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	**2012**	**2013**	**2012**
Net income	$ 4,158	$3,830	$9,198	$ 8,160
Other comprehensive income (loss):				
Available-for-sale securities:				
Unrealized gains (losses) on available-for-sale securities, pre-tax	(25,889)	6,602	(27,996)	7,307
Tax expense (benefit) on unrealized gains (losses) on available-for-sale securities	(8,325)	2,066	(8,905)	2,366
Unrealized gains (losses) on available-for-sale securities, net of taxes	(17,564)	4,536	(19,091)	4,941
Other-than-temporary impairment losses, pre-tax	-	(288)	-	(288)
Tax benefit on other-than-temporary impairment losses	-	(41)	-	(41)
Other-than-temporary impairment losses, net of taxes	-	(247)	-	(247)
Cash flow hedge:				
Unrealized gains (losses) on cash flow hedge, pre-tax	22	28	45	(8)
Tax expense (benefit) on unrealized gains (losses) on cash flow hedge	9	11	18	(3)
Unrealized gains (losses) on cash flow hedge, net of taxes	13	17	27	(5)
Other comprehensive income (loss), net of tax	(17,551)	4,306	(19,064)	4,689
COMPREHENSIVE INCOME (LOSS), NET OF TAX	(13,393)	8,136	(9,866)	12,849
Comprehensive income, net of tax, attributable to noncontrolling interests:				
Income from noncontrolling interests in subsidiaries	(467)	(299)	(806)	(707)
Other comprehensive loss, net of tax, attributable to noncontrolling interests:				
Unrealized (income) loss on available-for-sale securities, net of tax	465	(126)	556	(93)
Other comprehensive (income) loss, net of tax, attributable to noncontrolling interests	465	(126)	556	(93)

COMPREHENSIVE INCOME, NET OF TAX, ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(2)	(425)	(250)	(800)
COMPREHENSIVE INCOME (LOSS), NET OF TAX, ATTRIBUTABLE TO IHC	$(13,395)	$7,711	$(10,116)	$ 12,049

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, 2013 (In thousands)

	COMMON STOCK	PAID-IN CAPITAL	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TREASURY STOCK, AT COST	RETAINED EARNINGS	TOTAL IHC STOCKHOLDERS' EQUITY	NON CONTRO INTERES SUBSIDI
BALANCE AT DECEMBER 31, 2012	$ 18,462	$ 126,589	$ 15,013	$ (4,533)	$ 130,153	$ 285,684	$
Net income					8,392	8,392	
Other comprehensive (loss), net of tax			(18,508)			(18,508)	
Repurchases of common stock				(2,898)		(2,898)	
Common stock dividend ($.035 per share)					(624)	(624)	
Share-based compensation expenses and related tax benefits	12	191				203	
Acquire noncontrolling interests		403	36			439	
Distributions to noncontrolling interests						-	
Other capital transactions		4				4	

BALANCE AT JUNE 30, 2013	**$**	18,474	$	127,187	$	(3,459)	$	(7,431)	$	137,921	$	272,692 $

See the accompanying Notes to Condensed Consolidated Financial Statements.

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INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(In thousands)

	Six Months Ended June 30, 2013	2012
CASH FLOWS PROVIDED BY (USED BY) OPERATING ACTIVITIES:		
Net income	$ 9,198	$ 8,160
Adjustments to reconcile net income to net change in cash from operating activities:		
Amortization of deferred acquisition costs	12,388	3,225
Net realized investment gains	(16,354)	(2,987)
Other-than-temporary impairment losses	-	704
Equity income from equity method investments	(1,160)	(556)
Depreciation and amortization	2,342	1,973
Share-based compensation expenses	508	633
Deferred tax expense	6,025	1,945
Other	2,623	3,514
Changes in assets and liabilities:		
Net purchases of trading securities	(428)	(712)
Change in insurance liabilities	47,468	1,636
Additions to deferred acquisition costs, net	(3,082)	(3,362)
Change in amounts due from reinsurers	(216,968)	(149,570)
Change in premium and claim funds	4,072	1,887
Change in current income tax liability	(782)	2,544
Change in due and unpaid premiums	(23,716)	(3,431)
Change in other assets	1,188	553
Change in other liabilities	(3,284)	(5,838)
Net change in cash from operating activities	(179,962)	(139,682)
CASH FLOWS PROVIDED BY (USED BY) INVESTING ACTIVITIES:		
Change in net amount due from and to securities brokers	13,418	5,315
Net (purchases) sales of securities under resale and repurchase agreements	23,368	(4,379)
Sales of equity securities	10,029	4,928
Purchases of equity securities	-	(2,963)
Sales of fixed maturities	460,981	336,049
Maturities and other repayments of fixed maturities	32,970	35,893
Purchases of fixed maturities	(368,514)	(239,053)
Change in other investments	-	3,535
Cash paid in acquisitions of companies, net of cash acquired	-	(243)
Other investing activities	9,751	(3,389)
	182,003	135,693

Net change in cash from investing activities				
CASH FLOWS PROVIDED BY (USED BY) FINANCING ACTIVITIES:				
Repurchases of common stock		(2,898)		(1,013)
Cash paid in acquisitions of noncontrolling interests		(1,199)		(58)
Proceeds (withdrawals) of investment-type insurance contracts		(1,570)		1,338
Dividends paid		(624)		(1,051)
Other capital transactions		(718)		(53)
Net change in cash from financing activities		(7,009)		(837)
Net change in cash and cash equivalents		(4,968)		(4,826)
Cash and cash equivalents, beginning of year		23,945		18,227
Cash and cash equivalents, end of period	$	18,977	$	13,401

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 insurance companies, Standard Security Life Insurance Company of New York ("Standard Security Life"), Madison National Life Insurance Company, Inc. ("Madison National Life"), Independence American Insurance Company (Independence American); and (ii) its marketing and administrative companies, including IHC Risk Solutions, LLC, IHC Health Solutions, Inc. and IHC Specialty Benefits, Inc. 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 significant equity interest in a managing general underwriter (MGU) that writes medical stop-loss for Standard Security Life. At June 30, 2013, the Company also owned an 80.6% interest in American Independence Corp. ("AMIC").

Geneve Corporation, a diversified financial holding company, and its affiliated entities held approximately 51.8% of IHC's outstanding common stock at June 30, 2013.

(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.

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, 2013 are not necessarily indicative of the results to be anticipated for the entire year.

