INDEPENDENCE HOLDING CO
Form 10-Q
August 11, 2008

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, 2008**

[ ]

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer 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 8, 2008
Common stock, $ 1.00 par value	**15,421,189 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 from 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, 2008 (Unaudited)	December 31, 2007
ASSETS:		
Investments:		
Short-term investments	$ 9,121	$ 9,001
Securities purchased under agreements to resell	17,186	13,757
Fixed maturities	703,778	611,906
Equity securities	85,905	98,496
Other investments	42,103	42,899
Total investments	858,093	776,059
Cash and cash equivalents	7,156	72,823
Due from securities brokers	7,285	5,188
Investment in American Independence Corp. ("AMIC")	42,624	40,475
Deferred acquisition costs	55,638	45,447
Due and unpaid premiums	57,960	64,444
Due from reinsurers	142,621	143,710
Premium and claim funds	50,764	49,468
Notes and other receivables	16,363	13,872
Goodwill	52,331	51,695
Other assets	57,254	44,962
Total assets	$ 1,348,089	$ 1,308,143

LIABILITIES AND STOCKHOLDERS' EQUITY:		
LIABILITIES:		
Insurance reserves-health	$ 208,515	$ 212,261
Insurance reserves-life and annuity	280,891	248,253
Funds on deposit	413,495	383,711
Unearned premiums	19,237	22,415
Policy claims-health	1,330	1,340
Policy claims-life	9,722	10,639
Other policyholders' funds	22,266	17,738
Due to securities brokers	7,591	1,852
Due to reinsurers	42,341	43,571
Accounts payable, accruals and other liabilities	67,223	70,303
Liabilities related to discontinued operations	10,216	22,563
Debt	12,500	12,500
Junior subordinated debt securities	38,146	38,146
Total liabilities	1,133,473	1,085,292
STOCKHOLDERS' EQUITY:		
Preferred stock (none issued)	-	-
Common stock $1.00 par value, 20,000,000 shares authorized;		
15,431,326 and 15,366,281 shares issued, respectively;		
15,421,586 and 15,228,521 shares outstanding, respectively	15,431	15,366
Paid-in capital	100,497	99,805
Accumulated other comprehensive loss	(22,521)	(16,125)
Treasury stock, at cost, 9,740 and 137,760 shares, respectively	(193)	(2,626)
Retained earnings	121,402	126,431
Total stockholders' equity	214,616	222,851
Total liabilities and stockholders' equity	$ 1,348,089	$ 1,308,143

See the accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
REVENUES:				
Premiums earned:				
Health	$ 71,858	$ 66,296	$ 144,512	$ 136,208
Life and annuity	9,826	8,421	18,826	17,523
Net investment income	11,156	12,276	21,801	24,117
Fee income	10,218	10,346	21,417	20,533
Net realized investment gains (losses)	(15,087)	582	(14,973)	1,002
Equity income from AMIC	389	562	790	1,097
Other income	958	1,055	1,363	2,457
	89,318	99,538	193,736	202,937
EXPENSES:				
Insurance benefits, claims and reserves:				
Health	48,758	47,010	98,306	93,954
Life and annuity	12,857	11,490	24,093	23,589
Selling, general and administrative expenses	35,941	32,402	72,710	66,780
Amortization of deferred acquisitions costs	1,955	1,611	3,409	2,919
Interest expense on debt	909	1,062	1,895	2,118
	100,420	93,575	200,413	189,360
Income (loss) from continuing operations before income taxes	(11,102)	5,963	(6,677)	13,577
Income taxes (benefits)	(4,409)	2,188	(3,056)	4,638
Income (loss) from continuing operations	(6,693)	3,775	(3,621)	8,939

Discontinued operations:				
Income (loss) from discontinued operations	-	154	-	(408)
NET INCOME (LOSS)	$ (6,693)	$ 3,929	$ (3,621)	$ 8,531
Basic income (loss) per common share:				
Income (loss) from continuing operations	$ (.43)	$ .25	$ (.24)	$ .59
Income (loss) from discontinued operations	-	.01	-	(.03)
Basic income (loss) per common share	$ (.43)	$ .26	$ (.24)	$ .56
WEIGHTED AVERAGE SHARES OUTSTANDING	15,388	15,193	15,359	15,187
Diluted income (loss) per common share				
Income (loss) from continuing operations	$ (.43)	$ .25	$ (.24)	$ .59
Income (loss) from discontinued operations	-	.01	-	(.03)
Diluted income (loss) per common share	$ (.43)	$ .26	$ (.24)	$ .56
WEIGHTED AVERAGE DILUTED SHARES OUTSTANDING	15,388	15,336	15,359	15,341

See the accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended June 30, 2008	2007
CASH FLOWS PROVIDED BY (USED BY) OPERATING ACTIVITIES:		
Net income (loss)	$ (3,621)	$ 8,531
Adjustments to reconcile net income to net change in cash from operating activities:		
Loss from discontinued operations	-	408
Amortization of deferred acquisition costs	3,409	2,919
Net realized investment (gains) losses	14,973	(1,002)
Equity income from AMIC and other equity method investments	(1,049)	(1,292)
Depreciation and amortization	2,479	2,245
Share-based compensation expenses	645	797
Deferred tax (benefit) expense	(6,273)	678
Other	(1,106)	548
Changes in assets and liabilities:		
Net sales of trading securities	429	338
Change in insurance liabilities	(9,929)	24,007
Additions to deferred acquisition costs, net	(2,136)	(2,642)
Change in net amounts due from and to reinsurers	(141)	(2,938)
Change in premium and claim funds	(1,296)	2,793
Change in income tax liability	3,247	(703)
Change in due and unpaid premiums	6,546	(36,428)
Change in other assets	(6,935)	(4,204)
Change in other liabilities	(3,197)	4,310
Net change in cash from operating activities of continuing operations	(3,955)	(1,635)
Net change in cash from operating activities of discontinued operations	(12,347)	(498)
Net change in cash from operating activities	(16,302)	(2,133)
CASH FLOWS PROVIDED BY (USED BY) INVESTING ACTIVITIES:		
Change in net amount due from and to securities brokers	3,642	1,012
Net (purchases) proceeds of short-term investments	(37)	9,193
	(3,429)	52,920

