INDEPENDENCE HOLDING CO
Form 10-K
March 17, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

COMMISSION FILE NUMBER 0-10306

INDEPENDENCE HOLDING COMPANY

(Exact name of registrant as specified in its charter)

DELAWARE	**58-1407235**
(State of Incorporation)	(I. R.S. Employer Identification No.)

96 CUMMINGS POINT ROAD, STAMFORD, CONNECTICUT	**06902**
(Address of Principal Executive Offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:
NONE

Securities registered pursuant to Section 12(g) of the Act:
COMMON STOCK, $1.00 PAR VALUE PER SHARE
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ___

No X

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ___ No X

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes X No ___

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ___ No ___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

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

Large accelerated filer __

Accelerated filer ___ Non-accelerated filer X

Smaller reporting company __

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, as of June 30, 2010 was $37,207,000.

15,833,083 shares of common stock were outstanding as of March 15, 2011.

Documents Incorporated by Reference

Portions of the Registrant s definitive proxy statement to be delivered (or made available, pursuant to applicable regulations) to stockholders in connection with the 2010 annual meeting of stockholders to be held in June 2011 are incorporated by reference in response to Part III of this Report.

FORM 10-K CROSS REFERENCE INDEX

Forward-Looking Statements

This report on Form 10−K 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. We undertake no obligation to update or review any forward-looking statement, whether as a result of new information, future events or other developments.

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 of this report, Risk Factors.

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

ITEM 1. BUSINESS

Business Overview

Independence Holding Company is a Delaware corporation (NYSE: IHC) that was formed in 1980. We are a holding company principally engaged in the life and health insurance business with principal executive offices located at 96 Cummings Point Road, Stamford, Connecticut 06902. At December 31, 2010, we own a 50.1% controlling interest in American Independence Corp. (NASDAQ:AMIC), which owns Independence American Insurance Company ("Independence American") several managing general underwriters ("MGUs") and controlling interests in three agencies. As of March 15, 2011, subsequent to year-end, IHC s ownership interest increased to 63.0%.

Our website is located at www.ihcgroup.com. Detailed information about IHC, its corporate affiliates and insurance products and services can be found on our website. In addition, we make our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to such reports available, free of charge, through our website, as soon as reasonably practicable after they are filed with or furnished to the SEC. The information on our website, however, is not incorporated by reference in, and does not form part of, this Annual Report on Form 10-K.

IHC provides specialized life and health coverage and related services to commercial customers and individuals. We focus on niche products and/or narrowly defined distribution channels in the United States. Our wholly owned insurance company subsidiaries, Standard Security Life Insurance Company of New York ("Standard Security Life") and Madison National Life Insurance Company, Inc. ("Madison National Life") market their products through independent and affiliated brokers, producers and agents. Independence American also distributes through these sources as well as to consumers through a dedicated controlled distribution.

Madison National Life, Standard Security Life and Independence American are sometimes collectively referred to as the "Insurance Group." IHC and its subsidiaries (including the Insurance Group) are sometimes collectively referred to as the "Company", or "IHC", or are implicit in the terms "we", "us" and "our".

IHC retains much of the risk that it underwrites, and focuses on the following lines of business:

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Medical excess (or "stop-loss")

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Multiple fully insured health lines

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Group disability and life

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Individual life, primarily through block acquisitions

Standard Security Life, Madison National Life and Independence American are each rated A- (Excellent) by A.M. Best Company, Inc. ("Best"). Standard Security Life is domiciled in New York and licensed as an insurance company in all 50 states, the District of Columbia, the Virgin Islands and Puerto Rico. Madison National Life is domiciled in Wisconsin, licensed to sell insurance products in 49 states, the District of Columbia, the Virgin Islands and Guam, and is an accredited reinsurer in New York. Independence American is domiciled in Delaware and licensed to sell insurance products in 49 states and the District of Columbia. We have been informed by Best that a Best rating is assigned after an extensive quantitative and qualitative evaluation of a company's financial condition and operating performance and is also based upon factors relevant to policyholders, agents, and intermediaries, and is not directed toward protection of investors. Best ratings are not recommendations to buy, sell or hold any of our securities.

Our administrative companies underwrite, market, administer and/or price life and health insurance business for our owned and affiliated carriers, and, to a lesser extent, for non-affiliated insurance companies. They receive fees for these services and do not bear any of the insurance risk of the companies to which they provide services, other than through profit commissions or profit slides. During 2010, our principal administrative companies were IHC Health Solutions, Inc. (IHC Health Solutions), Majestic Underwriters, LLC ("Majestic"), and Actuarial Management Corporation ("AMC"). In January 2010, we acquired interests in three additional administrative companies by: (i) buying the assets of Alliance Underwriters, LLC (AU), a stop-loss managing general underwriter; (ii) acquiring 51% of the stock of MedWatch, LLC; and (iii) acquiring 51% of the stock of Hospital Bill Analysis, LLC. AMIC's administrative companies are Risk Assessment Strategies, Inc., and Voorhees Risk Management, LLC, d.b.a. Marlton Risk Group, IHC Risk Solutions-IIG (which was formed in December 2010) and IHC Risk Solutions, Inc. which bills and collects premiums, administers and processes claims and performs medical management for our MGUs and third parties (collectively, the "AMIC MGUs"). Our general agencies earn commissions for selling life and health insurance products underwritten by IHC s owned and affiliated insurance companies and also by unaffiliated carriers. In addition, AMIC owns controlling interests in Independent Producers of America, LLC ("IPA") and Healthinsurance.org LLC. IPA is a national, career agent marketing organization. Healthinsurance.org LLC is an online marketing company that owns www.healthinsurance.org, a lead generation site for individual health insurance.

For information pertaining to the Company's business segments, reference is made to Note 22 of the Notes to Consolidated Financial Statements included in Item 8 of this report.

Our Philosophy

Our business strategy consists of maximizing underwriting profits through a variety of niche life and health insurance products and/or through distribution channels that enable us to access underserved markets or markets in which we believe we have a competitive advantage. Historically, our carriers have focused on establishing preferred relationships with producers who seek an alternative to larger, more bureaucratic health insurers, and on providing these producers with personalized service and unique rewards programs. More recently, we have also begun to focus on alternative distribution sources, such as captive agencies and direct-to-consumer initiatives. While our 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. We seek transactions that will generate fee income and profit commissions for our administrative companies as well as risk income for our insurance carriers thereby permitting us to leverage IHC's vertically integrated organizational structure.

As a result of our expansion into the Fully Insured Health Segment in 2005 and our increased control of distribution through corporate acquisitions, we have strengthened our ability to respond to market cycles in the health insurance sector by redeploying the focus of our insurance underwriting activity across a larger number of business lines. In recent years, we have encouraged our owned and affiliated MGUs to be more selective in order to achieve better underwriting results, terminated all under-performing non-owned programs and discontinued less profitable niches within the Fully Insured Health Segment, such as student health insurance. As a result of these changes, we have seen a decrease in our gross written stop-loss premiums and have marginally increased our gross written fully insured health premiums. Net earned premiums have increased primarily due to a reduction in reinsurance. While we have benefitted from fee income generated by our administrative and sales companies in recent years, which is generally not subject to insurance risk, we have seen a decrease in these fees in the current year as a result of a lower volume of premiums administered. At the same time, we also experienced a decrease in administrative costs in our Fully Insured

Health segment resulting from consolidation and efficiency initiatives implemented at the end of 2009.

DISTRIBUTION

Medical Stop-Loss

We market medical stop-loss primarily through MGUs which are non-salaried contractors that receive administrative fees. MGUs are responsible for underwriting accounts in accordance with guidelines formulated and approved by us, billing and collecting premiums, paying commissions to agents, third party administrators ("TPAs") and/or brokers, and processing claims. We are responsible for selecting MGUs, establishing underwriting guidelines, maintaining approved policy forms and overseeing claims for reimbursement, as well as for establishing appropriate accounting procedures and reserves. In order to accomplish this, we audit the MGUs' underwriting, claims and policy issuance practices to assure compliance with our guidelines, provide the MGUs with access to our medical management and cost containment expertise, and review cases that require referral based on our underwriting guidelines. MGUs receive fee income, generally a percentage of gross premiums produced by them on behalf of the insurance carriers they represent, and typically are entitled to additional income based on underwriting results.

Standard Security Life, Madison National Life and Independence American write approximately 69% of their medical stop-loss business through Majestic, the AMIC Stop-loss Subsidiaries and TRU Services, LLC (TRU) (collectively, the "Affiliated MGUs").

The agents and brokers that produce this business are non-salaried contractors that receive commissions.

Fully Insured Health

The Fully Insured Health Segment includes five lines of business (major medical health plans for small groups, individuals and families, dental/vision, short-term medical ("STM"), and limited medical) that are sold in the majority of states through multiple and varied distribution strategies. The largest line of business in this segment continues to be major medical for small employer groups (defined as employers with between two and fifty employees) which decreased in premium in 2010, but the other lines collectively increased by an offsetting amount. The majority of our business in this segment is written through general agents, agents and brokers. We also market (i) directly to agents through the IHC Health Solutions telesales unit, (ii) through private-label arrangements managed by IHC Health Solutions with non-affiliated carriers, and (iii) through AMIC's captive agency relationships.

We entered the Fully Insured Health Segment as a result of several strategic acquisitions and partnerships starting in 2005. We have built a controlled platform to write small-group major medical, major medical health plans for individuals and families, dental/vision, short-term medical and limited medical. Our senior management team has extensive experience in these lines of business and the majority of our current fully insured health block was previously administered (on behalf of other carriers) by the companies we have acquired. Much of this existing block has been transferred to our carriers so we now benefit from administrative fee income at a variety of levels, earn risk profits and receive profit commissions from our reinsurers. The acquisition in 2007 of AMC not only brought in-house the actuarial expertise necessary to maintain the profitability of our fully insured business, but also added another source of fee income and potential profit commissions. The acquisition of IHC Health Solutions, also in 2007, has provided us with a marketing company specializing in alternative distribution methods and strategic partnerships.

In January 2010, in order to improve efficiency and service to our clients, we combined the operations of GroupLink and HPA, along with the medical management and marketing services of IAC, into those of IHC Health Solutions, Inc., and the claims processing and administrative function of IAC was rebranded as IHC Administrative Services, Inc. As a result of these changes, all marketing, sales, underwriting and administrative functions have been collected under IHC Health Solutions, Inc. Certain other transactional services continue to reside within IHC Administrative Services, Inc. in 2011.

The two entities together have approximately 300 salaried employees performing all aspects of underwriting, policy administration and managing fully insured group and individual health insurance on behalf of IHC and other carriers, and manage approximately $255 million of individual and group health and life premiums and premium equivalents for multiple insurers.

The agents and brokers who produce the Fully Insured Health business are non-salaried contractors who receive commissions. IHC grew the gross earned premiums from this segment very quickly from 2005 to 2007, chose to decrease gross earned premiums in 2008 and 2009, then elected to increase again in 2010 to be closer to 2007 levels. We anticipate modest growth in 2011.

Other Products

Our other products are primarily distributed by general agents, agents and brokers. Standard Security Life also markets specialized defined benefit and defined contribution service award programs with separate group life coverage to volunteer emergency services personnel and blanket accident insurance sold through two specialized general agents. The short-term statutory disability benefit product in New York State ("DBL") is marketed primarily through independent general agents who are paid commissions based upon the amount of premiums produced. Madison National Life's disability and group life products are primarily sold in the Midwest to school districts, municipalities and hospital employer groups through a managing general agent that specializes in these target markets.

For a number of years Madison National Life has sold a whole-life product with an annuity rider to military personnel and civil service employees. As a result of this experience, in 2008 Madison National Life formed a subsidiary, IHC Financial Group, Inc. (IHC Financial Group), to recruit agents to sell life and annuity products to state and federal employees. Since these products are currently not available through IHC s carriers, IHC Financial Group has contracted with highly rated insurance companies to sell their life and annuity products to these individuals. The income for IHC Financial Group is derived completely from commissions on the sale of the products of these other companies. The agents and brokers who produce this business are non-salaried contractors who receive commissions. We did not earn significant income from this subsidiary in 2010, but do anticipate increased growth as we continue to recruit new agents. We anticipate that premiums from our whole-life and annuity rider product will be slightly higher in 2011. In the last quarter of 2010, Madison National Life began selling a final expense whole life product. It is expected to write about $5 million of annualized premium in 2011.

PRINCIPAL PRODUCTS

Medical Stop-Loss

The Company is a leading writer nationally of excess or stop-loss insurance for self-insured employer groups that desire to manage the risk of large medical claims ("Medical Stop-Loss"). Standard Security Life was one of the first carriers to market Medical Stop-Loss insurance, starting in 1987, and the Insurance Group is now one of the largest writers of this product in the United States. Medical Stop-Loss insurance provides coverage to public and private entities that elect to self-insure their employees' medical coverage for losses within specified ranges, which permits such groups to manage the risk of excessive health insurance costs by limiting specific and aggregate losses to predetermined amounts. This coverage is available on either a specific or a specific and aggregate basis, although the majority of the Insurance Group's policies cover both specific and aggregate claims. Plans are designed to fit the identified needs of the self-insured employer by offering a variety of deductibles (i.e., the level of claims after which the medical stop-loss benefits become payable).

IHC experienced a reduction in premiums in the Medical Stop-Loss line of business in 2010 due to the termination of certain employer medical stop-loss MGUs and more stringent underwriting guidelines.

Fully Insured Health Products

Group Major Medical

The Company began selling group major medical insurance (including CDHPs) primarily to small employers (two to 50 covered lives) during 2005, and significantly expanded its book of business in 2006-2007. IHC markets this product in the majority of states. It is fully insured major medical coverage that is principally designed to work with health reimbursement accounts ("HRA") and health savings accounts ("HSA") which are implemented by employers that wish to provide this benefit as part of an employee welfare benefit plan. These plans are offered primarily as preferred provider organizations ("PPO") plans, and provide a variety of cost-sharing options, including deductibles, coinsurance and co-payment. CDHPs are designed to provide participants with economic incentives to be informed consumers of healthcare.

In addition to small group, the Company offers a unique group medical plan to employers (small and large) who are contractors working on government-funded projects under the Davis-Bacon and Service Contract Acts (the Acts"), much of which is associated with current and future U.S. infrastructure improvements. This plan helps contactors meet the provisions of a "bona fide" fringe benefit for their hourly workers as required in the Acts.

The Company experienced a $4 million increase in net retained premiums in the small group line in 2010. Gross premiums decreased primarily as a result of fewer groups purchasing major medical coverage and fewer participants in each group as a result of recessionary economic conditions, and stricter underwriting guidelines.

Short-Term Medical

IHC sells individual major medical products ("STM") in 45 states. STM is designed specifically for people with transient needs for health coverage. Typically, STM products are written as major medical coverage with a defined duration, which is normally twelve months or less. Among the typical purchasers of STM products are self-employed professionals, recent college graduates, persons between jobs, employed individuals not currently eligible for group insurance, and others who need insurance for a specified period of time.

IHC s gross premium declined in this line of business in 2010; however net premiums increased due to increased retention. We anticipate modest growth in this line of business.

Dental/Vision

IHC sells group and individual dental products in the majority of states. We administer the majority of IHC's dental business and are also the primary distribution source of this line of business. The dental portfolio includes indemnity and PPO plans for employer groups of two or more lives and for individuals within affinity groups. Employer plans are offered on both employer paid and employee voluntary bases. As part of the distribution of our dental products, we also offer vision, group life and short-term disability benefits. Vision plans will offer a flat reimbursement amount for exams and materials. Life plans are available on scheduled or percentage of salary basis and short-term disability is offered as a percentage of salary or flat amount.