(C)

Recent Accounting Pronouncements

Recently Adopted Accounting Standards

In February 2013, the Financial Accounting Standards Board (FASB) issued guidance requiring an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income. For other amounts, an entity is required to cross-reference to other disclosures that provide additional detail about those amounts. The adoption of this guidance, effective January 1, 2013, only affected the Company s presentation of

information pertaining to other comprehensive income (loss) and did not affect the Company s consolidated financial statements.

In July 2012, the FASB issued guidance to revise the subsequent measurement requirements for indefinite-lived intangible assets. In accordance with the amendments in this Update, an entity will have the option to first assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that an indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. An entity also has the option to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to performing the quantitative impairment test. An entity will be able to resume performing the qualitative assessment in any subsequent period. The adoption of this guidance, effective January 1, 2013, did not have a material effect on the Company s consolidated financial statements.

In December 2011 and March 2013, the FASB issued guidance to amend the disclosure requirements on offsetting financial instruments and related derivatives. Entities are required to provide both net and gross information for these assets and liabilities in order to enhance comparability. The adoption of this guidance, effective January 1, 2013, did not have a material effect on the Company s consolidated financial statements.

Recently Issued Accounting Standards Not Yet Adopted

In July 2013, the FASB, issued guidance for the presentation of unrecognized tax benefits to better reflect the manner in which an entity would settle, at the reporting date, any additional income taxes that would result from the disallowance of a tax position when net operating loss carryforwards, similar tax losses, or tax credit carryforwards exist. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 31, 2013. The Company s presentation of unrecognized tax benefits is consistent with this guidance and therefore the adoption of such guidance will not have an effect on the Company s consolidated financial statements.

In July 2013, the FASB issued guidance that permits the Fed Funds Effective Swap Rate to be used as a U.S. benchmark interest rate for hedge accounting purposes and removes the restriction on using different benchmark rates for similar hedges. This guidance is effective prospectively for qualifying new or re-designated hedging relationships entered into on or after July 17, 2013 and is not expected to have an impact on the Company s consolidated financial statements.

In July 2011, the FASB issued guidance specifying that the liability for the fees paid to the Federal Government by health insurers as a result of recent healthcare reform legislation should be estimated and recorded in full once the entity provides qualifying health insurance in the applicable calendar year in which the fee is payable with a corresponding deferred cost that is amortized to expense using a straight-line method of allocation unless another method better allocates the fee over the calendar year that it is payable. The amendments in this Update are effective for calendar years beginning after December 31, 2013, when the fee initially becomes effective. Management has not yet determined the impact that the adoption of this guidance will have on the Company s consolidated financial statements.

(D)

Reclassifications

Certain amounts in prior year s Condensed Consolidated Financial Statements and Notes thereto have been reclassified to conform to the 2013 presentation.

Note 2.

American Independence Corp.

As a result of share repurchases by AMIC in January 2013, (i) noncontrolling interests decreased by $1,638,000; (ii) the Company recorded a $403,000 credit to its paid-in capital; and (iii) IHC s ownership interest in AMIC increased to 80.6%.

Note 3.

Income Per Common Share

Diluted income per share, computed using the treasury stock method, include incremental shares from; (i) the assumed exercise of dilutive stock options; (ii) the assumed vesting of dilutive restricted stock; and (iii) assumed share settlement of dilutive stock appreciation rights (SARs)

of 52,000 and 86,000 shares, respectively, for the three months and six months ended June 30, 2013, and 38,000 and 92,000 shares, respectively, for the three months and six months ended June 30, 2012.

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 for the periods indicated (in thousands):

June 30, 2013	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
FIXED MATURITIES AVAILABLE-FOR-SALE:				
Corporate securities	$ 226,660	$ 2,469	$ (6,733)	$ 222,396
CMOs - residential (1)	2,050	2,821	-	4,871
CMOs - commercial	975	-	(404)	571
U.S. Government obligations	30,353	374	(268)	30,459
Agency MBS - residential (2)	119	-	(1)	118
GSEs (3)	32,108	132	(269)	31,971
States and political subdivisions	249,145	3,597	(5,211)	247,531
Foreign governments	33,128	75	(1,591)	31,612
Redeemable preferred stocks	4,036	89	(127)	3,998
Total fixed maturities	$ 578,574	$ 9,557	$ (14,604)	$ 573,527
EQUITY SECURITIES AVAILABLE-FOR-SALE:				
Nonredeemable preferred stocks	5,504	90	-	5,594
Total equity securities	$ 5,504	$ 90	$ -	$ 5,594

	December 31, 2012			
	AMORTIZED COST	**GROSS UNREALIZED GAINS**	**GROSS UNREALIZED LOSSES**	**FAIR VALUE**
FIXED MATURITIES AVAILABLE-FOR-SALE:				
Corporate securities	$ 343,529	$ 11,247	$ (953)	$ 353,823
CMOs - residential (1)	12,993	7,166	(65)	20,094
CMOs - commercial	975	-	(405)	570
U.S. Government obligations	18,376	492	(2)	18,866
Agency MBS - residential (2)	397	31	-	428
GSEs (3)	48,598	1,075	(67)	49,606
States and political subdivisions	260,086	9,134	(995)	268,225
Redeemable preferred stocks	6,323	1,667	-	7,990
Total fixed maturities	$ 691,277	$ 30,812	$ (2,487)	$ 719,602
EQUITY SECURITIES AVAILABLE-FOR-SALE:				
Nonredeemable preferred stocks	15,355	253	(10)	15,598
Total equity securities	$ 15,355	$ 253	$ (10)	$ 15,598

(1)

Collateralized mortgage obligations (CMOs).

(2)

Mortgage-backed securities (MBS).

(3)

Government-sponsored enterprises (GSEs) are private enterprises established and chartered by the Federal Government or its various insurance and lease programs which carry the full faith and credit obligation of the U.S. Government.

The amortized cost and fair value of fixed maturities available-for-sale at June 30, 2013, by contractual maturity, are shown below (in thousands). 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. CMOs and MBSs are shown separately, as they are not due at a single maturity.