Net (purchases) sales of securities under resale and repurchase agreements		
Sales of equity securities	39,393	33,092
Purchases of equity securities	(35,300)	(63,273)
Sales of fixed maturities	267,479	136,345
Maturities and other repayments of fixed maturities	39,173	33,693
Purchases of fixed maturities	(416,136)	(199,847)
Sales of other investments	-	10,334
Additional investments in other investments, net of distributions	4,010	(1,914)
Cash paid in acquisitions of companies, net of cash acquired	(998)	(8,385)
Cash received in acquisitions of policy blocks	57,279	-
Investment in AMIC	(1,401)	-
Change in notes and other receivables	(1,343)	(2,108)
Other	(2,421)	(56)
Net change in cash from investing activities	(50,089)	1,006
CASH FLOWS PROVIDED BY (USED BY) FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	1,401	-
Repurchases of common stock	-	(180)
Exercises of common stock options	173	131
Excess tax (expense) benefit from exercise of stock options	(363)	25
Proceeds (withdrawals) of investment-type insurance contracts	(105)	1,092
Dividends paid	(382)	(380)
Net change in cash from financing activities	724	688
Net change in cash and cash equivalents	(65,667)	(439)
Cash and cash equivalents, beginning of year	72,823	17,543
Cash and cash equivalents, end of period	$ 7,156	$ 17,104

See the accompanying notes to condensed consolidated financial statements.

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 1.

Significant Accounting Policies and Practices

(A)

Business and Organization

Independence Holding Company, a Delaware corporation ("IHC"), is a holding company principally engaged in the life and health insurance business through: (i) its wholly owned insurance companies, Standard Security Life Insurance Company of New York ("Standard Security Life") and Madison National Life Insurance Company, Inc. ("Madison National Life"); and (ii) its marketing and administrative companies, including Insurers Administrative Corporation (IAC), managing general underwriters ("MGUs") in which it owns a significant voting interest, Health Plan Administrators, Inc. (HPA), GroupLink, Inc. (GroupLink), 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 collectively referred to as the "Company." At June 30, 2008, the Company also owned a 49.7% equity interest in American Independence Corp. ("AMIC"), which owns Independence American Insurance Company (Independence American), several MGUs and controlling interests in HealthInsurance.org LLC and Independent Producers of America, LLC.

The Company sold its credit life and disability segment by entering into a 100% coinsurance agreement with an unaffiliated insurer effective December 31, 2007. Amounts in prior years have been restated on the Condensed Consolidated Financial Statements and Notes thereto in order to present the credit life and disability segment as discontinued operations.

Geneve Corporation, a diversified financial holding company, and its affiliated entities held approximately 53% of IHC's outstanding common stock at June 30, 2008.

(B)

Basis of Presentation

The condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles and 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. generally accepted accounting principles 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 consolidated results of operations for the three months and six months ended June 30, 2008 are not necessarily indicative of the results to be anticipated for the entire year.

(C)

Reclassifications

Certain amounts in prior years' Condensed Consolidated Financial Statements and Notes thereto have been reclassified to conform to the 2008 presentation, primarily for the results of discontinued operations.

(D)

Recent Accounting Pronouncements

Recently Issued Accounting Standards

In June 2008, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position (FSP) EITF No. 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (FSP EITF No. 03-6-1). FSP EITF No. 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and therefore need to be included in the earnings allocation in calculating earnings per share under the two-class method described in Statement of Financial Accounting Standards ("SFAS") No. 128, *Earnings per Share* . FSP EITF No. 03-6-1 requires companies to treat unvested share-based payment awards that have non-forfeitable rights to dividend or dividend equivalents as a separate class of securities in calculating earnings per share. FSP EITF No. 03-6-1 is effective for fiscal years beginning after December 15, 2008; earlier application is not permitted. The adoption of FSP EITF No. 03-6-1 is not expected to have a material effect on the Company s consolidated financial statements.

In May 2008, the FASB issued SFAS No. 163, "*Accounting for Financial Guarantee Insurance Contracts - An interpretation of FASB Statement No. 60*" (SFAS 163). SFAS 163 requires that an insurance enterprise recognize a claim liability prior to an event of default when there is evidence that credit deterioration has occurred in an insured financial obligation. It also clarifies how Statement 60 applies to financial guarantee insurance contracts, including the recognition and measurement to be used to account for premium revenue and claim liabilities, and requires expanded disclosures about financial guarantee insurance contracts. It is effective for financial statements issued for fiscal years beginning after December 15, 2008, except for some disclosures about the insurance enterprise's risk-management activities. SFAS 163 requires that disclosures about the risk-management activities of the insurance enterprise be effective for the first period beginning after issuance. Except for those disclosures, earlier application is not permitted. The adoption of SFAS 163 is not expected to have a material effect on the Company s consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, "*The Hierarchy of Generally Accepted Accounting Principles*" (SFAS 162). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. It is effective 60 days following the Securities and Exchange Commission s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "*The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*". The adoption of SFAS 162 is not expected to have a material effect on the Company s consolidated financial statements.