Standard Security Life writes vision policies in the State of New York on behalf of national vision providers. IHC does not control the distribution or underwriting of this product, and therefore it does not retain its normal share of the risk and does not earn administrative fee income, other than the carrier fee.

IHC experienced growth in this line of business in 2010, particularly in its individual dental product, and we anticipate continued growth in future years.

Major Medical for Individuals and Families

The Company markets major medical plans for individuals and families that include CDHP products which are approved in the majority of states. The Company believes that the demand for individual medical products is growing steadily, due in large part, to employers reducing the number of employees eligible for group coverage, and to an increase in the number of self-employed individuals. Many of these plans are Federally Qualified High Deductible Health Plans that allow the policy or certificate holder to establish an HSA. For these products, each application is individually underwritten for consideration of coverages.

The Company anticipates growth in this line of business in 2011 as a result of new distribution sources and more focus on individual products by the telesales unit of IHC Health Solutions.

Hospital Income Plans (HIP)

The Company began to market scheduled benefit HIP plans through its captive distribution in late 2010. The product has been well received as both a supplement to a major medical and as a practical solution for uninsured consumers. In 2010, the Company recorded less than $.5 million of gross written premium but expects to write $2 - $4 million in 2011, through its own captive distribution and through other carefully selected distribution partners.

Limited Medical

Standard Security Life issues a limited medical policy that offers affordable health coverage to hourly, part-time and/or seasonal employees, which is currently approved in a majority of states. Limited medical plans are a low cost alternative to major medical insurance for those Americans who cannot afford traditional health insurance. Employers are using these plans to recruit and retain employees, save costs and compete more effectively. These plans also permit employees who do not otherwise have health insurance to begin to participate in the healthcare system.

In 2010, the Company recorded $9.5 million of gross premiums and projects continued growth in 2011. In 2011, the Company expects to issue limited medical plans to uninsured consumers who pay for their own health insurance through carefully selected distribution sources.

Student Medical

In 2010, IHC sold student accident and student health insurance (collectively, Student Medical). The student accident product was primarily offered to sports, youth, recreational and educational markets.

IHC experienced a decrease in this line of business in 2010. The Company has decided to exit this line of business due to lower than expected operating results.

Medicare Supplement

In 2011, the Company expects to begin issuing Medicare supplement plans that will be sold both by its own distribution sources and through direct-to-consumer channels in collaboration with a long-time marketing partner. The Company does not anticipate issuing more than $2 - $4 million of gross written premium. The Company expects to retain about 20% of the premium on a net retained basis.

Final Expense

In the last quarter of 2010, the Company began marketing a whole life product commonly referred to as a final expense life policy. This whole life product is sold to people in the 50 to 85 years old range. The face amounts can range from $2,500 to $50,000. We are currently averaging about $12,000 per policy. This product is marketed through an exclusive arrangement with a large national marketing company.

Group Disability; Life, Annuities and DBL

Group Long-Term and Short-Term Disability

The Company sells group long-term disability ("LTD") products to employers that wish to provide this benefit to their employees. Depending on an employer's requirements, LTD policies (i) cover between 40% and 90% of insurable salary; (ii) have elimination periods (i.e., the period between the commencement of the disability and the start of benefit payments) of between 30 and 730 days; and (iii) terminate after two, five or ten years, or extend to age 65 or the employee's Social Security normal retirement date. Benefit payments are reduced by social security, workers compensation, pension benefits and other income replacement payments. Optional benefits are available to employees, including coverage for partial or residual disabilities, survivor benefits and cost of living adjustments. The Company also markets short-term disability ("STD") policies that provide a weekly benefit to disabled employees until the earlier of: recovery from disability, eligibility for long-term disability benefits or the end of the STD benefit period.

The Company experienced an increase in sales to school districts and municipalities in 2010 primarily as a result of new business from the primary producer. We expect a slight increase in premiums in 2011.

New York Short-Term Disability (DBL)

Standard Security Life markets DBL. All companies with more than one employee in New York State are required to provide DBL insurance for their employees. DBL coverage provides temporary cash payments to replace wages lost as a result of disability due to non-occupational injury or illness. The DBL policy provides for (i) payment of 50% of salary to a maximum of $170 per week; (ii) a maximum of 26 weeks in a consecutive 52 week period; and (iii) benefit commencement on the eighth consecutive day of disability. Policies covering fewer than 50 employees have fixed rates approved by the New York State Insurance Department. Policies covering 50 or more employees are individually underwritten. Standard Security Life's DBL premiums declined in 2010 due to rate reductions on its large cases due to favorable loss experience as well as a decrease in case size due to the reduction in employees as a result of the current economic environment. The Company anticipates premiums will be relatively flat in 2011.

Group Term Life and Annuities

Madison National Life and Standard Security Life sell group term life products, including group term life, accidental death and dismemberment ("AD&D"), supplemental life and supplemental AD&D and dependent life. As with its group disability business, IHC anticipates modest growth in this line of business through expansion of its sales of these group term life products through existing distribution sources. Standard Security Life anticipates modest growth in its specialized defined benefit and defined contribution service award programs, with separate group life coverage, to Volunteer Emergency Services personnel.

Individual Life, Annuities and Other

This category includes: (i) insurance products that are in runoff as a result of the Insurance Group's decision to discontinue writing such products; (ii) blocks of business that were acquired from other insurance companies; (iii) individual life and annuities written through Madison National Life's military and civilian government employee division and through its final expense distribution agency; (iv) blanket accident insurance sold through a specialized general agent; and (v) certain miscellaneous insurance products.

The following lines of Standard Security Life's in-force business are in runoff: individual accident and health, individual life, single premium immediate annuities, disability income, accidental medical, accidental death and AD&D insurance for athletes, executives and entertainers, and miscellaneous insurance business. Madison National Life's runoff in this category consists of existing blocks of individual life, including pre-need (i.e., funeral expense) coverage, traditional and interest-sensitive life blocks which were acquired in prior years, individual accident and health products, annual and single premium deferred annuity contracts and individual annuity contracts.

LIFE INSURANCE IN-FORCE

The following table summarizes the aggregate life insurance in-force of the Insurance Group excluding the credit life and disability segment which is discontinued operations (in thousands):

	2010	2009	2008
LIFE INSURANCE IN-FORCE:			
Group	$ 9,615,359	$ 9,800,776	$ 5,749,229
Individual term	501,123	531,854	495,075
Individual permanent	1,428,283	1,462,126	1,534,056
TOTAL LIFE INSURANCE IN-			

FORCE (1), (2)	$	11,544,765	$	11,794,756	$	7,778,360
NEW LIFE INSURANCE:						
Group	$	1,070,815	$	3,820,519	$	218,479
Individual term		25,402		26		482
Individual permanent		83,463		77,734		64,799
TOTAL NEW LIFE INSURANCE	$	1,179,680	$	3,898,279	$	283,760

NOTES:

(1)	Includes participating insurance	$	157,651	$	170,840	$	228,140
(2)	Before ceded reinsurance of:						
	Group	$	5,248,587	$	5,624,680	$	2,228,998
	Individual		548,856		548,879		97,942
	Total ceded reinsurance	$	5,797,443	$	6,173,559	$	2,326,940

In 2009, there was a large increase in group term life insurance in-force as a result of new distribution sources.

ACQUISITIONS OF POLICY BLOCKS

In addition to its core life and health lines of business distributed as described above, IHC s acquisition group acquires blocks of existing life insurance, annuity and disability policies from other insurance companies, guaranty associations and liquidators. Most of the acquired blocks have been primarily life, annuities or disability policies. Not only have these transactions yielded a healthy rate of return on the investment, but the overall long-term nature of the policies acquired serves as a counterbalance to the bulk of the policies currently being written which are short-term in nature.

During 2010, Madison National Life acquired a block of life insurance policies with approximately $1.6 million of life reserves.

During 2008, Madison National Life acquired a block of life insurance policies with approximately $64.4 million of life reserves. The block consists of approximately $32.2 million of older, traditional life reserves and $32.2 million of annuity reserves.

During 2006, Madison National Life acquired a total of $8.0 million of reserves in the following transactions: (i) effective January 1, 2006, entered into an agreement with an unaffiliated insurer to 100% coinsure dental policies totaling approximately $0.1 million of reserves; (ii) effective October 1, 2006, entered into an agreement with an unaffiliated insurer to 100% coinsure life insurance policies totaling approximately $7.7 million of reserves; and (iii) effective October 1, 2006, entered into an agreement with an unaffiliated insurer to 100% coinsure life insurance policies totaling approximately $0.2 million of reserves.

REINSURANCE AND POLICY RETENTION LIMITS

The Company's average retention of gross and assumed Medical Stop-Loss exposure was 75% in 2010. Prior to the acquisition of AMIC in 2010, the Company s average retention of Medical Stop-Loss exposure was 56.7% in 2009 and 55.9% in 2008. Standard Security Life and Madison National Life also ceded, on average, 23.0%, and 22.9% in 2009 and 2008, respectively, of their Medical Stop-Loss business to their affiliate, Independence American. Standard Security Life retained 80% of DBL premium with the balance ceded, commencing July 1, 2004, to Independence American.

In 2010, IHC retained approximately 58% of gross and assumed Fully Insured Health exposure, up from approximately 44% in 2009. Retentions on other lines of business remained relatively constant in 2010. The Company purchases quota share reinsurance and excess reinsurance in amounts deemed appropriate by its risk committee. The Company monitors its retention amounts by product line, and has the ability to adjust its retention as appropriate.

Reinsurance is used to reduce the potentially adverse financial impact of large individual or group risks, and to reduce the strain on statutory income and surplus related to new business. By using reinsurance, the Insurance Group is able to write policies in amounts larger than it could otherwise accept. The amount reinsured is the portion of each policy in excess of the retention limit on a particular policy.

Maximum net retention limits for Standard Security Life at December 31, 2010 were: (i) $210,000 per life on individual life and corresponding disability waiver of premium; (ii) no retention on accidental death benefits provided by rider to individual life policies; (iii) up to $1,000,000 on any one medical stop-loss claim; (iv) $2,500 of monthly benefits on disability income policies; (v) $25,000 on its special disability business; and (vi) up to $1,000,000 for fully insured medical in a calendar year. Standard Security Life also maintains catastrophe reinsurance in order to protect against particularly adverse mortality which might occur with respect to its overall life business. At December 31, 2010, maximum net monthly retention limits on any one life for Madison National Life were: (i) $8,000 per month on group long-term disability insurance; (ii) $1,600 per week on group short-term disability insurance; (iii) $125,000 per individual on group term life, accidental death benefits, including supplemental life and accidental death and dismemberment; (iv) $125,000 on substandard ordinary life, group family life and individual ordinary life; (v) up to $1,000,000 on any one medical stop-loss claim; (vi) individual monthly benefits from $1,000 to $2,500 depending on recipient age and length of benefit period for individual accident and health insurance; and (vii) up to 900,000 for fully insured medical in a calendar year. Maximum net retention limits for Independence American at December 31, 2010 were: (i) up to $1,000,000 on any one medical stop-loss claim; and (ii) up to $1,000,000 for fully insured medical in a calendar year.

Effective April 1, 2009, Madison National Life entered into a reinsurance treaty with an unaffiliated reinsurer to cede $48.8 million of life reserves.

The following reinsurers represent approximately 82% of the total ceded premium for the year ended December 31, 2010:

Munich Re America, Inc.	22%
Union Security Insurance Company	19%
Fidelity Security Life Insurance Company	15%
Everest Reinsurance Company	11%
National Insurance Company of Wisconsin, Inc.	5%
Gerber Life Insurance Company	5%
American Fidelity Assurance Company	5%
	82%

The Insurance Group remains liable with respect to the insurance in-force which has been reinsured in the unlikely event that the assuming reinsurers are unable to satisfy their obligations. The Insurance Group cedes business (i) to individual reinsurance companies that are rated "A-" or better by Best or (ii) upon provision of adequate security. The ceding of reinsurance does not discharge the primary liability of the original insurer to the insured. Since the risks under the Insurance Group's business are primarily short-term, there would be limited exposure as a result of a change in a reinsurer's creditworthiness during the term of the reinsurance. At December 31, 2010 and 2009, the Insurance Group's ceded reinsurance in-force (excluding the credit life and disability segment which is discontinued operations) was $5.8 billion and $6.2 billion, respectively.

For further information pertaining to reinsurance, reference is made to Note 21 of Notes to Consolidated Financial Statements included in Item 8.

INVESTMENTS AND RESERVES

More than 99% of the Company's cash, cash equivalents and securities portfolio are managed by employees of IHC and its affiliates, and ultimate investment authority rests with IHC's in-house investment group. The remaining $5.2 million is invested with independent investment managers. As a result of the nature of IHC's insurance liabilities, IHC endeavors to maintain a significant percentage of its assets in investment grade securities, cash and cash equivalents. At December 31, 2010, approximately 96.0% of the fixed maturities were investment grade and continue to be rated on average AA. The internal investment group provides a summary of the investment portfolio and the performance thereof at the meetings of the Company's board of directors.

As required by insurance laws and regulations, the Insurance Group establishes reserves to meet obligations on policies in-force. These reserves are amounts which, with additions from premiums expected to be received and with interest on such reserves at certain assumed rates, are calculated to be sufficient to meet anticipated future policy obligations. Premiums and reserves are based upon certain assumptions with respect to mortality, morbidity on health insurance, lapses and interest rates effective at the time the polices are issued. The Insurance Group also establishes appropriate reserves for substandard business, annuities and additional policy benefits, such as waiver of premium and accidental death. Standard Security Life and Madison National Life are also required by law to have an annual asset adequacy analysis, which, in general, projects the amount and timing of cash flows to the estimated maturity date of liabilities, prepared by the certifying actuary for each insurance company. Standard Security Life, Madison National Life and Independence American invest their respective assets, which support the reserves and other funds in accordance with applicable insurance law, under the supervision of their respective board of directors. The Company manages interest rate risk seeking to maintain a portfolio with a duration and average life that falls within the band of the duration and average life of the applicable liabilities. The Company utilizes options to modify the duration and average life of the assets.

Under Wisconsin insurance law, there are restrictions relating to the percentage of an insurer's admitted assets that may be invested in a specific issuer or in the aggregate in a particular type of investment. With respect to the portion of an insurer's assets equal to its liabilities plus a statutorily-determined security surplus amount, a Wisconsin insurer cannot, for example, invest more than a certain percentage of its assets in non-amortizable evidences of indebtedness, securities of any one person (other than a subsidiary and the United States government), or common stock of any corporation and its affiliates (other than a subsidiary).

Under New York insurance law, there are restrictions relating to the percentage of an insurer's admitted assets that may be invested in a specific issuer or in the aggregate in a particular type of investment. For example, a New York life insurer cannot invest more than a certain percentage of its admitted assets in common or preferred shares of any one institution, obligations secured by any one property (other than those issued, guaranteed or insured by the United States or any state government or agency thereof), or medium and lower grade obligations. In addition, there are certain qualitative investment restrictions.

Under Delaware insurance law, there are restrictions relating to the percentage of an insurer's admitted assets that may be invested in a specific issuer or in the aggregate in a particular type of investment. In addition, there are qualitative investment restrictions.