	AMORTIZED COST	FAIR VALUE
Due in one year or less	$ 2,675	$ 2,982
Due after one year through five years	72,968	73,858
Due after five years through ten years	176,580	172,378
Due after ten years	291,099	286,779
CMOs and MBSs	35,252	37,530
	$ 578,574	$ 573,527

The following tables summarize, for all available-for-sale securities in an unrealized loss position, the aggregate fair value and gross unrealized loss by length of time those securities that have continuously been in an unrealized loss position, for the periods indicated:

	June 30, 2013					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate securities	$ 153,179	$ 6,403	$ 4,721	$ 330	$ 157,900	$ 6,733
CMOs - commercial	-	-	571	404	571	404
U.S. Government obligations	17,385	268	-	-	17,385	268
Agency MBS - residential	118	1	-	-	118	1
GSEs	15,453	92	5,648	177	21,101	269
States and political subdivisions	145,939	4,406	20,212	805	166,151	5,211
Foreign governments	27,446	1,591	-	-	27,446	1,591
Redeemable preferred stocks	3,635	127	-	-	3,635	127
Total temporarily impaired securities	$ 363,155	$ 12,888	$ 31,152	$ 1,716	$ 394,307	$ 14,604
Number of securities in an unrealized loss position	113		15		128	

	December 31, 2012					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate securities	$ 61,386	$ 953	$ -	$ -	$ 61,386	$ 953
CMOs - residential	2,416	21	1,138	44	3,554	65
CMOs - commercial	-	-	570	405	570	405
U.S. Government obligations	5,667	2	-	-	5,667	2

GSEs	6,162		40	2,784		27	8,946		67
States and political subdivisions	53,036		657	17,707		338	70,743		995
Total fixed maturities	128,667		1,673	22,199		814	150,866		2,487
Nonredeemable preferred stocks	1,378		10	-		-	1,378		10
Total temporarily impaired securities	$ 130,045	$	1,683	$ 22,199	$	814	$ 152,244	$	2,497
Number of securities in an unrealized loss position	45			23			68		

Substantially all of the unrealized losses on fixed maturities available-for-sale at June 30, 2013 and December 31, 2012 relate to investment grade securities and are attributable to changes in market interest rates. 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, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at June 30, 2013.

Net realized investment gains (losses) are as follows for periods indicated (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Sales of available-for-sale securities:				
Fixed maturities	$ 11,825	$ 2,101	$ 16,276	$ 3,343
Preferred stocks	64	-	177	(491)
Total sales of available-for-sale securities	11,889	2,101	16,453	2,852
Sales of trading securities	349	(151)	385	105
Other gains (losses)	(415)	-	(654)	-
Total realized gains (losses)	11,823	1,950	16,184	2,957
Unrealized gains (losses) on trading securities:				
Available-for-sale securities transferred to trading category	-	-	-	138
Change in unrealized gains (losses) on trading securities	(88)	(100)	170	(108)
Total unrealized gains (losses) on trading securities	(88)	(100)	170	30
Net realized investment gains (losses)	$ 11,735	$ 1,850	$ 16,354	$ 2,987

For the three months and six months ended June 30, 2013, the Company realized gross gains of $14,104,000 and $18,736,000, respectively, and realized gross losses of $2,215,000 and $2,283,000, respectively, on sales of available-for-sale securities. For the three months and six months ended June 30, 2012, the Company realized gross gains of $2,799,000 and $6,089,000, respectively, and realized gross losses of $698,000 and $3,237,000, respectively, on sales of available-for-sale securities.

On January 1, 2012, the Company transferred equity securities previously classified as available-for-sale into the trading category and, as a result, recognized $287,000 of gross gains and $149,000 of gross losses in net realized investment gains on the accompanying Condensed Consolidated Statement of Income. These gains and losses were previously included in accumulated other comprehensive income.

Other-Than-Temporary Impairment Evaluations

We recognize an other-than-temporary impairment loss in earnings in the period that we determine: 1) we intend to sell the security; 2) it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis; or 3) the security has a credit loss. Any non-credit portion of the other-than-temporary impairment loss is recognized in other comprehensive income (loss). See Note 1E(vi) to the Consolidated Financial Statements in the 2012 Annual Report for further discussion of the factors considered by management in its regular review to identify and recognize other-than-temporary impairments on available-for-sale securities. Our other-than-temporary impairment losses were as follows for the periods indicated (in thousands):

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Total other-than-temporary impairment losses	$ -	$ 909	$ -	$ 992
Portion of losses recognized in other comprehensive income (loss)	-	(288)	-	(288)
Net impairment losses recognized in earnings	$ -	$ 621	$ -	$ 704

Credit losses were recognized on certain fixed maturities for which each security also had an impairment loss recognized in other comprehensive income (loss). The rollforward of these credit losses were as follows for the periods indicated (in thousands):

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Balance at beginning of year	$ 1,976	$ 1,979	$ 1,976	$ 2,555
Credit losses during the period for which an other-than-temporary loss was not previously recognized	-	473	-	473
Additional credit losses for which an other-than-temporary loss was previously recognized	-	148	-	148
Securities sold	(1,413)	-	(1,413)	(576)
Balance at end of period	$ 563	$ 2,600	$ 563	$ 2,600

The after-tax portion of other-than-temporary impairments included in accumulated other comprehensive income (loss) at June 30, 2013 and December 31, 2012 consists of $345,000 and $389,000, respectively, related to CMO securities; and $0 and $684,000, respectively, related to redeemable preferred stock.

Note 5.

Cash Flow Hedge

In connection with its outstanding amortizing term loan, a subsidiary of IHC entered into an interest rate swap on July 1, 2011 with the commercial bank lender, for a notional amount equal to the debt principal amount ($8,000,000 June 30, 2013 and December 31, 2012), under which the Company receives a variable rate equal to the rate on the debt and pays a fixed rate (1.60%) in order to manage the risk in overall changes in cash flows attributable to forecasted interest payments. As a result of the interest rate swap, interest payments on this debt are fixed at 4.95%. There was no hedge ineffectiveness on this interest rate swap which was accounted for as a cash flow hedge. At June 30, 2013 and December 31, 2012, the fair value of interest rate swap was $318,000 and $363,000, respectively, which is included in other liabilities on the accompanying Consolidated Balance Sheets. See Note 6 for further discussion on the valuation techniques utilized to determine the fair value of the interest rate swap.

Note 6.

Fair Value Disclosures

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 primarily of CMO securities backed by 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. Significant unobservable inputs used in the fair value measurement of CMO s are prepayment rates, probability of default, and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for loss severity and a directionally opposite change in the assumption used for prepayment rates. Further we retain independent pricing vendors to assist in valuing certain instruments.

Trading securities:

Trading securities included in Level 1 are equity securities with quoted market prices.

Interest rate swap:

The financial liability included in Level 2 consists of an interest rate swap on IHC debt. It is valued using market observable inputs including market price, interest rate, and volatility within a Black Scholes model.