In April 2008, the FASB issued FSP 142-3, *Determination of the Useful Life of Intangible Assets.* (FSP 142-3). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets*. FSP 142-3 applies prospectively to intangible assets that are acquired, individually or with a group of other assets, after the effective date in either a business combination or asset acquisition. FSP 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133* (SFAS 161). SFAS 161 expands the current disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under FASB Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. In addition, SFAS 161 requires disclosure of fair values of derivative instruments and their gains and losses in a tabular format as well as cross-referencing within the footnotes to allow users of financial statements to locate important information about derivative instruments. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. SFAS 161 encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The adoption of SFAS 161 is not expected to have a material effect on the Company s consolidated financial statements.

In February 2008, the FASB issued FSP on SFAS No. 140-3, *Accounting for Transfers of Financial Assets and Repurchase Financing Transactions* (FSP SFAS 140-3). The objective of FSP SFAS 140-3 is to provide guidance on accounting for a transfer of a financial asset and a repurchase financing. FSP SFAS 140-3 presumes that an initial transfer of a financial asset and a repurchase financing are considered part of the same arrangement (linked transaction) under SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* ("SFAS 140"). However, if certain criteria are met, the initial transfer and repurchase financing shall not be evaluated as a linked transaction and shall be evaluated separately under SFAS No. 140. FSP SFAS 140-3 is effective for financial statements issued for fiscal years beginning after November 15, 2008, and interim periods within these fiscal years. Earlier application is not permitted. The adoption of FSP SFAS 140-3 is not expected to have a material effect on the Company s consolidated financial statements.

In November 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS 141(R)) and SFAS No. 160, *Non-controlling Interests in Consolidated Financial Statements* , an amendment of ARB No. 51 (SFAS 160). These standards aim to improve, simplify, and converge internationally the accounting for business combinations and the reporting of non-controlling interests in consolidated financial statements. SFAS 141(R) will change how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. SFAS 160 will change the accounting and reporting for minority interests, which will be re-characterized as non-controlling interests and classified as a component of equity. SFAS 141(R) and SFAS 160 are effective for both public and private companies for fiscal years beginning on or after December 15, 2008. SFAS 141(R) will be applied prospectively. SFAS 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. All other requirements of SFAS 160 will be applied prospectively. Early adoption is prohibited for both standards.

Recently Adopted Accounting Standards

In February 2007, the FASB issued SFAS No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115*" ("SFAS 159"). SFAS 159 would create a fair value option of accounting for qualifying financial assets and liabilities under which an irrevocable election could be made at inception to measure such assets and liabilities initially and subsequently at fair value, with all changes in fair value reported in earnings. SFAS 159 is effective as of the beginning of the first fiscal year beginning after November 15, 2007. The adoption of SFAS 159 did not impact the Company's consolidated financial statements, as no items were initially elected for fair value measurement. For financial assets and liabilities acquired in subsequent periods, the Company will determine whether to use the fair value election at the time of acquisition.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements. FSP FIN 157-2, "*Effective Date of FASB Statement No. 157*", amends SFAS 157 to defer its effective date to fiscal years beginning after November 15, 2008, and for interim periods within those fiscal years. The delayed effective date applies to all non-financial assets and non-financial liabilities except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The adoption of SFAS 157 for financial assets and liabilities did not have a material impact on the Company s consolidated financial statements.

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 2007, Standard Security Life and Madison National Life ceded to Independence American an average of 23% of their medical stop-loss business, 10% of certain of their fully insured health business and 20% of their New York Statutory Disability business. IHC owned 49.7% and 48% of AMIC's outstanding common stock at June 30, 2008 and December 31, 2007, respectively, which was purchased in various transactions from 2002 through 2008. During the first quarter of 2008, IHC purchased 165,656 shares of AMIC stock at $8.46 per share, and recorded negative goodwill of $248,000. IHC accounts for its investment in AMIC under the equity method. At June 30, 2008 and December 31, 2007, IHC's investment in AMIC had a total carrying value of $46,846,000 and $44,945,000, respectively, including goodwill of $4,222,000 and $4,470,000, respectively. This goodwill represents the excess of IHC's cost over the underlying equity in AMIC's net assets at the respective purchase dates. At June 30, 2008 and December 31, 2007, based on the closing market price of AMIC's common stock, the fair value of the AMIC shares owned by IHC was approximately $26,843,000 and $36,758,000, respectively.

For the three months ended June 30, 2008 and 2007, IHC recorded $389,000 and $562,000, respectively, of equity income from its investment in AMIC, representing IHC's proportionate share of income based on its ownership interests during those periods. IHC's equity income for the six months ended June 30, 2008 and 2007 was $790,000 and $1,097,000, respectively. AMIC paid no dividends on its common stock in the three-month and six-month periods ended June 30, 2008 and 2007.