The following table reflects the asset value in dollars (in thousands) and as a percentage of total investments of the Company as of December 31, 2010:

INVESTMENTS BY TYPE		**CARRYING VALUE**	**% OF TOTAL INVESTMENTS**
Fixed maturities:			
United States Government and			
government agencies and authorities	$	27,192	3.0%
Government-sponsored enterprise		70,527	7.6%
States, municipalities and political			
subdivisions		359,490	39.1%
All other debt securities		336,447	36.6%
Total fixed maturities		793,656	86.3%
Equity securities:			
Common stocks		4,669	.5%
Non-redeemable preferred stocks		43,404	4.7%
Total equity securities		48,073	5.2%
Short-term investments		53	-
Securities purchased under agreements			
to resell		41,081	4.5%
Investment partnership interests		6,364	.7%
Operating partnership interests		6,138	.7%
Policy loans		23,216	2.5%
Investment in trust subsidiaries		1,146	.1%
Total investments	$	919,727	100.0%

The Company's total pre-tax investment performance for each of the last three years is summarized below, including amounts recognized in net income and unrealized gains and losses recognized in stockholders' equity as accumulated other comprehensive income or loss:

		2010		**2009**		**2008**
				(In thousands)		
Consolidated Statements of Operations						
Net investment income	$	41,801	$	43,520	$	44,044
Net realized investment gains (losses)		4,646		8,789		(12,401)
Other-than-temporary impairments		(3,819)		(29,991)		(38,247)
Consolidated Balance Sheets						
Net unrealized gains (losses)		15,107		87,488		(70,747)

Total pre-tax investment performance	$	57,735	$	109,806	$	(77,351)

The above net unrealized gains (losses), which have been recognized in the Consolidated Balance Sheets, represent the net change in unrealized gains and losses on available-for-sale securities that occurred during the year, including the increase or decrease in fair value of securities that were previously impaired, but prior to adjustments for deferred acquisition costs and deferred income taxes. The Company does not have any non-performing fixed maturity investments at December 31, 2010.

COMPETITION AND REGULATION

We compete with many large insurance companies, small regional health insurers and managed care organizations. Although most life insurance companies are stock companies, mutual companies also write life insurance in the United States. Mutual companies may have certain competitive advantages since profits inure directly to the benefit of the policyholders.

The health insurance industry tends to be cyclical, and excess products, such as medical stop-loss, tend to be more volatile than fully insured health products. During a soft market cycle, a larger number of companies offer insurance on a certain line of business, which causes premiums in that line to trend downward. In a hard market cycle, insurance companies limit their writings in certain lines of business following periods of excessive losses and insurance and reinsurance companies redeploy their capital to lines that they believe will achieve higher margins.

IHC is an insurance holding company; as such, IHC and its subsidiary carriers and administrative companies are subject to regulation and supervision by multiple state insurance regulators, including the New York State Insurance Department (Standard Security Life's domestic regulator), the Wisconsin Department of Insurance (Madison National Life's domestic regulator) and the Office of the Insurance Commissioner of the State of Delaware (Independence American s domestic regulator). Each of Standard Security Life, Madison National Life and Independence American is subject to regulation and supervision in every state in which it is licensed to transact business. These supervisory agencies have broad administrative powers with respect to the granting and revocation of licenses to transact business, the licensing of agents, the approval of policy forms, the approval of commission rates, the form and content of mandatory financial statements, reserve requirements and the types and maximum amounts of investments which may be made. Such regulation is primarily designed for the benefit of policyholders rather than the stockholders of an insurance company or insurance holding company.

Certain transactions within the IHC holding company system are also subject to regulation and supervision by such regulatory agencies. All such transactions must be fair and equitable. Notice to or prior approval by the applicable insurance department is required with respect to transactions affecting the ownership or control of an insurer and of certain material transactions, including dividend declarations, between an insurer and any person in its holding company system. Under New York, Wisconsin and Delaware insurance laws, "control" is defined as the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a person. Under New York law, control is presumed to exist if any person, directly or indirectly, owns, controls or holds with the power to vote ten percent or more of the voting securities of any other person; in Wisconsin, the presumption is defined as to more than ten percent of the voting securities of another person; and in Delaware, "control" is defined as the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a person, and is presumed to exist if any person, directly or indirectly, owns, controls or holds with the power to vote ten percent or more of the voting securities of any other person. In all three states, the acquisition of control of a domestic insurer needs to be approved in advance by the Commissioner of Insurance. See Note 23 of Notes to Consolidated Financial Statements included in Item 8 for information as to restrictions on the ability of the Company's insurance subsidiaries to pay dividends.

Risk-based capital requirements are imposed on life and property and casualty insurance companies. The risk-based capital ratio is determined by dividing an insurance company's total adjusted capital, as defined, by its authorized control level risk-based capital. Companies that do not meet certain minimum standards require specified corrective action. The risk-based capital ratios for each of Standard Security Life and Madison National Life exceed such minimum ratios.

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. For the years ended December 31, 2010, 2009 and 2008 the Company recorded income (loss) from discontinued operations of $(.3) million, $.3 million and $.6 million, respectively, net of taxes, representing expenses and changes in claims and reserves related to the insurance liabilities for claims incurred prior to the aforementioned sale.

EMPLOYEES

At December 31, 2010, the Company, including its direct and indirect majority or wholly owned subsidiaries, collectively had approximately 650 employees.

ITEM 1A.

RISK FACTORS

The risks and uncertainties described below are not the only ones that we face, but are those that we have identified as being the most significant factors that make investment in our stock speculative or risky or that have special application to us. Additional risks and uncertainties that we do not know about, or that we deem less significant than those identified below, may also make investment in our stock speculative or risky. If any of the adverse events associated with the risks described below occurs, our business, financial condition or results of operations could be materially adversely affected. In such a case, the trading price of our stock could decline.

Federal healthcare reform and financial reform may adversely affect our business, cash flows, financial condition and results of operations.

The Patient Protection and Affordable Care Act (PPACA) was signed into law by President Obama during March 2010. PPACA requires us, for certain products in certain lines of business, to increase benefits, to limit rescission to cases of intentional fraud and, eventually, to insure pre-existing conditions, among other things. If, for those products, our actual loss ratios fall short of required minimum loss ratios (by state and legal entity, subject to certain adjustments), we will be required to rebate the difference to consumers. We have made, and are continuing to make, significant changes to our operations, products and strategy to adapt to the new environment. If our plans for operating in the new environment are unsuccessful or if there is less demand than we expect for our products in the new environment, our results could be adversely affected.

Additionally, in July 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), which implements comprehensive changes to the regulation of financial services in the U.S. Among other things, the Dodd-Frank Act created the Consumer Financial Protection Bureau (CFPB). While the CFPB does not have direct jurisdiction over insurance products, it is possible that regulations promulgated by the CFPB may extend its authority more broadly to cover certain insurance products and thereby may adversely affect our results of operations.

Our investment portfolio is subject to various risks that may result in realized investment losses. In particular, decreases in the fair value of fixed maturities may greatly reduce the value of our investments, and as a result, our financial condition may suffer.

We are subject to credit risk in our investment portfolio. Defaults by third parties in the payment or performance of their obligations under these securities could reduce our investment income and realized investment gains or result in the continued recognition of investment losses. The value of our investments may be materially adversely affected by increases in interest rates, downgrades in the preferred stocks and bonds included in our portfolio and by other factors that may result in the continued recognition of other-than-temporary impairments. Each of these events may cause us to reduce the carrying value of our investment portfolio.

In particular, at December 31, 2010, fixed maturities represented $793.7 million or 86.3% of our total investments of $919.7 million. The fair value of fixed maturities and the related investment income fluctuates depending on general economic and market conditions. The fair value of these investments generally increases or decreases in an inverse relationship with fluctuations in interest rates, while net investment income realized by us will generally increase or decrease in line with changes in market interest rates. In addition, actual net investment income and/or cash flows from investments that carry prepayment risk, such as mortgage-backed and other asset-backed securities, may differ from those anticipated at the time of investment as a result of interest rate fluctuations. An investment has prepayment risk when there is a risk that the timing of cash flows that result from the repayment of principal might occur earlier than anticipated because of declining interest rates or later than anticipated because of rising interest rates. The impact of value fluctuations affects our Consolidated Financial Statements. Because all of our fixed maturities are classified as available for sale, changes in the fair value of our securities are reflected in our stockholders' equity (accumulated other comprehensive income or loss). No similar adjustment is made for liabilities to reflect a change in interest rates. Therefore, interest rate fluctuations and economic conditions could adversely affect our stockholders' equity, total comprehensive income and/or cash flows. For mortgage-backed securities, credit risk exists if mortgagees default on the underlying mortgages. Although at December 31, 2010, approximately 96.0% of the fixed maturities were investment grade and continue to be rated on average AA, all of our fixed maturities are subject to credit risk. If any of the issuers of our fixed maturities suffer financial setbacks, the ratings on the fixed maturities could fall (with a concurrent fall in fair value) and, in a worst case scenario, the issuer could default on its financial obligations. If the issuer defaults, we could have realized losses associated with the impairment of the securities.

We regularly monitor our investment portfolio to ensure that investments that are other-than-temporarily impaired are identified in a timely fashion, properly valued and any impairment is charged against earnings in the proper period. Assessment factors include, but are not limited to, the length of time and the extent to which the market value has been less than cost, the financial condition and rating of the issuer, whether any collateral is held and the Company's intent to sell, or be required to sell, debt securities before the anticipated recovery of its remaining amortized cost basis. However, the determination that a security has incurred an other-than-temporary decline in value requires the judgment of management. Inherently, there are risks and uncertainties involved in making these judgments. Therefore, changes in facts and circumstances and critical assumptions could result in management s decision that further impairments have occurred. This could lead to additional losses on investments, particularly those that management has the intent and ability to hold until recovery in value occurs.

Our earnings could be materially affected by an impairment of goodwill.

Goodwill represented $51.7 million of our $1.4 billion in total assets as of December 31, 2010. We review our goodwill annually for impairment or more frequently if indicators of impairment exist. We regularly assess whether any indicators of impairment exist, which requires a significant amount of judgment. Such indicators may include: a sustained significant decline in our share price and market capitalization; a decline in our expected future cash flows; a significant adverse change in the business climate; and/or slower growth rates, among others. Any adverse change in one of these factors could have a significant impact on the recoverability of these assets and could have a material impact on our consolidated financial statements. If we experience a sustained decline in our results of operations and cash flows, or other indicators of impairment exist, we may incur a material non-cash charge to earnings relating to impairment of our goodwill, which could have a material adverse effect on our results.

Changes in state regulations, or the application thereof, may adversely affect our business, financial condition and results of operations.

A number of states are contemplating significant reform of their health insurance markets. These proposals include provisions affecting both public programs and privately financed health insurance arrangements. We cannot assure you that, if enacted into law, any of these proposals would not have a material, adverse effect on our business, results of operations or financial condition.

Less-fundamental change in the regulatory requirements imposed on us may also harm our business or results of operations. For example, some states have imposed time limits for the payment of uncontested covered claims and required health care and dental service plans to pay interest on uncontested claims not paid promptly within the required time period. Some states have also granted their insurance regulatory agencies additional authority to impose monetary penalties and other sanctions on health and dental plans engaging in certain unfair payment practices. If we were unable, for any reason, to comply with these requirements, it could result in substantial costs to us and could materially adversely affect our results of operations and financial condition.

If rating agencies downgrade our insurance companies, our results of operations and competitive position in the industry may suffer.

Ratings have become an increasingly important factor in establishing the competitive position of insurance companies. Standard Security Life and Madison National Life are both rated "A-" (Excellent) by A.M. Best Company, Inc. Best's ratings reflect its opinions of an insurance company's financial strength, operating performance, strategic position, and ability to meet its obligations to policyholders and are not evaluations directed to investors. The ratings of Standard Security Life and Madison National Life are subject to periodic review by Best. If Best reduces either or both Madison National Life's or Standard Security Life's ratings from its current levels, our business would be adversely affected.

Our loss reserves are based on an estimate of our future liability, and if actual claims prove to be greater than our reserves, our results of operations and financial condition may be adversely affected.

We maintain loss reserves to cover our estimated liability for unpaid losses and loss adjustment expenses, where material, including legal and other fees, and costs not associated with specific claims but related to the claims payment functions for reported and unreported claims incurred as of the end of each accounting period. Because setting reserves is inherently uncertain, we cannot be sure that current reserves will prove adequate. If our reserves are insufficient to cover our actual losses and loss adjustment expenses, we would have to augment our reserves and incur a charge to our earnings, and these charges could be material. Reserves do not represent an exact calculation of liability. Rather, reserves represent an estimate of what we expect the ultimate settlement and administration of claims will cost. These estimates, which generally involve actuarial projections, are based on our assessment of known facts and circumstances. Many factors could affect these reserves, including economic and social conditions, frequency and severity of claims, medical trend resulting from the influences of underlying cost inflation, changes in utilization and demand for medical services, and changes in doctrines of legal liability and damage awards in litigation. Many of these items are not directly quantifiable in advance. Additionally, there may be a significant reporting lag between the occurrence of the insured event and the time it is reported to us. The inherent uncertainties of estimating reserves are greater for certain types of liabilities, particularly those in which the various considerations affecting the type of claim are subject to change and in which long periods of time may elapse before a definitive determination of liability is made. Reserve estimates are continually refined in a regular and ongoing process as experience develops and further claims are reported and settled and are reflected in the results of the periods in which such estimates are changed.

Our results may fluctuate as a result of factors generally affecting the insurance and reinsurance industry.

The results of companies in the insurance and reinsurance industry historically have been subject to significant fluctuations and uncertainties. Factors that affect the industry in general could also cause our results to fluctuate. The industry and our financial condition and results of operations may be affected significantly by:

.

Fluctuations in interest rates, inflationary pressures and other changes in the investment environment, which affect returns on invested capital;

.

Rising levels of actual costs that are not known by companies at the time they price their products;

.

Losses related to epidemics, terrorist activities, random acts of violence or declared or undeclared war;

.

Changes in reserves resulting from different types of claims that may arise and the development of judicial interpretations relating to the scope of insurers' liability;

.

The overall level of economic activity and the competitive environment in the industry;

.

Greater than expected use of health care services by members;

.

New mandated benefits or other regulatory changes that change the scope of business or increase our costs; and

.

Failure of MGUs to adhere to underwriting guidelines as required by us in its MGU agreements.

The occurrence of any or a combination of these factors, which is beyond our control, could have a material adverse effect on our results.

Our inability to assess underwriting risk accurately could reduce our net income.

Our success is dependent on our ability to assess accurately the risks associated with the businesses on which we retain risk. If we fail to assess accurately the risks we retain, we may fail to establish the appropriate premium rates and our reserves may be inadequate to cover our losses, requiring augmentation of the reserves, which in turn would reduce our net income.

Our agreements with our producers (including our MGUs) require that each producer follow underwriting guidelines published by us and amended from time to time. Failure to follow these guidelines may result in termination or modification of the agreement. We perform periodic audits to confirm adherence to the guidelines, but it is possible that we would not detect a breach in the guidelines for some time after the infraction, which could result in a material impact on the Net Loss Ratio (defined as insurance benefits, claims and reserves divided by (premiums earned less underwriting expenses)) for that producer and could have an adverse impact on our operating results.

If we fail to comply with extensive state and federal regulations, we will be subject to penalties, which may include fines and suspension and which may adversely affect our results of operations and financial condition.

We are subject to extensive governmental regulation and supervision. Most insurance regulations are designed to protect the interests of policyholders rather than stockholders and other investors. This regulation, generally administered by a department of insurance in each state in which we do business, relates to, among other things:

.

Approval of policy forms and premium rates;

.