The following tables present our financial assets and liabilities measured at fair value on a recurring basis for the periods indicated (in thousands):

	June 30, 2013			
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS:				
Fixed maturities available-for-sale:				
Corporate securities	$ -	$ 222,396	$ -	$ 222,396
CMOs - residential	-	501	4,370	4,871
CMOs - commercial	-	-	571	571
US Government obligations	-	30,459	-	30,459
Agency MBS - residential	-	118	-	118
GSEs	-	31,971	-	31,971
States and political subdivisions	-	245,030	2,501	247,531
Foreign governments	-	31,612	-	31,612
Redeemable preferred stocks	3,998	-	-	3,998
Total fixed maturities	3,998	562,087	7,442	573,527
Equity securities available-for-sale:				
Nonredeemable preferred stocks	5,594	-	-	5,594
Total equity securities	5,594	-	-	5,594
Trading securities - equities	7,997	-	-	7,997
Total trading securities	7,997	-	-	7,997
Total Financial Assets	$ 17,589	$ 562,087	$ 7,442	$ 587,118
FINANCIAL LIABILITIES:				
Interest rate swap	$ -	$ 318	$ -	$ 318

	December 31, 2012			
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS:				
Fixed maturities available-for-sale:				
Corporate securities	$ -	$ 353,823	$ -	$ 353,823
CMOs - residential	-	6,041	14,053	20,094
CMOs - commercial	-	-	570	570
US Government obligations	-	18,866	-	18,866
Agency MBS - residential	-	428	-	428
GSEs	-	49,606	-	49,606
States and political subdivisions	-	265,667	2,558	268,225
Redeemable preferred stocks	7,990	-	-	7,990

Total fixed maturities	7,990	694,431	17,181	719,602
Equity securities available-for-sale:				
Nonredeemable preferred stocks	15,598	-	-	15,598
Total equity securities	15,598	-	-	15,598
Trading securities - equities	7,016	-	-	7,016
Total trading securities	7,016	-	-	7,016
Total Financial Assets	$ 30,604	$ 694,431	$ 17,181	$ 742,216
FINANCIAL LIABILITIES:				
Interest rate swap	$ -	$ 363	$ -	$ 363

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. At June 30, 2013, 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 at June 30, 2013. 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 transferred out of the Level 3 category in 2012. The changes in the carrying value of Level 3 assets and liabilities, for the periods indicated, are summarized as follows (in thousands):

	Three Months Ended June 30, 2013			
	CMOs		States and Political Subdivisions	
	Residential	Commercial		Total
Beginning balance	$ 9,755	$ 576	$ 2,529	$ 12,860
Gains (losses) included in earnings:				
Net realized investment gains	3,145	-	-	3,145
Gains (losses) included in other comprehensive income (loss):				
Net unrealized gains (losses)	(2,957)	(5)	(19)	(2,981)
Sales of securities	(5,286)	-	-	(5,286)
Repayments and amortization of fixed maturities	(287)	-	(9)	(296)
Balance at end of period	$ 4,370	$ 571	$ 2,501	$ 7,442

	Three Months Ended June 30, 2012			
	CMOs		States and Political Subdivisions	
	Residential	Commercial		Total
Beginning balance	$ 13,350	$ 533	$ 2,643	$ 16,526
Gains (losses) included in earnings:				
Other-than-temporary impairments	(148)	(473)	-	(621)
Gains (losses) included in other comprehensive income (loss):				
Net unrealized gains (losses)	399	491	(42)	848
Repayments and amortization of fixed maturities	(632)	-	13	(619)
Balance at end of period	$ 12,969	$ 551	$ 2,614	$ 16,134

	Six Months Ended June 30, 2013			
	CMOs		States and Political Subdivisions	
	Residential	Commercial		Total
Beginning balance	$ 14,053	$ 570	$ 2,558	$ 17,181
Gains (losses) included in earnings:				
Net realized investment gains	4,635	-	-	4,635
Gains (losses) included in other comprehensive income (loss):				
Net unrealized gains (losses)	(4,249)	1	(42)	(4,290)
Sales of securities	(9,320)	-	-	(9,320)
Repayments and amortization of fixed maturities	(749)	-	(15)	(764)
Balance at end of period	$ 4,370	$ 571	$ 2,501	$ 7,442

	Six Months Ended June 30, 2012			
	CMOs		States and Political Subdivisions	
	Residential	Commercial		Total
Beginning balance	$ 22,127	$ 538	$ -	$ 22,665
Purchases of securities	-	-	2,135	2,135
Gains(losses) included in earnings:				
Net realized investment losses	(1,212)	-	-	(1,212)
Other-than-temporary impairments	(231)	(473)	-	(704)
Gains (losses) included in other comprehensive income (loss):				
Net unrealized gains (losses)	1,070	486	454	2,010
Sales of securities	(7,087)	-	-	(7,087)
Repayments and amortization of fixed maturities	(1,698)	-	25	(1,673)
Balance at end of period	$ 12,969	$ 551	$ 2,614	$ 16,134

The following table provides carrying values, fair values and classification in the fair value hierarchy of the Company s financial instruments, for the periods indicated, that are not carried at fair value but are subject to fair value disclosure requirements (in thousands):

	June 30, 2013		December 31, 2012	
	Level 2 Fair Value	Carrying Value	Level 2 Fair Value	Carrying Value
FINANCIAL ASSETS:				
Policy loans	$ 14,896	$ 11,519	$ 28,748	$ 22,165
FINANCIAL LIABILITIES:				
Funds on deposit	$ 277,282	$ 276,287	$ 279,125	$ 278,084
Debt and junior subordinated debt securities	$ 46,146	$ 46,146	$ 46,146	$ 46,146

The following methods and assumptions were used to estimate the fair value of the financial instruments that are not carried at fair value in the Condensed Consolidated Financial Statements:

(A)

Policy Loans

The fair value of policy loans included in Level 2 of the fair value hierarchy 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. Both types of funds on deposit are included in Level 2 of the fair value hierarchy.

(C)

Debt

The fair value of debt with variable interest rates approximates its carrying amount and is included in Level 2 of the fair value hierarchy.

Note 7.

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 2013 is as follows (in thousands):

		Other Intangible Assets		
	Goodwill	Definitive Lives	Indefinite Lives	Total Other Intangible Assets
Balance at December 31, 2012	$ 50,318	$ 10,294	$ 7,977	$ 18,271
Medical Stop-Loss:				
Broker relationships	-	(183)	-	(183)
Amortization expense	-	(1,636)	-	(1,636)
Balance at June 30, 2013	$ 50,318	$ 8,475	$ 7,977	$ 16,452

Note 8.