IHC and its subsidiaries earned $195,000 and $180,000 for the quarters ended June 30, 2008 and 2007, respectively, and $413,000 and $380,000 for the six months ended June 30, 2008 and 2007, respectively, 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 $15,105,000 and $20,054,000 for the three months ended June 30, 2008 and 2007, respectively, and $30,795,000 and $36,155,000 for the six months ended June 30, 2008 and 2007, respectively. Benefits to policyholders on business ceded to AMIC were $10,491,000 and $13,977,000, in the second quarter of 2008 and 2007, respectively, and $21,116,000 and $25,132,000 for the six months ended June 30, 2008 and 2007, respectively. 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 net commission expense of $935,000 and $1,024,000 in the second quarter of 2008 and 2007, respectively, and $1,886,000 and $2,074,000 for the six months ended June 30, 2008 and 2007, respectively, for these services. The Company also contracts for several types of insurance coverage (e.g. directors and officers and professional liability converge) 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 Sheets at June 30, 2008 and December 31, 2007, respectively, are the following balances arising from transactions in the normal course of business with AMIC and its subsidiaries: Due from reinsurers $18,899,000 and $19,263,000; Other assets $8,840,000 and $6,592,000; and Other liabilities $178,000 and $242,000.

Note 3.

Income Per Common Share

Included in the diluted income per share calculations are 143,000 and 154,000 shares for the three months and six months ended June 30, 2007, respectively, from the assumed exercise of options and vesting of restricted stock, using the treasury stock method. For the three months and six months ended June 30, 2008, such shares were deemed anti-dilutive. Net income does not change as a result of the assumed dilution.

Note 4.

Investments

The following tables summarize, for all securities in an unrealized loss position at June 30, 2008 and December 31, 2007, respectively, the aggregate fair value and gross unrealized loss by length of time those securities had continuously been in an unrealized loss position:

	Less than 12 Months		12 Months or Longer		Total	
June 30, 2008	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
			(In thousands)			
Corporate securities	$ 56,978	$ 3,052	$ 128,417	$ 12,481	$ 185,395	$ 15,533
CMO and ABS (1)	84,694	6,087	46,257	4,952	130,951	11,039
Agency MBS (2)	11,630	331	6,654	183	18,284	514
GSE (3)	4,836	159	28,561	958	33,397	1,117

States and political subdivisions	215,867	6,839	8,963	776	224,830	7,615
Total fixed maturities	374,005	16,468	218,852	19,350	592,857	35,818
Common stock	8,479	1,012	183	1	8,662	1,013
Preferred stock-perpetual	14,441	1,751	3,596	186	18,037	1,937
Preferred stock-other	8,145	1,720	9,104	1,228	17,249	2,948
Total temporarily impaired securities	$ 405,070	$ 20,951	$ 231,735	$ 20,765	$ 636,805	$ 41,716

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December 31, 2007	Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	12 Months or Longer Fair Value	12 Months or Longer Unrealized Losses	Total Fair Value	Total Unrealized Losses
	(In thousands)					
Corporate securities	$ 35,545	$ 1,244	$ 165,054	$ 9,365	$ 200,599	$ 10,609
CMO and ABS (1)	55,745	1,795	81,953	2,706	137,698	4,501
Agency MBS (2)	-	-	16,441	202	16,441	202
GSE (3)	1,402	20	41,621	1,039	43,023	1,059
States and political subdivisions	16,126	427	5,571	134	21,697	561
Total fixed maturities	108,818	3,486	310,640	13,446	419,458	16,932
Common stock	10,177	1,484	500	83	10,677	1,567
Preferred stock-perpetual	42,816	9,193	3,370	346	46,186	9,539
Preferred stock-other	19,382	1,665	3,597	715	22,979	2,380
Total temporarily impaired securities	$ 181,193	$ 15,828	$ 318,107	$ 14,590	$ 499,300	$ 30,418

(1)

Collateralized mortgage obligations (CMO) and asset-backed securities (ABS).

(2)

Mortgage-backed securities (MBS).

(3)

Government-sponsored enterprises (GSE) 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.

Substantially all of the unrealized losses at June 30, 2008 and December 31, 2007 relate to investment grade securities and are attributable to changes in market interest rates and general disruptions in the credit market subsequent to purchase. At June 30, 2008, the Company had $36.4 million invested in whole loan CMOs backed by Alt-A mortgages, all of which were rated AAA. Of this amount, 40.1% were in CMOs that originated in 2005 or earlier and 59.9% were in CMOs that originated in 2006. The Company s mortgage security portfolio has no direct exposure to sub-prime mortgages. The unrealized loss for the equity securities was primarily due to wider spreads for preferred stocks issued by financial institutions following the disruption in credit markets in late 2007. Some of these financial institutions have exposure to sub-prime mortgages. The unrealized loss for CMO and ABS securities is primarily attributable to Alt-A mortgages as described above. The unrealized losses on corporate securities are due to wider spreads. Spreads have widened as investors shifted funds to US Treasuries in response to the current market turmoil.

At June 30, 2008 and December 31, 2007, a total of 122 and 73 securities, respectively, were in a continuous unrealized loss position for less than 12 months and 66 and 82 securities, respectively, had continuous unrealized losses for 12 months or longer. For fixed maturities, there are no securities past due or securities for which the Company currently believes it is not probable that it will collect all amounts due according to the contractual terms of the investment.

The Company reviews its investment securities regularly and determines whether other-than- temporary impairments have occurred. If a decline in fair value is judged by management to be other- than-temporary, a loss is recognized by a charge to net realized investment gains in the Condensed Consolidated Statements of Operations, establishing a new cost basis for the security. 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; whether the issuer of a debt security has remained current on principal and interest payments; 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 and ability to hold the security for a period of time sufficient to allow for a recovery in fair value. Based on management s review of the portfolio, which considered these factors, the Company recorded a realized loss for other-than-temporary impairments of $17,393,000 and $17,474,000 in the three months and six months ended June 30, 2008, respectively. The loss for the three and six months ended June 30, 2008 represents a loss on investment grade preferred stocks of financial institutions that the Company determined to be other than temporary due to the severity of the decrease in market value and length of time that these securities were in a loss position. For the three months and six months ended June 30, 2007 the Company did not record any losses for other-than-temporary impairments.