Standards of solvency, including risk-based capital measurements, which are a measure developed by the National Association of Insurance Commissioners and used by state insurance regulators to identify insurance companies that potentially are inadequately capitalized;

.

Licensing of insurers and their agents and regulation of their conduct in the market;

.

Restrictions on the nature, quality and concentration of investments;

.

Restrictions on transactions between insurance companies and their affiliates;

.

Restrictions on the size of risks insurable under a single policy;

.

Requiring deposits for the benefit of policyholders;

.

Requiring certain methods of accounting;

.

Prescribing the form and content of records of financial condition required to be filed; and

.

Requiring reserves for unearned premium, losses and other purposes.

State insurance departments also conduct periodic examinations of the affairs of insurance companies and require the filing of annual and other reports relating to the financial condition of insurance companies, holding company issues and other matters.

A large portion of our business depends on our compliance with applicable laws and regulations and our ability to maintain valid licenses and approvals for our operations. Regulatory authorities have broad discretion to grant, renew, or revoke licenses and approvals. Regulatory authorities may deny or revoke licenses for various reasons, including the violation of regulations. In some instances, we follow practices based on our interpretations of regulations, or interpretations that we believe to be generally followed by the industry, which may be different from the requirements or interpretations of regulatory authorities. If we do not have the requisite licenses and approvals and do not comply with applicable regulatory requirements, the insurance regulatory authorities could preclude or temporarily suspend us from carrying on some or all of our insurance-related activities or otherwise penalize us. That type of action could have a material adverse effect on our business. Also, changes in the level of regulation of the insurance industry (whether federal, state or foreign), or changes in laws or regulations themselves or interpretations by regulatory authorities, could have a material adverse effect on our business.

We may be unsuccessful in competing against larger or better-established business rivals.

We compete with a large number of other companies in our selected lines of business. We face competition from specialty insurance companies and HMOs, and from diversified financial services companies and insurance companies that are much larger than we are and that have far greater financial, marketing and other resources. Some of these competitors also have longer experience and more market recognition than we do in certain lines of business. In addition to competition in the operation of our business, we face competition from a variety of sources in attracting and retaining qualified employees. We cannot assure you that we will maintain our current competitive position in the markets in which we operate, or that we will be able to expand operations into new markets. If we fail to do so, our results of operations and cash flows could be materially adversely affected.

We rely on reinsurance arrangements to help manage our business risks, and failure to perform by the counterparties to our reinsurance arrangements may expose us to risks we had sought to mitigate.

We utilize reinsurance to mitigate our risks in various circumstances. Reinsurance does not relieve us of our direct liability to our policyholders, even when the reinsurer is liable to us. Accordingly, we bear credit risk with respect to our reinsurers. Our reinsurers may be unable or unwilling to pay the reinsurance recoverable owed to us now or in the future or on a timely basis. A reinsurer s insolvency, inability or unwillingness to make payments under the terms of its reinsurance agreement with us could have an adverse effect on our financial condition, results of operations and cash flows.

We may be required to accelerate the amortization of deferred acquisition costs, which would increase our expenses and reduce profitability.

Deferred acquisition costs, or DAC, represent certain costs which vary with and are primarily related to the sale and issuance of our insurance policies and investment contracts and are deferred and amortized over the estimated life of the related insurance policies and contracts. These costs include commissions in excess of ultimate renewal commissions and certain other sales incentives, solicitation and printing costs, sales material and other costs, such as underwriting and contract and policy issuance expenses. Under U.S. generally accepted accounting principles ("GAAP"), DAC is amortized through operations over the lives of the underlying contracts in relation to the anticipated recognition of premiums or gross profits.

Our amortization of DAC generally depends upon anticipated profits from investments, surrender and other policy and contract charges, mortality, morbidity and maintenance and expense margins. Unfavorable experience with regard to expected expenses, investment returns, mortality, morbidity, withdrawals or lapses may cause us to increase the amortization of DAC, resulting in higher expenses and lower profitability.

We regularly review our DAC asset balance to determine if it is recoverable from future income. The portion of the DAC balance deemed to be unrecoverable, if any, is charged to expense in the period in which we make this determination. For example, if we determine that we are unable to recover DAC from profits over the life of a book of business of insurance policies or annuity contracts, or if withdrawals or surrender charges associated with early withdrawals do not fully offset the unamortized acquisition costs related to those policies or annuities, we would be required to recognize the additional DAC amortization as a current-period expense. In general, we limit our deferral of acquisition costs to costs assumed in our pricing assumptions.

The failure to maintain effective and efficient information systems could adversely affect our business.

Our business depends significantly on effective information systems, and we have different information systems for our various businesses. We have committed and will continue to commit significant resources to develop, maintain and enhance our existing information systems and develop new information systems in order to keep pace with continuing changes in information processing technology, evolving industry and regulatory standards and changing customer preferences. Our failure to maintain effective and efficient information systems could have a material adverse effect on our financial condition and results of operations.

Failure to protect our policyholders' confidential information and privacy could adversely affect our business.

In the conduct of our business, we are subject to privacy regulations and to confidentiality obligations. For example, the collection and use of patient data in our health insurance operations is the subject of national and state legislation, including the Health Insurance Portability and Accountability Act of 1996, or HIPAA, and certain other activities we conduct are subject to the privacy regulations of the Gramm-Leach-Bliley Act. We also have contractual obligations to protect certain confidential information we obtain from our existing vendors, partners and policyholders. These obligations generally include protecting such confidential information in the same manner and to the same extent as we protect our own confidential information. If we do not properly comply with privacy regulations and protect confidential information, we could experience adverse consequences, including regulatory sanctions, such as penalties, fines and loss of license, as well as loss of reputation and possible litigation.

ITEM 1B.

UNRESOLVED STAFF COMMENTS

None.

ITEM 2.

PROPERTIES

IHC

IHC has entered into a renewable short-term arrangement with Geneve Corporation, an affiliate, for the use of 6,750 square feet of office space as its corporate headquarters in Stamford, Connecticut.

Standard Security Life

Standard Security Life leases 13,000 square feet of office space in New York, New York as its corporate headquarters, and 3,000 square feet of office space in Farmington, New York for its DBL claims processing center.

Madison National Life

Madison National Life leases 28,060 square feet of space in Madison, Wisconsin as its corporate headquarters.

Majestic Underwriters

Majestic leases 4,495 square feet of office space in Troy, Michigan as its corporate headquarters.

IHC Health Solutions, Inc.

IHC Health Solutions, Inc. leases 9,167 square feet of office space in Indianapolis, Indiana, 7,424 square feet of office space in Bloomington, Minnesota and 7,947 square feet of office space in Tampa, Florida.

IHC Administrative Services, Inc.

IHC Administrative Services, Inc. leases 49,117 square feet of office space in Phoenix, Arizona as its corporate headquarters and 9,350 square feet in Rockford, Illinois.

Actuarial Management Corporation

AMC leases 6,408 square feet of office space in Lafayette, California as its corporate headquarters.

Alliance Underwriters, LLC

Alliance Underwriters, LLC, which shares office space with Hospital Bill Analysis, LLC and MedWatch, LLC, leases 8,496 square feet of office space in Lake Mary, Florida as its corporate headquarters.

Risk Assessment Strategies, Inc.

Risk Assessment Strategies, Inc. leases 4,200 square feet of office space in South Windsor, Connecticut.

Marlton Risk Group

Marlton Risk Group leases 6,182 square feet of office space in Marlton, New Jersey.

ITEM 3.

LEGAL PROCEEDINGS

We are involved in legal proceedings and claims that arise in the ordinary course of our businesses. We have established reserves that we believe are sufficient given information presently available relating to our outstanding legal proceedings and claims. We do not anticipate that the result of any pending legal proceeding or claim will have a material adverse effect on our financial condition or cash flows, although there could be such an effect on our results of operations for any particular period.

ITEM 4.

(REMOVED AND RESERVED)

PART II

ITEM 5.

MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED

STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

The Company's common stock trades under the symbol IHC on the New York Stock Exchange. The following table shows the high and low sales prices for IHC's common stock.

	HIGH	LOW
QUARTER ENDED:		
December 31, 2010	$ 8.75	$ 7.04
September 30, 2010	7.40	5.72
June 30, 2010	10.00	5.83
March 31, 2010	9.97	5.84

QUARTER ENDED:				
December 31, 2009	$	6.69	$	4.75
September 30, 2009		6.91		5.56
June 30, 2009		7.97		4.63
March 31, 2009		5.93		2.54

IHC's stock price closed at $8.12 on December 31, 2010.

Holders of Record

At March 15, 2011, the number of record holders of IHC's common stock was 1,725.

Dividends

IHC declared a cash dividend of $.025 per share on its common stock on each of June 24, 2010 and December 28, 2010 for a total annual dividend of $.05 per share.

IHC declared a cash dividend of $.025 per share on its common stock on each of June 26, 2009 and December 23, 2009 for a total annual dividend of $.05 per share.

IHC declared a cash dividend of $.025 per share on its common stock on each of June 23, 2008 and December 23, 2008 for a total annual dividend of $.05 per share.

Private Placements

In 2008, IHC issued 127,520 shares of common stock as private placements of unregistered securities under Section 4(2) of the Securities Act of 1933, as amended. Accordingly, the shares are "restricted securities", subject to a 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. Information pertaining to the Company's common stock is provided in Note 16 of Notes to Consolidated Financial Statements included in Item 8.

Share Repurchase Program

IHC has a program, initiated in 1991, under which it repurchases shares of its common stock. In January 2010, the Board of Directors authorized the repurchase of up to 500,000 shares of IHC's common stock, inclusive of prior authorizations, under the 1991 plan. As of December 31, 2010, 293,600 shares were still authorized to be repurchased under the plan. There were no share repurchases during the quarter ended December 31, 2010.

Performance Graph

Set forth below is a line graph comparing the five year cumulative total return of IHC s common stock with that of the Russell 2000 Index and the S & P SmallCap Life & Health Insurance index. The graph assumes that dividends were reinvested and is based on a $100 investment on December 31, 2005. Indices data was obtained from Research Data Group, Inc. The performance graph represents past performance and should not be considered to be an indication of future performance.

ITEM 6.

SELECTED FINANCIAL DATA

The following is a summary of selected consolidated financial data of the Company for each of the last five years excluding the credit life and disability segment, which is included in discontinued operations.

	Year Ended December 31,				
	2010	2009	2008	2007	2006
	(In thousands, except per share data)				
Income Data:					
Total revenues	$ 435,368	$ 354,838	$ 353,687	$ 402,322	$ 342,262
Income (loss) from continuing operations	23,669	(7,433)	(24,578)	1,565	14,896
Balance Sheet Data:					
Total investments	919,727	831,081	761,093	776,059	859,176
Total assets	1,361,792	1,304,476	1,273,894	1,306,955	1,267,643
Insurance liabilities	920,581	927,212	951,590	895,169	858,880
Debt and junior subordinated debt securities	45,646	47,146	48,146	50,646	53,146
IHC stockholders' equity	230,628	202,967	162,702	222,851	231,150
Per Share Data:					
Cash dividends declared per common share	.05	.05	.05	.05	.05
Basic income (loss) per common share from continuing operations	1.44	(.48)	(1.59)	.10	.97
Diluted income (loss) per common share from continuing operations	1.44	(.48)	(1.59)	.10	.95
Book value per common share	15.14	13.16	10.56	14.63	15.23

The Selected Financial Data should be read in conjunction with the accompanying Consolidated Financial Statements and Notes thereto included in Item 8 of this report.

ITEM 7.

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

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"); (ii) its majority owned insurance company, Independence American Insurance Company (Independence American); and (iii) its marketing and administrative companies, including managing general underwriters (MGUs) in which it owns a significant voting interest, IHC Health Solutions, Inc. (IHC Health Solutions), Actuarial Management Corporation ("AMC"), MedWatch, LLC and Hospital Bill Analysis, LLC. 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 s health insurance products serve niche sectors of the commercial market through multiple classes of business and varied distribution channels. Medical Stop-Loss is marketed to large employer groups that self-insure their medical risks; in 2010 the Company s average case size was 350 covered lives. The small-group major medical product is purchased by employers with between two and 50 covered lives. With regard to those persons in the growing individual market, IHC s products offer major medical coverage for individuals and families and persons with short-term medical needs, and limited medical and scheduled benefit plans through select distribution partners. Standard Security Life s limited medical product is primarily purchased by hourly workers and others who are generally not eligible for coverage under their employer s group medical plan. The dental and vision products are marketed to large and small groups as well as individuals. IHC is beginning to sell health and life products for the senior market with select distribution partners. With respect to IHC s life and disability business, Madison National Life has historically sold almost all of this business through one distribution source specializing in serving school districts and municipalities.

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. 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 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:

On March 5, 2010, IHC acquired a controlling interest in AMIC. Upon achieving control AMIC s income and expense amounts became consolidated with IHC s results. Accordingly, the individual line items on the Consolidated Statement of Operations for 2010 reflect approximately ten months of the operations of AMIC with no corresponding amounts for 2009 or 2008.

The results of operations for the years ended December 31, 2010, 2009 and 2008, are summarized as follows (in thousands):

	2010	**2009**	**2008**
Revenues	$ 435,368	$ 354,838	$ 353,687
Expenses	399,116	372,940	394,664
Income (loss) from continuing operations before income taxes	36,252	(18,102)	(40,977)
Income taxes (benefits)	12,583	(10,669)	(16,399)
Income (loss) from continuing operations	23,669	(7,433)	(24,578)
Discontinued operations:			
Income (loss) from discontinued operations	(256)	301	644

Net income (loss)		23,413		(7,132)		(23,934)
(Income) loss from noncontrolling interests in subsidiaries		(1,676)		10		94
Net income (loss) attributable to IHC	$	21,737	$	(7,122)	$	(23,840)

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Income from continuing operations of $1.44 per share, diluted, for the year ended December 31, 2010 compared to a loss of $.48 per share, diluted, for the year ended December 31, 2009. Net income for 2010 includes a $16.7 million after-tax gain on the bargain purchase of AMIC. Net income for 2009 includes a $16.8 million after-tax loss resulting from an other-than-temporary impairment related to the Company s investment in AMIC due to the length of time, and the magnitude of the amount by which the quoted market price of AMIC had been below IHC s carrying value;

.

Consolidated investment yield (on an annualized basis) of 4.6% in 2010 as compared to 5.1% in 2009;

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Book value of $15.14 per common share; a 15% increase from December 31, 2009, primarily reflecting net income (including gain on bargain purchase) and net unrealized gains on securities;

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

.

The Medical Stop-Loss segment reported income from continuing operations before taxes of $1.9 million and $3.7 million for the years ended December 31, 2010 and 2009, respectively. The decrease is primarily attributable to the cancellation of underperforming managing general underwriters and market conditions;

o

Premiums earned decreased $6.5 million for the year ended December 31, 2010 when compared to 2009. Excluding $32.9 million of earned premiums related to the consolidation of AMIC s results for the year ended December 31, 2010, premiums earned decreased $39.4 million, due to reduced production volume for the reasons stated above;

o

Combined ratios for the year ended December 31, 2010 include reported stop-loss combined ratios from AMIC of 100.1%, as adjusted for purchase accounting;

o

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

	2010	2009	2008
Premiums Earned	$ 121,156	$ 127,724	$ 159,392
Insurance Benefits, Claims & Reserves	89,968	92,899	117,076
Expenses	32,404	34,069	40,918
Loss Ratio[(A)]	74.3%	72.7%	73.4%
Expense Ratio [(B)]	26.7%	26.7%	25.7%
Combined Ratio [(C)]	101.0%	99.4%	99.1%

(A)

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

(B)

Expense ratio represents net 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.