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.

A) IHC Share-Based Compensation Plans

Total share-based compensation was $370,000 and $147,000 for the three months ended June 30, 2013 and 2012, respectively, and was $491,000 and $617,000 for the six months ended June 30, 2013 and 2012, respectively. Related tax benefits of $148,000 and $59,000 were recognized for the three months ended June 30, 2013 and 2012, respectively, and $196,000 and $246,000 were recognized for the six months ended June 30, 2013 and 2012, 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, 2013, there were 350,170 shares available for future stock-based compensation grants under IHC s stock incentive plans.

Stock Options

At June 30, 2013 and December 31, 2012, there were 693,836 options outstanding. In March 2013, 192,500 options outstanding were modified to extend the expiration term 5 years. The incremental cost of the modified awards was $618,000, which will be recognized over a new 2-year vesting period starting from the date of the modification. There was no other option activity during the six-month period ending June 30, 2013.

The following table summarizes information regarding outstanding and exercisable options as of June 30, 2013:

		Outstanding		Exercisable
Number of options		693,836		501,336
Weighted average exercise price per share	$	9.36	$	9.12
Aggregate intrinsic value for all options	$	1,711	$	1,359
Weighted average contractual term remaining		2.4 years		1.5 years

The fair value of an option award is estimated on the date of grant using the Black-Scholes option valuation model.

Compensation expense of $77,000 and $60,000 was recognized in the three months ended June 30, 2013 and 2012, respectively, and $90,000 and $121,000 was recognized in the six months ended June 30, 2013 and 2012, respectively, for the portion of the grant-date fair value of stock options vesting during that period.

As of June 30, 2013, the total unrecognized compensation expense related to non-vested stock options was $528,000, which is expected to be recognized over the remaining requisite weighted-average service period of 1.71 years.

Restricted Stock

The following table summarizes restricted stock activity for the six months ended June 30, 2013:

	No. of Non-vested Shares	Weighted-Average Grant-Date Fair Value
December 31, 2012	13,200	$ 9.37
Granted	7,425	11.66
Vested	(3,300)	8.64
June 30, 2013	17,325	$ 10.49

IHC granted 7,425 shares of restricted stock awards during each of the six months ended June 30, 2013 and 2012 with a weighted average grant-date fair value of $11.66 and $9.39, respectively, per share.

The total fair value of restricted stock that vested during each of the first six months of 2013 and 2012 was $37,000 and $16,000, respectively. Restricted stock expense was $14,000 and $9,000 for the three months ended June 30, 2013 and 2012, respectively, and was $27,000 and $18,000 for the six months ended June 30, 2013 and 2012, respectively.

As of June 30, 2013, the total unrecognized compensation expense related to non-vested restricted stock awards was $155,000 which is expected to be recognized over the remaining requisite weighted-average service period of 2.1 years.

SARs and Share-Based Performance Awards

IHC had 263,900 and 269,950 SAR awards outstanding at June 30, 2013 and December 31, 2012, respectively. No SARs awards were granted during the six months ended June 30, 2013. During the six months ended June 30, 2012, the Company granted 44,000 SAR awards. The fair value of SARs is calculated using the Black-Scholes valuation model at the grant date and each subsequent reporting period until settlement. Compensation cost is based on the proportionate amount of the requisite service that has been rendered to date. Once fully vested, changes in fair value of the SARs continue to be recognized as compensation expense in the period of the change until settlement. For three months ended June 30, 2013, and 2012, IHC recorded $279,000, and $58,000, respectively, of compensation costs for these awards. For six months ended June 30, 2013, and 2012, IHC recorded $378,000, and $451,000, respectively, of compensation costs for these awards. In the second quarter of 2013, 6,050 SARs were exercised with an aggregate intrinsic value of $19,000. No SARs were exercised during the six months ended June 30, 2012. Included in Other Liabilities in the Company s Condensed Consolidated Balance Sheets at June 30, 2013 and December 31, 2012 are liabilities of $1,042,000 and $683,000, respectively, pertaining to SARs.

Other outstanding awards include share-based performance awards. Compensation costs for these awards are recognized and accrued as performance conditions are met, based on the current share price. For the three months ended June 30, 2013, and 2012, IHC recorded $0 and $18,000, respectively, of compensation costs for these awards, and for the six months ended June 30, 2013, and 2012, IHC recorded $(5,000) and $27,000, respectively. The intrinsic value of share-based performance awards paid during the six months ended June 30, 2013 and 2012 was $83,000 and $57,000, respectively. Included in the other liabilities on the Company s Condensed Consolidated Balance Sheets at June 30, 2013 and December 31, 2012 are liabilities of $10,000 and $97,000, respectively, pertaining to share-based performance awards.

B)

AMIC Share-Based Compensation Plans

Total AMIC share-based compensation expense was $9,000 and $8,000 the three months ended June 30, 2013 and 2012, respectively, and was $17,000 and $16,000 for the six months ended June 30, 2013 and 2012, respectively. Related tax benefits of $3,000 were recognized for both the three months ended June 30, 2013 and 2012; and were

$6,000 for both the six months ended June 30, 2013 and 2012.

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

Stock Options

The following table summarizes information regarding AMIC s outstanding and exercisable options for the six months ended June 30, 2013:

	Shares Under Option		**Weighted- Average Exercise Price**
December 31, 2012	227,285	$	11.40
Granted	13,334		7.01
Expired	(18,334)		7.50
June 30, 2013	222,285	$	11.46

The following table summarizes information regarding AMIC s outstanding and exercisable options as of June 30, 2013:

		Outstanding		**Exercisable**
Number of options		222,285		202,284
Weighted average exercise price per share	$	11.46	$	11.95
Aggregate intrinsic value for all options (in thousands)	$	62	$	53
Weighted average contractual term remaining		3.28 years		2.68 years

The fair value of an option award is estimated on the date of grant using the Black-Scholes option valuation model. The weighted average grant-date fair-value of options granted during the six months ended June 30, 2013 was $4.04 per share. No options were granted during the six months ended June 30, 2012. The assumptions set forth in the table below were used to value the stock options granted during the six months ended June 30, 2013:

	June 30, 2013
Weighted-average risk-free interest rate	2.30%
Annual dividend rate per share	-
Weighted-average volatility factor of the Company's common stock	45.00%
Weighted-average expected term of options	5 years

Compensation expense of $9,000 and $8,000 was recognized for the three-month periods ended June 30, 2013 and 2012, respectively, and was $17,000 and $16,000 for the six-month periods ended June 30, 2013 and 2012, respectively, for the portion of the grant-date fair value of AMIC s stock options vesting during the period.