Note 5.

Fair Value

Effective January 1, 2008, the Company adopted SFAS 157, "Fair Value Measurements", for all financial instruments and non-financial instruments accounted for at fair value on a recurring basis. The adoption of SFAS 157 did not have a material impact on our financial statements. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 applies whenever other standards require or permit assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. In this standard, the FASB clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, SFAS 157 establishes a fair value hierarchy that prioritizes the information used to develop those assumptions.

The valuation techniques required by SFAS 157 are 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.

When available, we use quoted market prices to determine fair value and classify such items in Level 1. In some cases, we use quoted market prices for similar instruments in active markets and/or model-derived valuations where inputs are observable in active markets and classify such items in Level 2. Further, we retain independent pricing vendors to assist in valuing certain instruments.

The following section describes the valuation methodologies we use to measure different financial instruments at fair value.

Investments in fixed maturities and equity securities:

Investments included in Level 1 are primarily government, agency mortgage-backed securities, certain government sponsored enterprises ("GSEs") and equities with quoted market prices. Level 2 is primarily comprised of our portfolio of corporate fixed income securities, collateralized mortgage obligations, asset-backed securities, municipals and certain GSEs and certain preferred stocks that were priced with observable market inputs.

Other:

Other financial liabilities are included in Level 2 and consist of the IHC stock put and an interest rate swap on IHC debt. They are both valued using market observable inputs including market price, interest rate, and volatility within a Black Scholes model.

The following table presents our financial assets and liabilities measured at fair value on a recurring basis at June 30, 2008 (in thousands):

	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS:				
Fixed maturities	$ 95,622	$ 608,156	$ -	$ 703,778
Equity securities	83,771	2,134	-	85,905
FINANCIAL LIABILITIES:				
Other	-	1,184	-	1,184

Note 6.

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 2008 is as follows (in thousands):

	Goodwill	Other Intangible Assets
Balance at December 31, 2007	$ 51,695	$ 17,584
Purchase AMIC Shares	(248)	-
Majestic acquisition	884	88
Capitalized software development	-	355
Amortization expense	-	(1,447)
Balance at June 30, 2008	$ 52,331	$ 16,580

Effective April 1, 2008 the Company purchased an additional 14.7% interest in Majestic pursuant to terms set forth in the limited liability company agreement of Majestic, thereby increasing its controlling interest in the medical stop-loss MGU to 77%. The interest was purchased from a senior officer of Majestic for a total purchase price of $998,000. The Company recorded goodwill of $884,000 and other intangible assets of $88,000 for the fair value of broker relationships, which is being amortized over 10 years.

Note 7.

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. The transaction closed in February 2008 with a payment of $10,940,000, representing the net statutory unearned premium reserve as of December 31, 2007 less a ceding fee of $8,820,000.

In accordance with the terms of such coinsurance agreement, the Company continued to administer this block of business through June 30, 2008. Unearned premium reserves of this block and the corresponding amount in due from reinsurers of $14,529,000 and $15,742,000 are included in the

Condensed Consolidated Balance Sheets at June 30, 2008 and December 31, 2007, respectively.

Changes in the liabilities related to discontinued operations for the six months ended June 30, 2008 were as follows (in thousands):

	Claims Liability	Accrued Expenses	Termination Benefits	Due to Reinsurer	Total
Balance at beginning of year	$ 9,103	$ 1,931	$ 589	$ 10,940	$ 22,563
Cash settlement of sale transaction	-	-	-	(10,940)	(10,940)
Payments of expenses accrued to administer the business sold	-	(1,030)	(100)	-	(1,130)
Claim payments and reserves related to block in run-off	(277)	-	-	-	(277)
Balance at June 30, 2008	$ 8,826	$ 901	$ 489	$ -	$ 10,216

The Company believes that the net liabilities of discontinued operations at June 30, 2008 adequately estimate the remaining costs associated with the credit life and disability discontinued operations.

Note 8.

Common Stock

In January 2008, IHC issued 127,520 shares of common stock as a private placement of unregistered securities under section 4(2) of Securities Act of 1993 (Securities Act). Accordingly, the shares will be restricted securities , subject to legend and will not be freely tradable in the United States until the shares are registered for resale under the Securities Act, or to the extent they are tradable under Rule 144 promulgated under the Securities Act or any other available exemption. The IHC shares were issued from treasury stock at a fair value of $1,401,000. The difference between the fair value and the $2,422,000 cost basis of the treasury stock resulted in a $1,021,000 charge to retained earnings.

Note 9.

Share-Based Compensation

Total share-based compensation expense was $353,000 and $357,000 for the three months ended June 30, 2008 and 2007, respectively, and $645,000 and $797,000 for the six months ended June 30, 2008 and 2007, respectively. Related tax benefits of $141,000 and $142,000 were recognized for the three months ended June 30, 2008 and 2007, respectively, and $257,000 and $318,000 for the six months ended June 30, 2008 and 2007, respectively.

Under the terms of the Company s stock-based compensation plans, option exercise prices are 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 appreciated 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. The exercise price of SARs is equal to the quoted market price of the shares at the date of the grant and have three year vesting periods. There were 747,570 shares available for future option or restricted stock grants under the shareholder-approved plans at June 30, 2008. All of these available shares relate to the Company s 2006 Stock Incentive Plan that was approved by shareholders in June 2006.