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The Fully Insured Health segment reported $3.1 million of income from continuing operations before taxes for the year ended December 31, 2010 as compared to a loss before taxes of $7.8 million for the year ended December 31, 2009;

o

Fee and other income from this segment decreased by $1.9 million for the year ended December 31, 2010 compared to 2009. Excluding $4.1 million attributable to the consolidation of AMIC, fee and other income decreased by $6.0 million primarily due to a decrease in non-IHC carrier business administered by IHC Administrative Services and reduced profit commissions from the comparable period in 2009;

o

Excluding $10.2 million attributable to the consolidation of AMIC, the Fully Insured Health segment experienced decreases in other general expenses of $9.6 million, due to its lower volume of business;

o

In 2009, this segment wrote-off $5.1 million of previously capitalized software. The Company had been working with a software developer on this project for a number of years in order to improve the Company s administrative efficiency as it sought in prior years to quickly expand its premiums under management. During testing of the software, it was determined that the system was not capable of administering the Company s lines of business as is and it would take a substantial additional investment to implement. As a result of our decision to reduce the speed of our expansion in this segment, the Company determined not to continue to expend capital on this software. The termination of this project did not impact the Company s ability to service its business;

o

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

		2010		2009		2008
Premiums Earned	$	120,818	$	84,698	$	81,020
Insurance Benefits, Claims & Reserves		81,676		58,500		51,559
Expenses		35,192		25,634		24,351
Loss Ratio		67.6%		69.1%		63.6%
Expense Ratio		29.1%		30.2%		30.1%
Combined Ratio		96.7%		99.3%		93.7%

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Income before taxes from the Group disability, life, annuities and DBL segment decreased $.5 million for the year ended December 31, 2010 compared to 2009. The LTD line experienced higher profitability in 2010 which was more than offset by higher death claims experienced by group term life primarily in the first quarter of 2010;

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Income before taxes from the Individual life, annuities and other segment decreased $4.1 million for the year ended December 31, 2010 compared to the prior year primarily as a result of a commutation of reserves in 2009 and decreased investment income in 2010;

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Income before taxes from the Corporate segment increased $26.9 million for the year ended December 31, 2010 compared to the prior year primarily due to inclusion of a $27.8 million gain as a result of the March 2010 acquisition of a controlling interest in AMIC;

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Net realized investment gains were $4.6 million for the year ended December 31, 2010 compared to net realized investment gains of $8.8 million in 2009. Other-than-temporary impairment losses for the years ended December 31, 2010 and 2009 were $3.8 million and $30.0 million, respectively. In 2009 the Company recorded a $29.2 million pre-tax loss resulting from an other-than-temporary related to the Company s investment in AMIC due to the length of time, and the magnitude of the amount by which the quoted market price of AMIC has been below IHC s carrying value; and

.

Premiums by principal product for the years indicated are as follows (in thousands):

Gross Direct and Assumed Earned Premiums:		**2010**		**2009**		**2008**
Medical Stop-Loss	$	161,530	$	202,056	$	253,886
Fully Insured Health		207,409		190,895		199,378
Group disability; life, annuities and DBL		102,986		103,499		78,517
Individual life, annuities and other		34,549		31,096		32,338
	$	506,474	$	527,546	$	564,119

Net Premiums Earned:		**2010**		**2009**		**2008**
Medical Stop-Loss	$	121,156	$	127,724	$	159,392
Fully Insured Health		120,818		84,698		81,020
Group disability; life, annuities and DBL		55,828		54,896		46,957
Individual life, annuities and other		28,344		27,481		29,919
	$	326,146	$	294,799	$	317,288

Information pertaining to the Company's business segments is provided in Note 22 of Notes to Consolidated Financial Statements included in Item 8.

CRITICAL ACCOUNTING POLICIES

The accounting and reporting policies of the Company conform to U.S. GAAP. The preparation of the 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 this report. Management has identified the accounting policies described below 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.

Insurance Premium Revenue Recognition and Policy Charges

Life

Traditional life insurance products consist principally of products with fixed and guaranteed premiums and benefits, primarily term and whole life insurance products. Premiums from these products are recognized as revenue when due.

Annuities and interest-sensitive life contracts, such as universal life and interest-sensitive whole life, are contracts whose terms are not fixed and guaranteed. Premiums from these policies are reported as funds on deposit. Policy charges consist of fees assessed against the policyholder for cost of insurance (mortality risk), policy administration and early surrender. These revenues are recognized when assessed against the policyholder account balance.

Policies that do not subject the Company to significant risk arising from mortality or morbidity are considered investment contracts. Deposits received from such contracts are reported as other policyholder funds. Policy charges for investment contracts consist of fees assessed against the policyholder account for maintenance, administration and surrender of the policy prior to contractually specified dates, and are recognized when assessed against the policyholder account balance.

Health

Premiums for short-duration medical insurance contracts are intended to cover expected claim costs resulting from insured events that occur during a fixed period of short duration. The Company has the ability to cancel the annual contract or to revise the premium rates at the beginning of each annual contract period to cover future insured events. Insurance premiums from annual health contracts are collected monthly and are recognized as revenue evenly as insurance protection is provided.

Premiums related to long-term and short-term disability contracts are recognized on a pro rata basis over the applicable contract term.

Insurance Reserves

The Company maintains loss reserves to cover its estimated liability for unpaid losses and loss adjustment expenses, where material, (including legal, other fees, and costs not associated with specific claims but related to the claims payment function) for reported and unreported claims incurred as of the end of each accounting period. These loss reserves are based on actuarial assumptions and are maintained at levels that are in accordance with GAAP. The Company s estimate of loss reserves represents management s best estimate of the Company s liability at the balance sheet date.

Loss reserves differ for short-duration and long-duration insurance policies, including annuities. Reserves are based on approved actuarial methods, but necessarily include assumptions about expenses, mortality, morbidity, lapse rates and future yield on related investments.

All of the Company s short-duration contracts are generated from its accident and health business, and are accounted for based on actuarial estimates of the amount of loss inherent in that period s claims, including losses incurred for which claims have not been reported. Short-duration contract loss estimates rely on actuarial observations of ultimate loss experience for similar historical events.

Management believes that the Company's methods of estimating the liabilities for insurance reserves provided appropriate levels of reserves at December 31, 2010. Changes in the Company's reserve estimates are recorded through a charge or credit to its earnings.

Life

For traditional life insurance products, the Company computes insurance reserves primarily using the net premium method based on anticipated investment yield, mortality, and withdrawals. These methods are widely used in the life insurance industry to estimate the liabilities for insurance reserves. Inherent in these calculations are management and actuarial judgments and estimates that could significantly impact the ending reserve liabilities and, consequently, operating results. Actual results may differ, and these estimates are subject to interpretation and change.

Policyholder funds represent interest-bearing liabilities arising from the sale of products, such as universal life, interest-sensitive life and annuities. Policyholder funds are comprised primarily of deposits received and interest credited to the benefit of the policyholder less surrenders and withdrawals, mortality charges and administrative expenses.

Interest Credited

Interest credited to policyholder funds represents interest accrued or paid on interest-sensitive life policies and investment policies. Amounts charged to operations (including interest credited and benefit claims incurred in excess of related policyholder account balances) are reported as insurance benefits, claims and reserves-life and annuity. Credit rates for certain annuities and interest-sensitive life policies are adjusted periodically by the Company to reflect current market conditions, subject to contractually guaranteed minimum rates.

Health

The Company believes that its recorded insurance reserves are reasonable and adequate to satisfy its ultimate liability. The Company primarily uses its own loss development experience, but will also supplement that with data from its outside actuaries, reinsurers and industry loss experience as warranted. To illustrate the impact that Loss Ratios have on the Company s loss reserves and related expenses, each hypothetical 1% change in the Loss Ratio for the health business (i.e., the ratio of insurance benefits, claims and settlement expenses to earned health premiums) for the year ended December 31, 2010, would increase reserves (in the case of a higher ratio) or decrease reserves (in the case of a lower ratio) by approximately $2.9 million with a corresponding increase or decrease in the pre-tax expense for insurance benefits, claims and reserves in the Consolidated Statement of Operations. Depending on the circumstances surrounding a change in the Loss Ratio, other pre-tax amounts reported in the Consolidated Statement of Operations could also be affected, such as amortization of deferred acquisition costs and commission expense.

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

			December 31, 2010			
		Claim Reserves		**Policy Claims**		**Total Health Reserves**
Medical Stop-Loss	$	64,221	$	117	$	64,338
Fully Insured Health		34,540		-		34,540
Group Disability		74,675		15,958		90,633
Individual Accident and Health and Other		8,011		446		8,457
	$	181,447	$	16,521	$	197,968

	December 31, 2009		
	Claim Reserves	**Policy Claims**	**Total Health Reserves**

Medical Stop-Loss	$	71,387	$	117	$	71,504
Fully Insured Health		34,817		-		34,817
Group Disability		67,887		16,705		84,592
Individual Accident and Health and Other		10,055		1,833		11,888
	$	184,146	$	18,655	$	202,801

Medical Stop-Loss

All of the Company s Medical Stop-Loss policies are short-duration and are accounted for based on actuarial estimates of the amount of loss inherent in that period s claims or open claims from prior periods, including losses incurred for claims that have not been reported (IBNR). Short-duration contract loss estimates rely on actuarial observations of ultimate loss experience for similar historical events.

The two primary assumptions underlying the calculation of loss reserves for Medical Stop-Loss business are (i) projected Net Loss Ratio, and (ii) claim development patterns. The projected Net Loss Ratio is set at expected levels consistent with the underlying assumptions (Projected Net Loss Ratio). Claim development patterns are set quarterly as reserve estimates are developed and are based on recent claim development history (Claim Development Patterns). The Company uses the Projected Net Loss Ratio to establish reserves until developing losses provide a better indication of ultimate results and it is feasible to set reserves based on Claim Development Patterns. The Company has concluded that a reasonably likely change in the Projected Net Loss Ratio assumption could have a material effect on the Company s financial condition, results of operations, or liquidity (Material Effect) but a reasonably likely change in the Claim Development Pattern would not have a Material Effect.

Projected Net Loss Ratio

Generally, during the first twelve months of an underwriting year, reserves for Medical Stop-Loss are first set at the Projected Net Loss Ratio, which is set using assumptions developed using completed prior experience trended forward. The Projected Net Loss Ratio is the Company s best estimate of future performance until such time as developing losses provide a better indication of ultimate results.

While the Company establishes a best estimate of the Projected Net Loss Ratio, actual experience may deviate from this estimate. This was the case with the 2007, 2008 and 2009 underwriting years which deviated by 5.7, 3.4 and 4.3 Net Loss Ratio points, respectively. After the recorded reserve increase, it is reasonably likely that the actual experience will fall within a range up to five Net Loss Ratio points above or below the expected Projected Net Loss Ratio for the 2010 underwriting year at December 31, 2010. The impact of these reasonably likely changes at December 31, 2010, would be an increase in net reserves (in the case of a higher ratio) or a decrease in net reserves (in the case of a lower ratio) of up to approximately $2.4 million with a corresponding increase or decrease in the pre-tax expense for insurance benefits, claims and reserves in the 2010 Consolidated Statement of Operations.

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

Claim Development Patterns

Subsequent to the first twelve months of an underwriting year, the Company s developing losses provide a better indication of ultimate losses. At this point, claims have developed to a level where Claim Development Patterns can be applied to generate reasonably reliable estimates of ultimate claim levels. Development factors based on historical patterns are applied to paid and reported claims to estimate fully developed claims. Claim Development Patterns are reviewed quarterly as reserve estimates are developed and are based on recent claim development history. The Company must determine whether changes in development represent true indications of emerging experience or are simply due to random claim fluctuations.

The Company also establishes its best estimates of claim development factors to be applied to more developed treaty year experience. While these factors are based on historical Claim Development Patterns, actual claim development may vary from these estimates. The Company does not believe that reasonably likely changes in its actual claim development patterns would have a Material Effect.

Predicting ultimate claims and estimating reserves in Medical Stop-Loss is more complex than fully insured medical and disability business due to the excess of loss nature of these products with very high deductibles applying to specific claims on any individual claimant and in the aggregate for a given group. The level of these deductibles makes it more difficult to predict the amount and payment pattern of such claims. Fluctuations in results for specific coverage are primarily due to the severity and frequency of individual claims, whereas fluctuations in aggregate coverage are largely attributable to frequency of underlying claims rather than severity. Liabilities for first dollar medical reserves and disability coverages are computed using completion factors and expected Net Loss Ratios derived from actual historical premium and claim data.

Due to the short-term nature of Medical Stop-Loss, redundancies or deficiencies will typically emerge during the course of the following year rather than over a number of years. For Employer Stop-Loss, as noted above, the Company maintains its reserves based on underlying assumptions until it determines that an adjustment is appropriate based on emerging experience from all of its MGUs for prior underwriting years.

Fully Insured Health

Reserves for fully insured medical and dental business are established using historical claim development patterns. Claim development by number of months elapsed from the incurred month is studied each month and development factors are calculated. These claim development factors are then applied to the amount of claims paid to date for each incurred month to estimate fully complete claims. The difference between fully complete claims and the claims paid to date is the estimated reserve. Total reserves are the sum of the reserves for all incurred months.

The primary assumption in the determination of fully insured reserves is that historical claim development patterns tend to be representative of future claim development patterns. Factors which may affect this assumption include changes in claim payment processing times and procedures, changes in product design, changes in time delay in submission of claims, and the incidence of unusually large claims. The reserving analysis includes a review of claim processing statistical measures and large claim early notifications; the potential impacts of any changes in these factors are minimal. The time delay in submission of claims tends to be stable over time and not subject to significant volatility. Since our analysis considered a variety of outcomes related to these factors, the Company does not believe that any reasonably likely change in these factors will have a Material Effect.

Group Disability

The Company s Group Disability segment is comprised of Long Term Disability (LTD) and Disability Benefits Law (DBL). The two primary assumptions on which Group Disability reserves are based are: (i) morbidity levels; and (ii) recovery rates. If morbidity levels increase, for example due to an epidemic or a recessionary environment, the Company would increase reserves because there would be more new claims than expected. In regard to the assumed recovery rate, if disabled lives recover more quickly than anticipated then the existing claims reserves would be reduced; if less quickly, the existing claims reserves would be increased. Advancements in medical treatments could affect future recovery, termination, and mortality rates. With respect to LTD only, other assumptions are: (i) changes in market interest rates; (ii) changes in offsets; (iii) advancements in medical treatments; and (iv) cost of living. Changes in market interest rates could change reserve assumptions since the payout period could be as long as 40 years. Changes in offsets such as Social Security benefits, retirement plans and state disability plans also impact reserving. As a result of the forgoing assumptions, it is possible that the historical trend may not be an accurate predictor of the future development of the block. As with most long term insurance reserves that require judgment, the reserving process is subject to uncertainty and volatility and fluctuations may not be indicative of the claim development overall.

While the Company believes that larger variations are possible, the Company does not believe that reasonably likely changes in its primary assumptions would have a Material Effect.

Individual Accident and Health and Other

This segment is a combination of closed lines of business as well as certain small existing lines. While the assumptions used in setting reserves vary between these different lines of business, the assumptions would generally relate to the following: (i) the rate of disability; (ii) the morbidity rates on specific diseases; and (iii) accident rates. The reported reserves are based on management s best estimate for each line within this segment. General uncertainties that surround all insurance reserving methodologies would apply. However, since the Company has so few policies of this type, volatility may occur due to the small number of claims.