As of June 30, 2013, the total unrecognized compensation expense related to AMIC s non-vested options was $84,000 which will be recognized over the remaining requisite service periods.

Note 9.

Income Taxes

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

At June 30, 2013, AMIC had net operating loss carryforwards of approximately $269,415,000 for

federal income tax purposes, expiring in varying amounts through the year 2031, with a significant portion expiring in 2021. The net deferred tax asset relative to AMIC included in other assets on IHC s Condensed Consolidated Balance Sheets was $11,180,000 and $12,173,000 at June 30, 2013 and December 31, 2012, respectively. Effective January 15, 2013, AMIC will be included in the consolidated Federal income tax returns of IHC on a June 30 fiscal year as a result of the increase in IHC s ownership interest in AMIC to over 80%.

Note 10.

Reinsurance

Effective May 31, 2013, Madison National Life entered into a coinsurance agreement with an unaffiliated reinsurer, Guggenheim Life and Annuity Company, to cede approximately $218,633,000 of life and annuity reserves and, in accordance with its terms, transferred net cash and other assets, with an aggregate value of $215,137,000, to the reinsurer during the second quarter of 2013. As a result of this transaction, the Company: (i) recorded estimated amounts due from reinsurers of $218,296,000; (ii) recorded $6,643,000 of estimated deferred expenses (included in other assets) which will be amortized over the life of the underlying reinsured contracts; and (iii) wrote-off $9,307,000 of deferred acquisition costs associated with this block of policies. The write-off was more than offset by gains realized by the Company in the transaction, most of which resulted from the required sale and transfer of invested assets.

Note 11.

Supplemental Disclosures of Cash Flow Information

Tax refunds, net of tax payments, were $961,000 and $911,000 during the six months ended June 30, 2013 and 2012.

Cash payments for interest were $985,000 and $1,074,000 during the six months ended June 30, 2013 and 2012, respectively.

Note 12.

Contingencies

On January 2, 2013, Madison National Life was named one of several defendants in a potential lawsuit related to certain provisions of a particular line of health insurance for business written in 2007 and prior, whereby Madison National Life was the insurance carrier during one of the years in question. Though Madison National Life has not yet been served with the plaintiffs complaint, the Company has accrued $1,250,000 in return of premium reserves (net of recoveries) in response to the information that it has received. The Company terminated the MGU that produced this business in 2008.

Note 13.

Other Comprehensive Income (Loss)

The components of other comprehensive income (loss) include (i) the after-tax net unrealized gains and losses on investment securities available-for-sale, including the subsequent increases and decreases in fair value of available-for-sale securities previously impaired and the non-credit related component of other-than-temporary impairments of fixed maturities and (ii) the after-tax unrealized gains and losses on a cash flow hedge.

Changes in the balances for each component of accumulated other comprehensive income, shown net of taxes, for the periods indicated were as follows (in thousands):

	Three Months Ended June 30, 2013		
	Unrealized Gains (Losses) on Available-for Sale Securities	**Cash Flow Hedge**	**Total**
Beginning balance	$ 13,831	$ (204)	$ 13,627
Other comprehensive income (loss) before reclassifications	(9,992)	13	(9,979)
Amounts reclassified from accumulated OCI	(7,572)	-	(7,572)
Net other comprehensive income (loss)	(17,564)	13	(17,551)
Less other comprehensive loss attributable to noncontrolling interests	465	-	465
Ending balance	$ (3,268)	$ (191)	$ (3,459)

	Three Months Ended June 30, 2012		
	Unrealized Gains (Losses) on Available-for Sale Securities	**Cash Flow Hedge**	**Total**
Beginning balance	$ 8,589	$ (319)	$ 8,270
Other comprehensive income (loss) before reclassifications	5,215	17	5,232
Amounts reclassified from accumulated OCI	(926)	-	(926)

Net other comprehensive income (loss)	4,289	17	4,306
Less other comprehensive loss attributable to noncontrolling interests	(126)	-	(126)
Acquired from noncontrolling interests	2	-	2
Ending balance	$ 12,754	$ (302)	$ 12,452

	Six Months Ended June 30, 2013		
	Unrealized Gains (Losses) on Available-for Sale Securities	Cash Flow Hedge	Total
Beginning balance	$ 15,231	$ (218)	$ 15,013
Other comprehensive income (loss) before reclassifications	(8,544)	27	(8,517)
Amounts reclassified from accumulated OCI	(10,547)	-	(10,547)
Net other comprehensive income (loss)	(19,091)	27	(19,064)
Less other comprehensive loss attributable to noncontrolling interests	556	-	556
Acquired from noncontrolling interests	36	-	36
Ending balance	$ (3,268)	$ (191)	$ (3,459)

	Six Months Ended June 30, 2012		
	Unrealized Gains (Losses) on Available-for-Sale Securities	Unrealized Gains (Losses) on Cash Flow Hedge	Total
Beginning balance	$ 8,150	$ (297)	$ 7,853
Other comprehensive income (loss) before reclassifications	6,173	(5)	6,168
Amounts reclassified from accumulated OCI	(1,479)	-	(1,479)
Net other comprehensive income (loss)	4,694	(5)	4,689
Less other comprehensive loss attributable to noncontrolling interests	(93)	-	(93)
Acquired from noncontrolling interests	3	-	3

Ending balance	$	12,754	$	(302)	$	12,452

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Presented below are the amounts reclassified out of accumulated other comprehensive income and recognized in earnings for each of the periods indicated (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Unrealized gains (losses) on available-for-sale securities reclassified during the period to the following income statement line items:				
Net realized investment gains	$ 11,475	$ 2,102	$ 15,801	$ 2,990
Net impairment losses recognized in earnings	-	(621)	-	(704)
Income from operations before income tax	11,475	1,481	15,801	2,286
Tax effect	3,903	555	5,254	807
Net income	$ 7,572	$ 926	$ 10,547	$ 1,479

Note 14.