The Company s stock option activity for the six months ended June 30, 2008 is as follows:

	Shares Under Option		Weighted- Average Exercise Price
December 31, 2007	839,310	$	17.56
Granted	225,000		10.99
Exercised	(291,800)		11.29
June 30, 2008	772,510		18.01

The following table summarizes information regarding outstanding and exercisable options as of June 30, 2008:

		Outstanding		Exercisable
Number of options		772,510		439,501
Weighted average exercise price per share	$	18.01	$	20.82
Aggregate intrinsic value for all options	$	8,000	$	17,000
Weighted average contractual term remaining		2.8 years		1.7 years

The fair value of each 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 first six months of 2008 and 2007 was $3.44 and $6.51 per share, respectively. The assumptions set forth in the table below were used to value the stock options granted during the six month period ended June 30:

		2008		2007
Weighted-average risk-free interest rate		2.21%		4.44%
Annual dividend rate per share	$	.05	$	.05
Weighted-average volatility factor of the Company's common stock		36.6%		30.3%
Weighted-average expected term of options		4.5 years		4.5 years

Compensation expense of $240,000 and $211,000 was recognized in the three months ended June 30, 2008 and 2007, respectively, and $427,000 and $484,000 in the six months ended June 30, 2008 and 2007, respectively, for the portion of the grant-date fair value of stock options vesting during that period.

During the three months and six months ended June 30, 2008, the Company received cash proceeds of $173,000 upon the exercise of 15,608 options with an intrinsic value of $31,000. In addition, another 276,192 options were exercised and, pursuant to the terms of the Company s applicable stock option plans, payments were made equal to the difference between the fair market value of such shares, with respect to the options at such exercise date, and the aggregate option strike price. The intrinsic value of such totaled $640,000 and the payments were made in the form of IHC common stock totaling 29,486 shares after deducting applicable income taxes. The total intrinsic value of options exercised during the three-month and the six-month period ended June 30, 2007 was $104,000 and $127,000, respectively. Cash proceeds received from those options exercised during the three months and six months ended June 30, 2007 were $114,000 and $131,000, respectively.

The Company issued 2,250 and 7,050 restricted stock awards during the six months ended June 30, 2008 and 2007, respectively, with weighted-average grant-date fair values of $12.26 and $20.67 per share, respectively. The total fair value of restricted stock that vested during the first six months of 2008 and 2007 was $223,000 and $372,000, respectively. Restricted stock expense was $100,000 and $99,000, for the three months ended June 30, 2008 and 2007, respectively and $200,000 and $192,000 for the six months ended June 30, 2008 and 2007, respectively.

The following table summarizes restricted stock activity for the six months ended June 30, 2008:

	No. of Shares	Weighted-Average Grant-Date Fair Value
December 31, 2007	38,329	$ 21.89
Granted	2,250	12.26
Vested	(18,476)	21.90
Forfeited	(334)	22.55
June 30, 2008	21,769	20.87

As of June 30, 2008, there was $1,320,000 and $336,000 of total unrecognized compensation expense related to non-vested options and non-vested restricted stock awards, respectively, which will be recognized over the remaining requisite weighted-average service periods of 1.7 years and 0.8 years, respectively.

The fair value of SARs is calculated using the Black-Scholes valuation model at the grant date and each subsequent reporting period until settlement. Compensation cost is based on the proportionate amount of the requisite service that has been rendered to date. Once fully vested, changes in fair value of the SARs continue to be recognized as compensation expense in the period of the change until settlement No SARs were exercised in the three months and six months ended June 30, 2008 or 2007. Other liability-classified awards also include share-based performance awards. Compensation costs for these plans are recognized and accrued as performance conditions are met, based on the current share price. The intrinsic value of share-based liabilities paid in the three months ended June 30, 2008 was $22,000. No share-based liabilities were paid in the three months ended June 30, 2007. The intrinsic value of share-based liabilities paid in the six months ended June 30, 2008 and 2007 were $76,000 and $75,000, respectively. Included in Other Liabilities on the Company s Condensed Consolidated Balance Sheets at June 30, 2008 and December 31, 2007 are liabilities of $81,000 and $138,000, respectively, pertaining to SARs and other shared-based performance awards.

Note 10.

Income Taxes

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

The deferred income tax benefit for the six months ended June 30, 2008 allocated to stockholders' equity (principally for net unrealized losses on investment securities) was $3,531,000 representing the increase in the related net deferred tax asset to $12,557,000 at June 30, 2008 from $9,026,000 at December 31, 2007.

Note 11.

Supplemental Disclosures of Cash Flow Information

Cash payments for income taxes, net of refunds, were $7,000 and $4,138,000 for the six months ended June 30, 2008 and 2007, respectively. Cash payments for interest were $1,899,000 and $2,016,000 for the six months ended June 30, 2008 and 2007, respectively.

Note 12.

Acquisition of a Policy Block

Effective April 1, 2008 Madison National Life acquired a block of life insurance and annuity policies by entering into a coinsurance agreement with an unaffiliated insurer, whereby Madison National Life assumes 25% of the business covered under the agreement. Under the terms of acquisition, Madison National Life will assume administration of the policies beginning October 1, 2008.

A summary of the policy block acquired by the Company as of the effective date is as follows (in thousands):

Liabilities:		
Insurance reserves - life	$	33,461
Funds on deposit		32,251
Other policyholders' reserves		3,422
Other		27
		69,161
Non-cash assets:		
Deferred acquisition costs		8,850
Other investments (policy loans)		2,971
Due and unpaid premiums		61
		11,882
Cash received	$	57,279

Note 13.