Deferred Acquisition Costs

Costs that vary with and are primarily related to acquiring insurance policies and investment type contracts are deferred and recorded as deferred policy acquisition costs ("DAC"). These costs are principally broker fees, agent commissions, and the purchase prices of the acquired blocks of insurance policies and investment type contracts. DAC is amortized to expense and reported separately in the Consolidated Statements of Operations. All DAC within a particular product type is amortized on the same basis using the following methods:

For traditional life insurance and other premium paying policies amortization of DAC is charged to expense over the related premium revenue recognition period. Assumptions used in the amortization of DAC are determined based upon the conditions as of the date of policy issue or assumption and are not generally revised during the life of the policy.

For long duration type contracts, such as annuities and universal life business, amortization of DAC is charged to expense over the life of the underlying contracts based on the present value of the estimated gross profits ("EGPs") expected to be realized. EGPs consist of margins based on expected mortality rates, persistency rates, interest rate spreads, and other revenues and expenses. The Company regularly evaluates its EGPs to determine if actual experience or other evidence suggests that earlier estimates should be revised. If the Company determines that the current assumptions underlying the EGPs are no longer the best estimate for the future due to changes in actual versus expected mortality rates, persistency rates, interest rate spreads, or other revenues and expenses, the future EGPs are updated using the new assumptions and prospective unlocking occurs. These updated EGPs are utilized for future amortization calculations. The total amortization recorded to date is adjusted through a current charge or credit to the Consolidated Statement of Operations.

Internal replacements of insurance and investment contracts determined to result in a replacement contract that is substantially changed from the original contract, will be accounted for as an extinguishment of the original contract, resulting in a release of the unamortized deferred acquisition costs, unearned revenue, and deferred sales inducements associated with the replaced contract.

Investments

The Company has classified all of its investments as either available-for-sale or trading securities. These investments are carried at fair value with unrealized gains and losses reported in accumulated other comprehensive income (loss) in the Consolidated Balance Sheets for available-for-sale securities or as unrealized gains or losses in the Consolidated Statements of Operations for trading securities. Fixed maturities and equity securities available-for-sale totaled $841.7 million and $750.7 million at December 31, 2010 and 2009, respectively. Premiums and discounts on debt securities purchased at other than par value are amortized and accreted, respectively, to interest income in the Consolidated Statements of Operations, using the constant yield method over the period to maturity. Net realized gains and losses on investments are computed using the specific identification method and are reported in the Consolidated Statements of Operations.

Fair value is determined using quoted market prices when available. 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. When there are limited or inactive trading markets, we use industry-standard pricing methodologies, including discounted cash flow models, whose inputs are based on management assumptions and available current market information. Further, we retain independent pricing vendors to assist in valuing certain instruments.

Declines in value of securities available-for-sale that are judged to be other-than-temporary are determined based on the specific identification method. The Company reviews its investment securities regularly and determines whether other-than-temporary impairments have occurred. 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 Company's intent to sell, or be required to sell, the debt security before the anticipated recovery of its remaining amortized cost basis; the financial condition and near-term prospects of the issuer; adverse changes in ratings announced by one or more rating agencies; subordinated credit support; whether the issuer of a debt security has remained current on principal and interest payments; current expected cash flows; whether the decline in fair value appears to be issuer specific or, alternatively, a reflection of general market or industry conditions including the effect of changes in market interest rates. For fixed maturities, if the Company intends to sell a security, or it is more likely than not that it will be required to sell the security prior to recovery of the security s amortized cost basis, the entire difference between the security s amortized cost basis and its fair value at the balance sheet date is recognized by a charge to total other-than-temporary impairment losses in the Consolidated Statement of Operations. If a decline in fair value of a debt security is judged by management to be other-than-temporary, and: (i) the Company does not intend to sell the security; and (ii) it is not more likely than not that it will be required to sell the security prior to recovery of the security s amortized cost, the Company assesses whether the present value of the cash flows to be collected from the security is less than its amortized cost basis. To the extent that the present value of the cash flows generated by a debt security is less than the amortized cost basis, a credit loss exists. For any such security, the impairment is bifurcated into: (a) the amount of the total impairment related to the credit loss; and (b) the amount of the total impairment related to all other factors. The amount of the other-than-temporary impairment related to the credit loss is recognized by a charge to total other-than-temporary impairment losses in the Consolidated Statement of Operations, establishing a new cost basis for the security. The amount of the other-than-temporary impairment related to all other factors is recognized in other comprehensive income in the Consolidated Balance Sheet.

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

Goodwill and Other Intangible Assets

Goodwill carrying amounts are evaluated for impairment, at least annually, at the reporting unit level which is equivalent to an operating segment. If the fair value of a reporting unit is less than its carrying amount, further evaluation is required to determine if a write-down of goodwill is required. In determining the fair value of each reporting unit, we used an income approach, applying a discounted cash flow method which included a residual value. Based on historical experience, we make assumptions as to: (i) expected future performance and future economic conditions, (ii) projected operating earnings, (iii) projected new and renewal business as well as profit margins on such business, and (iv) a discount rate that incorporated an appropriate risk level for the reporting unit. Any impairment of goodwill would be charged to expense. No impairment charge for goodwill was required in 2010 or 2008. At December 31, 2009, the Company wrote-off $4.2 million of goodwill in connection with an other-than-temporary impairment loss related to its then equity method investment in AMIC. During 2010, the Company obtained a controlling interest in AMIC. See Note 2 in the Notes to Consolidated Financial Statements included in the Item 8 of this report for further information.

Other intangible assets are amortized to expense over their estimated useful lives and are subject to impairment testing. Any impairment write-down of other intangible assets would be charged to expense. For the year ended December 31, 2009, selling, general and administrative expenses include the write-off of $5.1 million of previously capitalized software. See Note 11 in the Notes to Consolidated Financial Statements included in the Item 8 of this report for further information regarding the impairment loss in 2009. No impairment charges for intangible assets were required in 2010 or 2008.

At December 31, 2010, the Company s market capitalization was less than its book value indicating a potential impairment of goodwill. As a result, the Company assessed the factors contributing to the performance of IHC stock in 2010. The Company does not believe that an impairment of goodwill exists at this time.

If we experience a sustained decline in our results of operations and cash flows, or other indicators of impairment exist, we may incur a material non-cash charge to earnings relating to impairment of our goodwill, which could have a material adverse effect on our results.

Deferred Income Taxes

The provision for deferred income taxes is based on the asset and liability method of accounting for income taxes. Under this method, deferred income taxes are recognized by applying enacted statutory tax rates to temporary differences between amounts reported in the Consolidated Financial Statements and the tax bases of existing assets and liabilities. A valuation allowance is recognized for the portion of deferred tax assets that, in management's judgment, is not likely to be realized. The effect on deferred income taxes of a change in tax rates or laws is recognized in income tax expense in the period that includes the enactment date. The Company has certain tax-planning strategies that were used in determining that a valuation allowance was not necessary on its deferred taxes.

RESULTS OF OPERATIONS

Results of Operations for the Year Ended December 31, 2010 Compared to the Year Ended December 31, 2009

Information by business segment for the year ended December 31, 2010 and 2009 is as follows:

December 31, 2010 (In thousands)	Premiums Earned	Net Investment Income	Equity Income From AMIC	Fee and Other Income	Benefits, Claims and Reserves	Amortization of Deferred Acquisition Costs	Selling, General and Administrative	Total
Medical stop-loss	$ 121,156	4,080	14	5,404	89,968	-	38,808	$ 1,878
Fully Insured	120,818	1,454	244	28,168	81,676	28	65,854	3,126
Group disability, life, annuities and DBL	55,828	9,668	22	454	41,440	497	17,389	6,646
Individual life, annuities and other	28,344	25,839	-	4,458	38,234	5,718	12,472	2,217
Corporate	-	760	-	27,830	-	-	5,120	23,470
Sub total	$ 326,146	$ 41,801	$ 280	$ 66,314	$ 251,318	$ 6,243	$ 139,643	37,337
Net realized investment gains								4,646
Other-than-temporary impairment losses								(3,819)
Interest expense								(1,912)
Income from continuing operations before income taxes								36,252
Income taxes								12,583
Income from continuing operations								$ 23,669

December 31, 2009 (In thousands)	Premiums Earned	Net Investment Income	Equity Income From AMIC	Fee and Other Income	Benefits, Claims and Reserves	Amortization of Deferred Acquisition Costs	Selling, General and Administrative	Total
Medical stop-loss	$ 127,724	3,690	786	921	92,899	-	36,513	$ 3,709
Fully Insured	84,698	789	387	30,101	58,500	28	65,255	(7,808)
Group disability, life, annuities								

and DBL	54,896	9,657	116	323	39,270	364	18,251	7,107
Individual life, annuities and other	27,481	28,070	-	5,087	34,565	5,127	14,644	6,302
Corporate	-	1,314	-	-	-	-	4,707	(3,393)
Sub total	$ 294,799	$ 43,520	$ 1,289	$ 36,432	$125,234	$ 5,519	$ 139,370	5,917
Net realized investment losses								8,789
Other-than-temporary impairment losses								(29,991)
Interest expense								(2,817)
Loss from continuing operations before income tax benefits								(18,102)
Income tax benefits								(10,669)
Loss from continuing operations								$ (7,433)

Acquisition of AMIC

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

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

Premiums Earned

Premiums earned in 2010 include $61.6 million of earned premiums related to the consolidation of AMIC with no comparable amounts in 2009. Excluding these amounts, earned premiums in 2010 decreased by $30.3 million compared to 2009. The decrease is primarily due to: (i) a $39.5 million decrease in the Medical Stop-Loss segment primarily due to reduced production from the termination of certain non-owned managing general underwriters and market conditions; and (ii) a $1.8 million decrease in the Group disability, life, annuities and DBL segment primarily resulting from a $1.3 million decrease in group term life business, a $1.8 million net decrease in point of service and other lines of this segment, offset by an increase of 1.3 million in the LTD line due to new business written; partially offset by (iii) a $10.1 million increase in premiums earned in the Fully Insured Health segment comprised primarily of a $4.0 million increase in dental premiums and a $4.4 million increase in small group premiums as a result of both increased production and increased retention, and a $4.2 million net increase in other lines of this segment due to increased production, principally in the limited medical and vision lines, offset by a $2.5 million decrease in student accident premiums as a result of the cancellation of a producer of this product; and (iv) a $.9 million increase in premiums earned in the Individual life, annuities and other segment.

Net Investment Income

Total net investment income decreased $1.7 million. The overall annualized investment yields were 4.6% and 5.1% (approximately 4.8% and 5.3%, on a tax advantaged basis) for 2010 and 2009, respectively. The annualized investment yields on bonds, equities and short-term investments were 4.5% and 4.9% in 2010 and 2009, respectively. The decrease in investment income is due to a decrease in yields and the shorter duration of our portfolio. IHC has approximately $164.5 million in highly rated shorter duration securities earning on average 1.4%. A portfolio that is shorter in duration enables us, if we deem prudent, the flexibility to reinvest in higher yielding longer-term securities in an increasing interest rate environment.

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

Net realized investment gains decreased $4.2 million in 2010. These amounts include gains and losses from sales of fixed maturities and equity securities available-for-sale, trading securities and other investments. Decisions to sell securities are based on management's ongoing evaluation of investment opportunities and economic and market conditions, thus creating fluctuations in gains and losses from period to period. Net realized investment gains in 2010 were reduced by an additional loss of $3.3 million resulting from discussions in the fourth quarter of 2010 with the trustee in bankruptcy pertaining to the resolution of claims related to the non-affiliate broker-dealer that managed the trading accounts of the Company in 2008. The $3.3 million pre-tax loss consisted of: (i) the reversal of $.5 million of anticipated SIPC recoveries initially recorded by a subsidiary of IHC; (ii) the reversal of $.5 million of anticipated

SIPC recoveries initially recorded by AMIC; and (iii) an additional $2.3 million of withdrawals by IHC and AMIC deemed subject to return. A settlement agreement was entered into with the trustee in the first quarter of 2011 and payment by the Company is expected to be made on or before July, 15, 2011. See Note 8 in the Notes to Consolidated Financial Statements included in the Item 8 of this report for more information about net realized investment gains and losses.

Other-than-temporary impairment losses in 2010 consist of $3.1 million of credit losses resulting from expected cash flows of debt securities that are less than the debt securities amortized cost and $.7 million resulting from the Company s intent to sell certain municipal debt securities prior to the recovery of their amortized cost bases. Other-than-temporary impairment losses in 2009 consist of $29.2 million related to an other-than-temporary impairment of the Company s investment in AMIC due to the length of time, and the magnitude of the amount by which the quoted market price of AMIC was below IHC s carrying value and $.8 million resulting from the Company s intent to sell certain securities prior to the recovery of their amortized cost bases. See the discussion above related to the offsetting bargain purchase gain related to the acquisition of AMIC in March 2010.

Fee Income and Other Income

Fee income in 2010 includes $5.8 million of fee income related to the consolidation of AMIC with no comparable amounts in 2009. Excluding these amounts, fee income in 2010 decreased by $2.4 million compared to 2009. The decrease is primarily a result of decreased profit commissions and a lower volume of other fully-insured business administered by IHC Administrative Services.

Excluding amounts generated by AMIC, other income in 2010 decreased by $1.4 million compared to 2009. In 2009, other income includes income resulting from the commutation of a block of business.

Insurance Benefits, Claims and Reserves

Benefits, claims and reserves in 2010 include $42.0 million of benefits, claims and reserves related to the consolidation of AMIC with no comparable amounts in 2009. Excluding these amounts, benefits, claims and reserves in 2010 decreased by $15.9 million compared to 2009. The decrease is primarily attributable to: (i) a $26.8 million decrease in the Medical Stop-Loss segment, largely resulting from a decrease in premiums earned; partially offset by (ii) an increase of $6.6 million in the Fully Insured Health segment, principally due to increases in claims and reserves on dental, small group, short term medical, limited medical and vision lines of business partially offset by a decrease in student accident reserves as a result of a lower volume of business; (iii) a $3.7 million increase in the Individual life, annuity and other segment primarily resulting from an increase in individual annuity contracts in 2010 and an increase in ordinary life and annuities over 2009 levels due to the commutation of reserves in 2009; and (iv) an increase of $.6 million in the Group disability, life, annuities and DBL segment largely as a result of higher claims on the group term life line of business offset by a decrease in the point of service line.

Amortization of Deferred Acquisition Costs

Amortization of deferred acquisition costs increased $.7 million.

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Interest Expense on Debt

Interest expense decreased $.9 million primarily as a result of principal repayments and lower interest rates.

Selling, General and Administrative Expenses

Selling, general and administrative expenses in 2010 include $23.1 million of AMIC related expenses with no comparable amounts in 2009. Excluding AMIC expenses, total selling, general and administrative expenses in 2010 decreased by $22.9 million compared to 2009. The decrease is primarily due to: (i) an $8.6 million decrease in commissions and other general expenses in the Medical Stop-Loss segment due to a decrease in volume as a result of reduced production; (ii) an $9.6 million decrease in the Fully Insured Health segment largely due to a decrease in general expenses as a result of lower business volume and a reduction in work force, (iii) a $1.6 million decrease in the Group disability, life, annuities and DBL segment primarily due to decreased premiums in the group term life and point of service lines; (iv) a $2.2 million decrease in commission, other general and administrative expenses associated with the Individual life, annuities and other segment, partially related to the ceding of a block of life and annuity business in 2009; and (v) a $.9 million decrease in corporate general and administrative expenses.