Segment Reporting

The Insurance Group principally engages in the life and health insurance business. Information by business segment is presented below for the periods indicated (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues:				
Medical Stop-Loss	$ 43,668	$ 34,298	$ 85,790	$ 69,558
Fully Insured Health	68,435	40,009	132,118	78,676
Group disability, life, annuities and DBL	16,369	12,826	30,843	25,741
Individual life, annuities and other	11,673	13,061	24,620	26,851
Corporate	20	20	57	490
	140,165	100,214	273,428	201,316
Net realized investment gains	11,735	1,850	16,354	2,987
Other-than-temporary impairment losses	-	(621)	-	(704)
Total revenues	$ 151,900	$ 101,443	$ 289,782	$ 203,599
Income from operations before income taxes:				
Medical Stop-Loss	$ 3,416	$ 3,849	$ 6,432	$ 9,934
Fully Insured Health (A)	191	2,006	(141)	3,158
Group disability, life, annuities and DBL	2,399	733	3,975	702
Individual life, annuities and other(B)	(9,549)	(172)	(9,167)	198
Corporate	(1,378)	(1,429)	(2,537)	(3,104)
	(4,921)	4,987	(1,438)	10,888
Net realized investment gains	11,735	1,850	16,354	2,987
Other-than-temporary impairment losses	-	(621)	-	(704)
Interest expense	(490)	(540)	(977)	(1,079)
Income from operations before income taxes	$ 6,324	$ 5,676	$ 13,939	$ 12,092

(A)

The Fully Insured Health segment includes amortization of intangible assets. Total amortization expense was $607,000 and $610,000 for the three months ended June 30, 2013 and 2012, respectively, and was $1,209,000 and $1,205,000, respectively, for the six months ended June 30, 2013 and 2012. Amortization expense for the other segments is not material to their operating results.

(B)

For the three months and six months ended June 30, 2013, the Individual life, annuities and other segment includes the write-off of $9,307,000 of deferred acquisition costs in connection with a coinsurance agreement. See Note 10 for more reinsurance information.

ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL

CONDITION AND RESULTS OF OPERATIONS

The following discussion of the financial condition and results of operations of Independence Holding Company ("IHC") and its subsidiaries (collectively, the "Company") should be read in conjunction with, and is qualified in its entirety by reference to, the Consolidated Financial Statements of the Company and the related Notes thereto appearing in our annual report on Form 10-K for the fiscal year ended December 31, 2012, as filed with the Securities and Exchange Commission, and our unaudited Condensed Consolidated Financial Statements and related Notes thereto appearing elsewhere in this quarterly report.

Overview

Independence Holding Company, a Delaware corporation (IHC), is a holding company principally engaged in the life and health insurance business through: (i) its insurance companies, Standard Security Life Insurance Company of New York ("Standard Security Life"), Madison National Life Insurance Company, Inc. ("Madison National Life"), Independence American Insurance Company (Independence American); and (ii) its marketing and administrative companies, including IHC Risk Solutions, LLC, IHC Health Solutions, Inc. and IHC Specialty Benefits, Inc. 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 significant equity interest in a managing general underwriter (MGU) that writes medical stop-loss for Standard Security Life. At June 30, 2013, the Company also owned an 80.6% interest in American Independence Corp. ("AMIC").

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

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

The results of operations for the three months and six months ended June 30, 2013 and 2012 are summarized as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	**2012**	**2013**	**2012**
Revenues	$ 151,900	$ 101,443	$ 289,782	$ 203,599
Expenses	145,576	95,767	275,843	191,507
Income from operations before income taxes	6,324	5,676	13,939	12,092
Income taxes	2,166	1,846	4,741	3,932
Net income	4,158	3,830	9,198	8,160
Less: Income from noncontrolling interests in subsidiaries	(467)	(299)	(806)	(707)
Net income attributable to IHC	$ 3,691	3,531	$ 8,392	7,453

o

Net income of $.21 per share, diluted, for the three months ended June 30, 2013 compared to $.20 per share, diluted, for the same period in 2012. Net income of $.47 per share, diluted, for the six months ended June 30, 2013, compared to $.41 per share, diluted, for the six months ended June 30, 2012.

o

Consolidated investment yields (on an annualized basis) of 3.5% and 3.7% for the three months and six months ended June 30, 2013 compared to 3.8% and 3.9% for the comparable periods in 2012;

o

Increase in IHC s ownership in AMIC to 80.6% as a result of AMIC s share repurchases in the first quarter of 2013;

o

In the second quarter of 2013, Madison National Life entered into a coinsurance agreement with an unaffiliated reinsurer, effective May 31, 2013, to cede approximately $218.6 million of life and annuity reserves. Net realized investment gains were $16.4 million for the six months ended June 30, 2013, of which a significant portion resulted from sales of invested assets in connection with the transfer of assets in accordance with the terms of such coinsurance agreement. In addition, the Company wrote-off $9.3 million of deferred acquisition costs as a result of this coinsurance agreement, which was more than offset by the net realized investment gains in the period; and

o

Book value of $15.44 per common share, a decrease of $.49 per common share from $15.93 at December 31, 2012 primarily due to an increase in interest rates during the second quarter.

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

o

The Medical Stop-Loss segment reported income before taxes of $3.4 million for the second quarter of 2013 compared to $3.8 million in the same quarter in 2012, and reported income before taxes of $6.4 million for the first six months of 2013 compared to $9.9 million for the first six months of 2012. The decrease is primarily due to higher loss ratios in 2013;

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Premiums earned increased $8.6 million and $16.2 million for the three months and six months ended June 30, 2013, respectively, when compared to the same periods in 2012. The increase in premiums earned is primarily due to increased volume.

o

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Premiums Earned	$ 42,539	$ 33,984	$ 82,794	$ 66,635
Insurance Benefits, Claims & Reserves	28,580	22,588	57,494	40,995
Expenses	11,556	8,951	21,229	18,475
Loss Ratio (A)	67.2%	66.5%	69.5%	61.5%
Expense Ratio (B)	27.2%	26.3%	25.6%	27.7%
Combined Ratio (C)	94.4%	92.8%	95.1%	89.2%

(A)

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

(B)

Expense ratio represents commissions, administrative fees, premium taxes and other underwriting expenses divided by premiums earned.

(C)

The combined ratio is equal to the sum of the loss ratio and the expense ratio.

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The Company recorded an increase in the loss ratio in the medical stop-loss line of business for the six months ended June 30, 2013 due to an unfavorable reserve development related to business written with a certain producer which resulted in a $2.1 million increase in claim reserves on this program. We have ceased writing new business with this producer.