Comprehensive Income (Loss)

The components of comprehensive income (loss) include (i) net income or loss reported in the Consolidated Statements of Operations, and (ii) certain amounts reported directly in stockholders equity, principally the after-tax net unrealized gains and losses on securities available for sale (net of deferred acquisition costs). The comprehensive income (loss) for the three months and six months ended June 30, 2008 and 2007 is summarized as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
Net income (loss)	$ (6,693)	$ 3,929	$ (3,621)	$ 8,531
Unrealized gains (losses) arising during the period, net of income taxes	3,987	(6,989)	(6,396)	(4,472)
Comprehensive income (loss)	$ (2,706)	$ (3,060)	$ (10,017)	$ 4,059

Note 14.

Segment Reporting

The Insurance Group principally engages in the life and health insurance business. Information by business segment for the three months and six months ended June 30, 2008 and 2007 is presented below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
Revenues:				
Medical Stop-Loss (A)	$ 42,292	$ 41,867	$ 85,745	$ 83,726
Fully Insured Health (B)	31,486	26,441	63,506	56,324
Group disability, life, annuities and DBL (C)	14,235	14,147	29,205	28,438
Individual life, annuities and other	16,569	15,770	31,436	32,350
Corporate	(177)	731	(1,183)	1,097
	104,405	98,956	208,709	201,935
Net realized investment gains	(15,087)	582	(14,973)	1,002
	$ 89,318	$ 99,538	$ 193,736	$ 202,937
Income Before Income Taxes:				
Medical Stop-Loss (A)	$ 1,076	$ 3,556	$ 3,460	$ 8,103
Fully Insured Health(B) (D)	1,083	(815)	2,321	(358)
Group disability, life, annuities and DBL (C)	2,222	1,618	3,858	2,953
Individual life, annuities and other	1,560	2,627	4,105	5,894
Corporate	(1,047)	(543)	(3,553)	(1,899)
	4,894	6,443	10,191	14,693
Net realized investment gains and losses	(15,087)	582	(14,973)	1,002
Interest expense	(909)	(1,062)	(1,895)	(2,118)
	$ (11,102)	$ 5,963	$ (6,677)	$ 13,577

(A)

The amount includes equity income from AMIC of $277,000 and $348,000 for the three months ended June 30, 2008 and 2007, respectively, and $624,000 and $680,000 for the six months ended June 30, 2008 and 2007, respectively.

(B)

The amount includes equity income from AMIC of $98,000 and $174,000 for the three months ended June 30, 2008 and 2007, respectively, and $121,000 and $340,000 for six months ended June 30, 2008 and 2007, respectively.

(C)

The amount includes equity income from AMIC of $14,000 and $40,000 for the three months ended June 30, 2008 and 2007, respectively, and $45,000 and $77,000 for six months ended June 30, 2008 and 2007, respectively.

(D)

The Fully Insured Health segment includes amortization of intangible assets recorded as a result of purchase accounting for the recent acquisitions. Total amortization expense was $667,000 and $723,000 for the three months ended June 30, 2008 and 2007, respectively, and $1,368,000 and $1,386,000 for the six months ended June 30, 2008 and 2007, respectively. Amortization expense for the other segments is insignificant.

ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of the financial condition and results of operations of Independence Holding Company ("IHC") and its subsidiaries (collectively, the "Company") should be read in conjunction with, and is qualified in its entirety by reference to, the Consolidated Financial Statements of the Company and the related Notes thereto appearing in our annual report on Form 10-K for the fiscal year ended December 31, 2007, 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 (NYSE: 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"), (the companies are sometimes collectively referred to as the insurance group); and (ii) its marketing, administrative and actuarial companies, including Insurers Administrative Corporation (IAC), Majestic Underwriters LLC (Majestic), Health Plan Administrators, Inc. (HPA), GroupLink Inc., in which it owns a majority interest (GroupLink), IHC Health Solutions, Inc. (IHC Health Solutions) and, Actuarial Management Corporation (AMC). IHC and its subsidiaries (including the Insurance Group) are sometimes collectively referred to as the "Company." The Company also owns a 49.7% equity interest in American Independence Corp. (NASDAQ:AMIC) which owns Independence American Insurance Company (Independence American), three managing general underwriters (MGUs), and controlling interests in two agencies.

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 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. The Company believes that the acquisition of AMC has further enabled it to make these assessments. 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, 2008 and 2007 are summarized as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
Revenues	$ 89,318	$ 99,538	$ 193,736	$ 202,937
Expenses	100,420	93,575	200,413	189,360
Income (loss) from continuing operations before income taxes (benefit)	(11,102)	5,963	(6,677)	13,577
Income taxes (benefit)	(4,409)	2,188	(3,056)	4,638
Income (loss) from continuing operations	(6,693)	3,775	(3,621)	8,939
Discontinued operations:				
Income (loss) from discontinued operations	-	154	-	(408)
Net income (loss)	$ (6,693)	$ 3,929	$ (3,621)	$ 8,531

.

Loss from continuing operations of $(6.7) million, or $(.43) per share, diluted, for the three months ended June 30, 2008 compared to income of $3.8 million, or $.25 per share, diluted, for the three months ended June 30, 2007. Loss from continuing operations of $(3.6) million, or $(.24) per share, diluted, for the six months ended June 30, 2008 compared to income of $8.9 million, or $.59 per share, diluted, for the six months ended June 30, 2007. This decrease is primarily attributable to losses recorded in the current quarter of $(17.4) million from other than temporary impairments due to the write down in value of preferred stocks of certain financial institutions;

.