Income Taxes

Income tax expense increased primarily as the result of the gain recorded on the acquisition of a controlling interest in AMIC in the first quarter of 2010. The effective tax rate was 34.8% for the year ended 2010 compared to (59.0%) for the year ended 2009. In 2009, the effective tax rate is the result of (i) tax expense on pre-tax income generated by the life companies; more than offset by (ii) tax benefits derived from tax exempt interest and dividend received deductions as a result of the Company's investments in both state and political subdivisions and preferred securities; and (iii) tax benefits on pre-tax losses from the non-life businesses which have higher effective rates due to state tax benefits.

Results of Operations for the Year Ended December 31, 2009 Compared to the Year Ended December 31, 2008

Information by business segment for the years ended December 31, 2009 and 2008 is as follows:

December 31, 2009 (In thousands)	**Premiums Earned**	**Net Investment Income**	**Equity Income From AMIC**	**Fee and Other Income**	**Benefits, Claims and Reserves**	**Amortization of Deferred Acquisition Costs**	**Selling, General and Administrative**	**Total**
Medical stop-loss	$127,724	3,690	786	921	92,899	-	36,513	$ 3,709
Fully Insured	84,698	789	387	30,101	58,500	28	65,255	(7,808)
Group disability, life, annuities and DBL	54,896	9,657	116	323	39,270	364	18,251	7,107
Individual life, annuities and other	27,481	28,070	-	5,087	34,565	5,127	14,644	6,302
Corporate	-	1,314	-	-		-	4,707	(3,393)
Sub total	$294,799	$43,520	$ 1,289	$36,432	$225,234	$ 5,519	$ 139,370	5,917
Net realized investment losses								8,789
Other-than-temporary impairment losses								(29,991)
Interest expense								(2,817)
Loss from continuing operations before income tax benefits								(18,102)
Income tax benefits								(10,669)
Loss from continuing operations								$ (7,433)

December 31, 2008 (In thousands)	**Premiums Earned**	**Net Investment Income**	**Equity Income From AMIC**	**Fee and Other Income**	**Benefits, Claims and Reserves**	**Amortization of Deferred Acquisition Costs**	**Selling, General and Administrative**	**Total**
Medical stop-loss	$159,392	4,273	338	1,282	117,076	-	43,823	$ 4,386
Fully Insured	81,020	895	96	39,184	51,559	80	69,057	499
Group disability, life, annuities and DBL	46,957	10,323	46	338	33,718	149	16,441	7,356
Individual life, annuities and other	29,919	31,306	-	1,716	38,184	6,116	11,824	6,817
Corporate	-	(2,753)	-	3	-	-	2,861	(5,611)
Sub total	$317,288	$ 44,044	$ 480	$42,523	$240,537	$ 6,345	$ 144,006	13,447

Net realized investment gains	(12,401)
Other-than-temporary impairment losses	(38,247)
Interest expense	(3,776)
Income from continuing operations before income taxes	(40,977)
Income taxes	(16,399)
Income from continuing operations	$ (24,578)

Premiums Earned

The decrease in premiums earned is largely due to: (i) the Medical Stop-Loss segment which decreased $31.7 million, primarily due to reduced production from stricter underwriting guidelines and the termination of certain managing general underwriters; and (ii) the individual life, annuities and other segment which decreased $2.4 million, primarily due to the ceding and commutation of certain ordinary life and annuity business during 2009, slightly offset by an increase in premiums due to the 2008 acquisition; offset by (iii) the Fully Insured Health segment which had a $3.7 million increase in premiums to $84.7 million in 2009 compared to $81.0 million in 2008, comprised primarily of a $4.2 million increase in dental premiums as a result of increased production, a $1.8 million increase in small group premiums earned as a result of new production sources and increased retention, offset by a $3.5

million decrease in student accident premiums as a result of the cancellation of a producer of this product and a $1.2 million net increase in all other lines of this segment due to increase retention; and (iv) a $7.9 million increase in the group disability, life, annuities and DBL segment primarily from the LTD line due to an increase in retention and new business written.

Net Investment Income

Total net investment income decreased $.5 million primarily due to a decrease in assets due to the ceded block of life and annuity business. The overall annualized investment yields were 5.1% and 4.9% (approximately 5.3% and 5.0%, on a tax advantaged basis) for the years ended December 31, 2009 and 2008, respectively. The annualized investment yields on bonds, equities and short-term investments were 4.9% and 5.2% for the years ended December 31, 2009 and 2008, respectively. A decrease in interest and dividend income, as a result of a reallocation of the investment portfolio towards more liquid assets during 2009, was more than offset by a decrease in losses from partnership investments. In addition, the Company experienced unprecedented pre-payments in GNMAs during the second quarter of 2009 resulting in significantly reduced yields on such investments.

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

Net realized investment gains increased $21.2 million to $8.8 million in 2009 compared to losses of $12.4 million in 2008. These amounts include gains and losses from sales of fixed maturities and equity securities available-for-sale, as well as trading securities and other investments. Decisions to sell securities are based on management's ongoing evaluation of investment opportunities and economic and market conditions, thus creating fluctuations in gains and losses from period to period. In 2008, the Company became aware of certain activities engaged in by the non-affiliate broker-dealer that managed the trading accounts of the Company. The Company reduced the value of the assets held in such accounts to their estimated recoverable amounts. As a result, the Company recorded a $6.8 million pre-tax loss, net of expected recoveries, in the fourth quarter of 2008 related to such accounts. See Note 8 in the Notes to Consolidated Financial Statements included in item 8 of this report for more information about net realized investment gains and losses.

Other-than-temporary impairment losses in 2009 consist of $29.2 million related to an other-than-temporary impairment of the Company s investment in AMIC due to the length of time, and the magnitude of the amount by which the quoted market price of AMIC had been below IHC s carrying value and $.8 million resulting from the Company's intent to sell certain securities prior to the recovery of their amortized cost bases. For the year ended December 31, 2008, the Company recorded pretax losses of $38.2 million from other-than-temporary impairments due to the write-down in value of investments in preferred stocks of certain financial institutions and fixed maturities (primarily Alt-A mortgage securities) primarily due to the severity of the decrease in fair value and length of time that these securities were in a loss position.

Fee Income and Other Income

Fee income decreased $10.4 million primarily as a result of a decrease in gross premiums from the small group line of business in the Fully Insured Health segment due in part to stricter underwriting guidelines and downward pressure on enrollment due to the recession and due to a decrease in other business administered by IAC.

Total other income increased $4.2 million primarily due to (i) income resulting from the commutation, in 2009, of a block of business, (ii) administrative fees associated with a coinsurance agreement, and (iii) deferred gain amortization associated with a block of ordinary life and annuities business ceded in second quarter of 2009.

Insurance Benefits, Claims and Reserves

Benefits, claims and reserves decreased $15.3 million. The decrease is primarily due to: (i) a decrease of $24.2 million in the Medical Stop-Loss segment, primarily resulting from a decrease in premiums earned; (ii) a $3.6 million decrease in the individual life, annuities and other segment primarily resulting from the commutation of reserves in the third quarter of 2009 and the ceding of a block of ordinary life and annuity policies in 2009; offset by (iii) an increase of $6.9 million in the Fully Insured Health segment, primarily as a result of the increase in claims and reserves in dental and small group lines of business; (iv) an increase of $5.6 million in the group disability, life, annuities and DBL segment primarily as a result of increased LTD retention, new LTD business written and higher loss ratios on the GTL business.

Amortization of Deferred Acquisition Costs

Amortization of deferred acquisition costs decreased $.8 million primarily due to lower investment income assumptions used in making this calculation in 2009 as a result of a decrease in yields on insurance investments.

Interest Expense on Debt

Interest expense decreased $1.0 million primarily as a result of principal repayments and lower interest rates.

Selling, General and Administrative Expenses

Total selling, general and administrative expenses decreased $4.6 million in 2009 as compared to 2008. The decrease is primarily due to: (i) a $7.3 million decrease in commissions and other general expenses in the Medical Stop-Loss segment due to a decrease in volume as a result of reduced production; (ii) a $3.8 million decrease in the Fully Insured Health segment primarily consisting of a $6.6 million decrease in general expenses resulting from a lower volume of business and a reduction in work force partially offset by a $5.1 million write-off of capitalized software in the fourth quarter of 2009 (see below); offset by (iii) a $2.8 million increase in compensation, commission and administrative expenses associated with the individual life, annuities and other segment, primarily as a result of the acquisition of a block of life and annuity business in the third quarter of 2008; (iv) a $1.9 million increase in the group disability, life, annuities and DBL segment primarily due to an increase in premiums earned; and (v) a $1.8 million increase in corporate overhead expenses primarily due to interest income on accrued income tax refunds included in 2008 selling, general and administrative expenses and an increase in legal expenses.

In the fourth quarter of 2009, the Fully-Insured segment wrote-off $5.1 million of previously capitalized software. The Company had been working with a software developer on this project for a number of years in order to improve the Company s administrative efficiency as it sought in prior years to quickly expand its premiums under management. The software was delivered to the Company in the fourth quarter of 2009. During testing of the software, it was determined that the system was not capable of administering the Company s lines of business as is and it would take a substantial additional investment to implement. As the Company is not willing to incur the additional investment to make the software functional, the carrying value was fully written off.

Income Taxes

Income tax expense increased $5.7 million to a tax benefit of $10.7 million for the year ended December 31, 2009 from a tax benefit of $16.4 million for the year ended 2008. The effective tax rate was (59.0)% for the year ended 2009 compared to (40.1%) for the year ended 2008. In 2009, the effective tax rate is the result of (i) tax expense on pre-tax income generated by the life companies; (ii) tax benefits derived from tax exempt interest and dividend received deductions as a result of the Company's investments in both state and political subdivisions and preferred securities; and (iii) tax benefits on pre-tax losses from the non-life businesses which have higher effective rates due to state tax benefits. In 2008, the effective tax rate is the result of tax benefits generated by a pre-tax net loss combined with tax benefits derived from tax exempt interest and dividend received deductions as a result of the Company's investments in both state and political subdivisions and preferred securities.

LIQUIDITY

Insurance Group

The Insurance Group normally provides cash flow from: (i) operations; (ii) the receipt of scheduled principal payments on its portfolio of fixed maturities; and (iii) earnings on investments. Such cash flow is partially used to fund liabilities for insurance policy benefits. These liabilities represent long-term and short-term obligations.

Corporate

Corporate derives its funds principally from: (i) dividends from the Insurance Group; (ii) management fees from its subsidiaries; and (iii) investment income from Corporate liquidity. Regulatory constraints historically have not affected the Company's consolidated liquidity, although state insurance laws have provisions relating to the ability of the parent company to use cash generated by the Insurance Group. The Insurance Group declared and paid $3,450,000 and $3,000,000 of dividends to Corporate in 2010 and 2009, respectively. No dividends were declared or paid by the Insurance Group to Corporate in 2008.

Corporate utilizes cash primarily for the payment of general overhead expenses, common stock dividends, common stock repurchases and debt repayment.

Cash Flows

As of December 31, 2010, the Company had $11.4 million of cash and cash equivalents compared with $7.4 million as of December 31, 2009.

Net cash provided by operating activities of continuing operations for the year ended December 31, 2010 was $5.7 million. Net cash used by operating activities of discontinued operations for the year ended December 31, 2010 was $1.2 million.

The Company has $459.4 million of insurance reserves that it expects to ultimately pay out of current assets and cash flows from future business. If necessary, the Company could utilize the cash received from maturities and repayments of its fixed maturity investments if the timing of claim payments associated with the Company's insurance resources does not coincide with future cash flows. For the year ended December 31, 2010, cash received from the maturities and other repayments of fixed maturities was $129.9 million.

Net cash provided by investing activities for the year ended December 31, 2010 was $4.6 million, primarily the result of net cash received from other investments and policy block acquisitions.

Net cash used by financing activities for the year ended December 31, 2010 was $ 5.0 million and primarily includes dividends paid, the repurchases of common stock and repayment of debt among other items.

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

BALANCE SHEET

Total investments, net of amounts due from brokers, increased $73.8 million to $902.3 million during the year ended December 31, 2010 from $828.5 million at December 31, 2009 largely due to $57.3 million of investments acquired through the acquisition of AMIC and $15.1 million in pre-tax unrealized gains on available-for-sale securities.

The Company had net receivables from reinsurers of $122.7 million at December 31, 2010. All of such reinsurance receivables are either due from highly rated companies or are adequately secured. No allowance for doubtful accounts was necessary at December 31, 2010. In 2010, the Company entered into an assumption reinsurance agreement related to its discontinued credit business which resulted in a decrease in unearned premium reserves and a corresponding decrease in amounts due from reinsurers.

Other assets increased $5.6 million primarily due intangible assets recorded as a result of the acquisition of AMIC and other subsidiaries, partially offset by a decrease in tax assets.

Asset Quality and Investment Impairments

The nature and quality of insurance company investments must comply with all applicable statutes and regulations, which have been promulgated primarily for the protection of policyholders. Although the Company's gross unrealized losses on available-for-sale securities totaled $15.0 million at December 31, 2010, approximately 96.0% of the Company s fixed maturities were investment grade and continue to be rated on average AA. The Company marks all of its available-for-sale securities to fair value through accumulated other comprehensive income or loss. These investments tend to carry less default risk and, therefore, lower interest rates than other types of fixed maturity investments. At December 31, 2010, approximately 4.0% (or $31.4 million) of the carrying value of fixed maturities was invested in non-investment grade fixed maturities (primarily mortgage securities) (investments in such securities have different risks than investment grade securities, including greater risk of loss upon default, and thinner trading markets). The increase in non-investment grade securities is primarily due to the downgrades in credit ratings of certain Alt-A mortgage securities. The Company does not have any non-performing fixed maturity investments at December 31, 2010.

At December 31, 2010, the Company had $28,730,000 invested in whole loan CMOs backed by Alt-A mortgages. Of this amount, 42% were in CMOs that originated in 2005 or earlier and 58% were in CMOs that originated in 2006. The Company s mortgage security portfolio has no direct exposure to sub-prime mortgages. The unrealized losses for the equity securities was primarily due to wider spreads from preferred stocks issued by financial institutions following the disruption in credit markets since the time of their acquisition. Some of these financial institutions have exposure to sub-prime mortgages.

Approximately 2.8% of fixed maturities, primarily municipal obligations, in our investment portfolio are insured by financial guaranty insurance companies. The purpose of this insurance is to increase the credit quality of the fixed maturities and their credit ratings. If the obligations of these financial guarantors ceased to be valuable, either through a credit rating downgrade or default, these debt securities would likely receive lower credit ratings by the rating agencies that would reflect the creditworthiness of the various obligors as if the fixed maturities were uninsured. The following table summarizes the credit quality of our fixed maturity portfolio as rated, and as rated if the fixed maturities were uninsured, at December 31, 2010:

Bond Ratings	As Rated	As Rated If Uninsured
AAA	58.4%	58.4%
AA	17.7%	17.7%
A	18.0%	16.2%
BBB	1.9%	3.7%
Total Investment Grade	96.0%	96.0%
BB or lower	4.0%	4.0%
Total Fixed Maturities	100.0%	100.0%

Changes in interest rates, credit spreads, and investment quality ratings may cause the market value of the Company s investments to fluctuate. The Company does not have the intent to sell nor is it more likely than not that the Company will have to sell debt securities in unrealized loss positions that are not other-than-temporarily impaired before recovery. In the event that the Company s liquidity needs require the sale of fixed maturity securities in unfavorable interest rate, liquidity or credit spread environments, the Company may realize investment losses.