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The Fully Insured Health segment reported $0.2 million of income before taxes for the three months ended June 30, 2013 as compared to $2.0 million for the comparable period in 2012, and reported $0.1 million of losses before taxes for the six months ended June 30, 2013 compared to $3.2 million of income before taxes for the same period in 2012. The decrease is primarily due to higher loss ratios in 2013;

o

Premiums earned increased $28.9 million and $53.7 million for the three months and six months ended June 30, 2013 over the comparable 2012 periods primarily due to premiums generated by new lines of business (pet and international lines) combined with increased volume and retentions in certain other lines of the business.

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Underwriting experience, as indicated by its GAAP Combined Ratios, for the Fully Insured segment are as follows for the periods indicated (in thousands):

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Premiums Earned	$ 61,852	$ 32,982	$ 118,751	$ 65,067
Insurance Benefits, Claims & Reserves	43,780	21,370	83,458	42,382
Expenses	18,927	9,706	37,084	19,116
Loss Ratio	70.8%	64.8%	70.3%	65.1%
Expense Ratio	30.6%	29.4%	31.2%	29.4%
Combined Ratio	101.4%	94.2%	101.5%	94.5%

o

The increase in the loss ratio was primarily attributable to an increase in the claims experience on major medical business for groups and individuals primarily due to unfavorable development on business that is produced by two non-owned third party administrators and a reserve adjustment for a potential lawsuit related to business written through an MGU that was previously terminated.

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Income before taxes from the Group disability, life, annuities and DBL segment increased $1.7 million and $3.3 million for the three months and six months ended June 30, 2013 compared to the three months and six months ended June 30, 2012 primarily as a result of improved loss ratios in LTD and increased volume in DBL business;

.

Income before taxes from the Individual life, annuities and other segment decreased $9.4 million for both the three-month and six-month periods ended June 30, 2013 as compared to the same periods in 2012 as a result of a $9.3 million write-off of deferred acquisition costs in connection with a coinsurance agreement in the second quarter of 2013;

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Income before taxes from the Corporate segment remained comparable in the second quarter of 2013 as compared to the same period in 2012, and increased $0.6 million in the six-month period ended June 30, 2013 over the same period of 2012, primarily due to a decrease in corporate overhead;

.

Net realized investment gains were $11.7 million and $16.4 million for the three months and six months ended June 30, 2013 compared to net realized investment gains of $1.9 million and $3.0 million for the three months and six months ended June 30, 2012. A significant portion of the net realized investment gains in 2013 resulted from sales of invested assets in connection with the transfer of assets in accordance with the terms of a coinsurance agreement. The Company did not record any other-than-temporary impairment losses in 2013. Other-than-temporary impairment losses recognized in earnings for the three months and six months ended June 30, 2012 were $0.6 million and $0.7 million, respectively; and

.

Premiums by principal product for the three months and six months ended June 30, 2013 and 2012 are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
Gross Direct and Assumed Earned Premiums:	**2013**	**2012**	**2013**	**2012**
Medical Stop-Loss	$ 50,416	$ 40,882	$ 98,511	$ 80,433
Fully Insured Health	72,365	53,002	137,846	105,449
Group disability, life, annuities and DBL	26,041	22,836	50,416	45,642
Individual, life, annuities and other	8,808	7,608	16,361	15,769
	$ 157,630	$ 124,328	$ 303,134	$ 247,293

	Three Months Ended June 30,		Six Months Ended June 30,	
Net Direct and Assumed Earned Premiums:	**2013**	**2012**	**2013**	**2012**
Medical Stop-Loss	$ 42,539	$ 33,984	$ 82,794	$ 66,635
Fully Insured Health	61,852	32,982	118,751	65,067
Group disability, life, annuities and DBL	15,234	12,177	29,090	24,353
Individual, life, annuities and other	5,840	6,326	12,198	13,188
	$ 125,465	$ 85,469	$ 242,833	$ 169,243

CRITICAL ACCOUNTING POLICIES

The accounting and reporting policies of the Company conform to U.S. generally accepted accounting principles ("GAAP"). The preparation of the Condensed Consolidated Financial Statements in conformity with GAAP requires the Company's management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. A summary of the Company's significant accounting policies and practices is provided in Note 1 of the Notes to the Consolidated Financial Statements included in Item 8 of the Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

Management has identified the accounting policies related to *Insurance Premium Revenue Recognition and Policy Charges, Insurance Reserves, Deferred Acquisition Costs, Investments, Goodwill and Other Intangible Assets, and Deferred Income Taxes* as those that, due to the judgments, estimates and assumptions inherent in those policies, are critical to an understanding of the Company's Consolidated Financial Statements and this Management's Discussion and Analysis. A full discussion of these policies is included under the heading, Critical Accounting Policies in Item 7 of the Annual Report on Form 10-K for the fiscal year ended December 31, 2012. During the six months ended June 30, 2013, there were no additions to or changes in the critical accounting policies disclosed in the 2012 Form 10-K except for the recently adopted accounting standards discussed in Note 1(C) of the Notes to Condensed Consolidated Financial Statements.

Results of Operations for the Three Months Ended June 30, 2013 Compared to the Three Months Ended June 30, 2012

Information by business segment for the three months ended June 30, 2013 and 2012 is as follows:

June 30, 2013 (In thousands)	Premiums Earned	Net Investment Income	Fee and Other Income	Benefits, Claims and Reserves	Amortization of Deferred Acquisition Costs	Selling, General And Administrative	Total
Medical Stop-Loss	$ 42,539	1,130	(1)	28,580	-	11,672	$ 3,416
Fully Insured Health	61,852	497	6,086	43,780	5	24,459	191
Group disability, life, annuities and DBL	15,234	982	153	9,569	-	4,401	2,399
Individual life, annuities and other	5,840	4,373	1,460	7,347	10,943	2,932	(9,549)
Corporate	-	20	-	-	-	1,398	(1,378)
Sub total	$ 125,465	$ 7,002	$ 7,698	$ 89,276	$ 10,948	$ 44,862	(4,921)
Net realized investment gains							11,735
Other-than-temporary impairment losses							-
Interest expense on debt							(490)
Income from operations before income taxes							6,324
Income taxes							2,166
Net income							$ 4,158

June 30, 2012 (In thousands)	Premiums Earned	Net Investment Income	Fee and Other Income	Benefits, Claims and Reserves	Amortization of Deferred Acquisition Costs	Selling, General And Administrative	Total
Medical Stop-Loss	$ 33,984	1,032	(718)	22,588	-	7,861	$ 3,849
Fully Insured Health	32,982	317	6,710	21,370	6	16,627	2,006
Group disability, life, annuities and DBL	12,177	645	4	8,265	-	3,828	