Consolidated investment yields of 4.9% and 4.8% for the three months and six months ended June 30, 2008 compared to 5.6% and 5.5% for the comparable periods in 2007. The decrease is primarily a result of losses from investment partnerships in 2008;

.

Revenues of $89.3 million and $193.7 million for the three months and six months ended June 30, 2008, respectively, representing decreases of 10.3% and 4.5% over the respective three-month and six-month periods in 2007. The decrease is primarily the result of realized losses from other than temporary impairments;

.

Book value of $13.92 per common share; a 4.9% decrease from December 31, 2007, primarily reflecting net realized and unrealized losses on securities;

.

Effective April 1, 2008 acquired a block of life insurance policies with approximately $65.7 million of life reserves. The block consists of approximately $33.4 million of older, traditional life reserves and $32.3 million of annuity reserves. Under the terms of the acquisition, Madison National Life will assume administration of the policies beginning October 1, 2008;

.

Effective April 1, 2008 increased the Company's controlling interest in Majestic Underwriters LLC ("Majestic"), a medical stop-loss MGU, to 77% with the purchase of an additional 14.7% interest from a retired senior officer.

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

.

Income before taxes from the Medical Stop-Loss segment decreased $2.5 million for the three months ended June 30, 2008 compared to the same period in 2007 and $4.6 million for the six months ended June 30, 2008 compared to the same period in 2007. This is primarily a result of the re-estimation of the projected net loss ratio of business written in 2007 in response to claim development identified in the latter half of 2007 and the subsequent higher projected net loss ratio applied on business written in 2008;

o

Underwriting experience, as indicated by its GAAP Combined Ratios, for the Medical Stop-Loss segment is as follows for the three months and six months ended June 30, 2008 and 2007 (in thousands):

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2008	**2007**	**2008**	**2007**
Premiums Earned	$ 40,902	$ 40,115	$ 82,621	$ 80,243
Insurance Benefits, Claims & Reserves	30,039	27,871	59,846	54,754
Expenses	10,103	9,379	20,890	19,302
Loss Ratio(A)	73.4%	69.5%	72.4%	68.2%
Expense Ratio (B)	24.7%	23.4%	25.3%	24.1%
Combined Ratio (C)	98.1%	92.9%	97.7%	92.3%

(A)

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

(B)

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

(C)

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

.

The Fully Insured Health segment reported income before taxes of $1.1 million for the three months ended June 30, 2008 as compared to a loss of $(.8) million for the comparable period in 2007, and income before taxes of $2.3 million for the six months ended June 30, 2008 as compared to a loss of $(.4) million for the six months ended June 30, 2007. The loss ratio on the fully insured business decreased due to an increase in volume in the dental and student accident lines which have higher profit margins, improved margins in our short term medical business, and improved margins in our small group major medical line. The expense ratio is higher due to a greater portion of higher-commission lines of business;

o

Premiums earned from this segment have increased $4.8 million and $5.8 million for the three months and six months ended June 30, 2008 over the comparable periods in 2007. The 2008 results also include an increase of $1.4 million in fee and other income;

o

Underwriting experience, as indicated by its GAAP Combined Ratios, for the Fully Insured segment for the three months and six months ended June 30, 2008 and 2007 is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Premiums Earned	$ 20,909	$ 16,099	$ 41,749	$ 35,956
Insurance Benefits, Claims & Reserves	12,835	12,158	26,461	25,911
Expenses	6,634	4,267	11,588	8,790
Loss Ratio	61.4%	75.5%	63.4%	72.1%
Expense Ratio	31.7%	26.5%	27.8%	24.4%
Combined Ratio	93.1%	102.0%	91.2%	96.5%

.

Income before taxes from the Group disability, life, annuities and DBL segment increased $.6 million and $.9 million for the three months and six months ended June 30, 2008, respectively, compared to 2007;

.

Income before taxes from the Individual life, annuities and other segment decreased $1.0 million and $1.8 million for the three months and six months ended June 30, 2008, respectively, compared to the prior year. Prior year results include $.9 million of other income due to adjustments in settlement of a reinsurance agreement;

.

Loss before taxes from the Corporate segment increased $.5 million and $1.7 million for the three months and six months ended June 30, 2008, respectively, primarily due to losses from investment partnerships in 2008;

.

Net realized investment losses were $(15.1) million and $(15.0) million for the three months and six months ended June 30, 2008, respectively, compared to net realized investment income of $.6 million and $1.0 million for the comparable periods in 2007. Included in realized losses for the three months and six months ended June 30, 2008 are $(17.4) million and $(17.5) million from other than temporary impairments primarily due to the write down in value of preferred stocks of certain financial institutions due to the severity of the decrease in market value and length of time that these securities were in a loss position;

.

Premiums by principal product for the three months and six months 2008 and 2007 are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
Gross Direct and Assumed Earned Premiums:	**2008**	**2007**	**2008**	**2007**
Medical Stop-Loss	$ 65,256	$ 69,718	$ 133,385	$ 137,477
Fully Insured Health	51,653	55,966	103,258	110,439
Group disability, life, annuities and DBL	19,445	20,338	39,559	40,542
Individual, life, annuities and other	8,722	7,727	16,405	15,914
	$ 145,076	$ 153,749	$ 292,607	$ 304,372

	Three Months Ended June 30,		Six Months Ended June 30,	
Net Premiums Earned:	**2008**	**2007**	**2008**	**2007**
Medical Stop-Loss	$ 40,902	$ 40,115	$ 82,621	$ 80,243
Fully Insured Health	20,909	16,099	41,749	35,956
Group disability, life, annuities and DBL	11,605	11,431	23,673	22,971
Individual, life, annuities and other				