The Company reviews its investments regularly and monitors its investments continually for impairments, as discussed in Note 1(G) (vi) of the Notes to Consolidated Financial Statements in Item 8 of this report. For the years ended December 31, 2010 and 2009 the Company recorded losses of $3.8 million and $.8 million, respectively, for other-than-temporary impairments on available-for-sale securities. The following table summarizes the carrying value of securities with fair values less than 80% of their amortized cost at December 31, 2010 by the length of time the fair values of those securities were below 80% of their amortized cost (in thousands):

	Less than 3 months	Greater than 3 months, less than 6 months	Greater than 6 months, less than 12 months	Greater than 12 months	Total
Fixed maturities	$ 1,929	$ -	$ 332	$ 383	$ 2,644
Equity securities	-	55	-	-	55
Total	$ 1,929	$ 55	$ 332	$ 383	$ 2,699

The unrealized losses on all available-for-sale securities have been evaluated in accordance with the Company's impairment policy and were determined to be temporary in nature at December 31, 2010. In 2010, the Company experienced 15.1 million of unrealized gains which, net of deferred taxes ($4.3 million) and net of deferred policy acquisition costs ($3.1 million), increased stockholders' equity by $7.7 million (reflecting net unrealized gains of $.6 million at December 31, 2010 compared to net unrealized losses of $7.1 million at December 31, 2009). From time to time, as warranted, the Company may employ investment strategies to mitigate interest rate and other market exposures. Further deterioration in credit quality of the companies backing the securities, further deterioration in the condition of the financial services industry, a continuation of the current imbalances in liquidity that exist in the marketplace, a continuation or worsening of the current economic recession, or additional declines in real estate values may further affect the fair value of these securities and increase the potential that certain unrealized losses be designated as other-than-temporary in future periods and the Company may incur additional write-downs.

Goodwill

Goodwill represents the excess of the amount we paid to acquire subsidiaries and other businesses over the fair value of their net assets at the date of acquisition. The Company tests goodwill for impairment at least annually and between annual tests if an event or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Goodwill is considered impaired when the carrying amount of goodwill exceeds its implied fair value.

All goodwill carrying amounts are evaluated for impairment at the reporting unit level which is equivalent to an operating segment. Goodwill was allocated to each reporting unit or operating segment at the time of acquisition. At December 31, 2010, total goodwill was $51.7 million, of which $46.0 million was attributable to the Fully Insured Health segment and $5.7 million to the Medical Stop Loss segment.

Based upon the goodwill impairment testing performed at December 31, 2010, the fair value of each reporting unit exceeded its carrying value and no impairment charge was required. Fair value exceeded carrying value by at least 8% in both the Fully Insured Health and the Medical Stop Loss segments.

In determining the fair value of each reporting unit, we used an income approach, applying a discounted cash flow method which included a residual value. Based on historical experience, we made assumptions as to: (i) expected future performance and future economic conditions, (ii) projected operating earnings, (iii) projected new and renewal business as well as profit margins on such business, and (iv) a discount rate that incorporated an appropriate risk level for the reporting unit.

Management uses a significant amount of judgment in estimating the fair value of the Company s reporting units. The key assumptions underlying the fair value process are subject to uncertainty and change. The following represent some of the potential risks that could impact these assumptions and the related expected future cash flows: (i) increased competition; (ii) an adverse change in the insurance industry and overall business climate; (iii) changes in state and federal regulations; (iv) rating agency downgrades of our insurance companies; and (v) a sustained and significant decrease in our share price and market capitalization. As a result of the global economic crisis that began in 2008, we experienced a significant decline in our stock price. Due to this significant decline, our market capitalization as of December 31, 2010 was significantly below the sum of our reporting units fair values. If we experience a sustained decline in our results of operations and cash flows, or other indicators of impairment exist, we may incur a material non-cash charge to earnings relating to impairment of our goodwill, which could have a material adverse effect on our results.

Health Reserves

The following table summarizes the prior year net favorable amount incurred in 2010 according to the year to which it relates, together with the opening reserve balance (net of reinsurance recoverable) to which it relates (in thousands):

		Reserves at January 1, 2010		Prior Year Amount Incurred in 2010
Total Reserves				
2009	$	71,623	$	(3,418)
2008		11,736		340
2007		4,334		(516)
2006 and Prior		14,397		1,128
Total	$	102,090	$	(2,466)

The following sections describe, for each segment, the unfavorable (favorable) development experienced in 2010, together with the key assumptions and changes therein affecting the reserve estimates.

Medical Stop-Loss

The Company experienced net unfavorable development of $1.3 million in the Medical Stop-Loss segment. The deficiency was the result of on-going analysis of recent loss development trends primarily attributable to the increased frequency of claims and the severity of primary claims.

Group Disability

The Group Disability segment had a favorable development of $4.3 million. This amount consists of a favorable development of $4.8 million on the 2009 reserves due to DBL ($1.4 million) and LTD ($3.4 million) and a net unfavorable development of $.5 million for all other years primarily due to LTD.

Due to the long-term nature of LTD, in establishing loss reserves the Company must make estimates for case reserves, incurred but not reported reserves (IBNR), and reserves for Loss Adjustment Expenses (LAE). Case reserves generally equal the actuarial present value of the liability for future benefits to be paid on claims incurred as of the balance sheet date. The IBNR reserve is established based upon historical trends of existing incurred claims that were reported after the balance sheet date. The LAE reserve is calculated based on an actuarial expense study. Since the LTD block of policies is relatively small, with the potential for very large claims on individual policies, results can vary from year to year. If a small number of claimants with large claim reserves were to recover or several very large claims were incurred, the results could distort the Company s reserve estimates from year to year. However, there were no individual factors in 2010 that caused the favorable development in LTD. With respect to DBL, reserves for the most recent quarter of earned premium are established using a Net Loss Ratio methodology. The Net Loss Ratio is determined by applying the completed prior four quarters of historical Net Loss Ratios to the last quarter of earned premium. Reserves associated with the premium earned prior to the last quarter are established using a completion factor methodology. The completion factors are developed using the historical payment patterns for DBL. The favorable development in the DBL line is due to lower than expected claims.

There were normal fluctuations to the Company's experience factor. The IBNR factors were updated to reflect the current experience. The reserving process used by management was consistent from 2009 to 2010.

Individual Accident and Health and Other

The Individual Accident and Health and Other segment had unfavorable development of $.6 million. The Company experienced $.6 million unfavorable variance related to 2008 reserves on our Blanket Accident and sickness product that is sold to volunteer fire districts, primarily due to the severity of a few claims related to that treaty year.

CAPITAL RESOURCES

Due to its strong capital ratios, broad licensing and excellent asset quality and credit-worthiness, the Insurance Group remains well positioned to increase or diversify its current activities. It is anticipated that future acquisitions or other expansion of operations will be funded internally from existing capital and surplus and parent company liquidity. In the event additional funds are required, it is expected that they would be borrowed or raised in the public or private capital markets to the extent determined to be necessary or desirable. In November 2004, December 2003 and March 2003, the Company borrowed $15.0 million, $12.0 million and $10.0 million, respectively, through pooled trust preferred issuances by unconsolidated subsidiary trusts. In August 2009, the outstanding line of credit was cancelled and converted into an amortizing term loan. At December 31, 2010 the outstanding balance of the term loan was $7.5 million. See Note 14 of the Notes to Consolidated Financial Statements in Item 8 of this report.

IHC enters into a variety of contractual obligations with third parties in the ordinary course of its operations, including liabilities for insurance reserves, funds on deposit, debt and operating lease obligations. However, IHC does not believe that its cash flow requirements can be fully assessed based solely upon an analysis of these obligations. Future cash outflows, whether they are contractual obligations or not, also will vary based upon IHC s future needs. Although some outflows are fixed, others depend on future events.

The chart below reflects the maturity distribution of IHC s contractual obligations at December 31, 2010 (in thousands):

	Debt	Junior Subordinated Debt	Interest On Debt	Leases	Insurance Reserves	Funds on Deposit	Total
2011	$ 1,500	$ -	$ 1,805	$ 3,691	$ 142,163	$ 46,932	$ 196,091
2012	6,000	-	1,688	2,625	45,907	43,990	100,210
2013	-	-	1,552	1,941	39,169	41,339	84,001
2014	-	-	1,552	1,570	35,452	38,959	77,533
2015	-	-	1,552	1,574	33,048	36,564	72,738
2016 and Thereafter	-	38,146	28,185	2,576	163,708	200,782	433,397
Totals	$ 7,500	$ 38,146	$ 36,334	$ 13,977	$ 459,447	$ 408,566	$ 963,970

OUTLOOK

The Company remained highly liquid in 2010 with a shorter duration portfolio. As a result, the yields on our investment portfolio were, and continue to remain, lower than in prior years and investment income may continue to be depressed for the balance of the year. IHC has approximately $164.5 million in highly rated shorter maturity securities earning on average 1.4%; our portfolio as a whole is rated, on average, AA. The low duration of our portfolio enables us, if we deem prudent, the flexibility to reinvest in much higher yielding longer-term securities, which would significantly increase investment income. A low duration portfolio such as ours also mitigates the adverse impact of potential inflation. IHC will continue to monitor the financial markets and invest accordingly.

In March 2010, IHC acquired control of AMIC through the purchase of additional shares of AMIC common stock in the open market; at December 31, 2010, IHC owned approximately 50.1% of the outstanding common stock of AMIC. The acquisition furthers our goal of creating efficiencies by integrating the back office operations of our MGUs and marketing companies. Subsequent to year end, through March 15, 2011, the Company has acquired an additional 1,100,325 shares of AMIC common stock, increasing its ownership to 63.0%. The Company will consider acquiring additional shares of AMIC stock in the market and/or in private transactions as opportunities arise.

For 2011, we will continue to emphasize:

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

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

- Closely monitoring the experience in our Group disability, life annuities and DBL business.

We will continue to focus on our strategic objectives, including expanding our distribution network. However, the success of a portion of our Fully Insured Health business may be affected by the passage of the Patient Protection and Affordable Care and Education Reconciliation Act of 2010 signed by President Obama in March 2010, and its subsequent interpretations by state and federal regulators and its possible revision by the newly-elected Congress. The National Association of Insurance Commissioners has now issued its proposed regulations. The regulations proposed to-date (including those mandating minimum loss ratios) seem to have validated our strategy of pursuing niche lines of business across many states utilizing multiple carriers. We have begun a comprehensive review of all the options for IHC and we are continuing a thorough evaluation of our options for those health insurance products that may be affected. Although the law will generally require insurers to operate with a lower expense structure for major medical plans in the small employer and individual markets, the law appears to make exceptions for carriers, such as ours, that have a minimal presence in any one state. Non-essential lines of business are not impacted by health care reform.

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

ITEM 7A.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT

MARKET RISK

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

The following summarizes the estimated pre-tax change in fair value (based upon hypothetical parallel shifts in the U.S. Treasury yield curve) of the fixed income portfolio assuming immediate changes in interest rates at specified levels at December 31, 2010:

	Change in Interest Rates				
	200 basis point rise	100 basis point rise	Base scenario	100 basis point decline	200 basis point decline
Corporate securities	$ 247,651	$ 259,238	$ 271,995	$ 285,784	$ 299,466
CMO s	54,146	58,754	64,452	68,931	72,560
U.S. Government obligation	15,784	16,364	16,968	17,593	18,054
Agency MBS	9,173	9,697	10,224	10,443	10,504
GSE	64,469	67,495	70,527	72,093	72,509
State & Political Subdivision	307,795	332,528	359,490	384,978	408,344
Total Estimated fair value	$ 699,018	$ 744,076	$ 793,656	$ 839,822	$ 881,437
Estimated change in value	$ (94,638)	$ (49,580)		$ 46,166	$ 87,781

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

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

In the Company's analysis of the asset-liability model, a 100 to 200 basis point change in interest rates on the Insurance Group's liabilities would not be expected to have a material adverse effect on the Company. With respect to its liabilities, if interest rates were to increase, the risk to the Company is that policies would be surrendered and assets would need to be sold. This is not a material exposure to the Company since a large portion of the Insurance Group's interest sensitive policies are burial policies that are not subject to the typical surrender patterns of other interest sensitive policies, and many of the Insurance Group's universal life and annuity policies were acquired from liquidated companies which tend to exhibit lower surrender rates than such policies of continuing companies. Additionally, there are charges to help offset the benefits being surrendered. If interest rates were to decrease substantially, the risk to the

Company is that some of its investment assets would be subject to early redemption. This is not a material exposure because the Company would have additional unrealized gains in its investment portfolio to help offset the future reduction of investment income. With respect to its investments, the Company employs (from time to time as warranted) investment strategies to mitigate interest rate and other market exposures.

ITEM 8.

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Index to Consolidated Financial Statements and Schedules on page 58.

ITEM 9.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON

ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A.

CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

IHC's Chief Executive Officer and Chief Financial Officer supervised and participated in IHC's evaluation of its disclosure controls and procedures as of the end of the period covered by this report. Disclosure controls and procedures are controls and procedures designed to ensure that information required to be disclosed in IHC's periodic reports filed or submitted under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Based upon that evaluation, IHC's Chief Executive Officer and Chief Financial Officer concluded that IHC's disclosure controls and procedures are effective.

Management Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(b) and 15d-15(f) under the Securities Exchange Act of 1934, as amended, as a process designed by, or under the supervision of IHC's principal executive and principal financial officers and effected by IHC's board, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP and includes those policies and procedures that:

.

pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of a company;

.

provide reasonable assurance that the transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP and that receipts and expenditures of a company are being made only in accordance with authorization of management and directors of a company; and

.

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of a company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of human error and the circumvention or overriding of controls, material misstatements may not be prevented or detected on a timely basis. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes and conditions or that the degree of compliance with policies or procedures may deteriorate. Accordingly, even internal controls determined to be effective can provide only reasonable assurance that information required to be disclosed in and reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and represented within the time periods required.

This annual report does not include an attestation report of IHC's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by IHC's registered public accounting firm pursuant to rules of the SEC that permit IHC to provide only management's report in this annual report.

Changes in Internal Control Over Financial Reporting

There has been no change in IHC's internal control over financial reporting during the year ended December 31, 2010 that materially affected, or is reasonably likely to materially affect, IHC's internal control over financial reporting.

The Report of Management on Internal Control Over Financial Reporting is included in Item 8 of this Form 10-K.

ITEM 9B.

OTHER INFORMATION

None.

PART III

ITEM 10.

DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE

GOVERNANCE

The information required by this Item is hereby incorporated by reference from our definitive proxy statement relating to the annual meeting of IHC s stockholders to be held in June 2011, which definitive proxy statement will be filed with the Securities and Exchange Commission.

Our written Code of Business Ethics and Corporate Code of Conduct may be found on our website, www.ihcgroup.com, under the Corporate Information / Corporate Governance tabs. Collectively, the two Codes apply to all of our directors, officers and employees, including our principal executive officer and our senior financial officers. Any amendment to or waiver from either of the Codes will be posted to the same location on our website, to the extent such disclosure is legally required.

ITEM 11.

EXECUTIVE COMPENSATION

The information required by this Item is hereby incorporated by reference from our definitive proxy statement relating to the annual meeting of IHC s stockholders to be held in June 2011, which definitive proxy statement will be filed with the SEC.

ITEM 12.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item is hereby incorporated by reference from our definitive proxy statement relating to the annual meeting of IHC s stockholders to be held in June 2011, which definitive proxy statement will be filed with the SEC.

ITEM 13.

CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this Item is hereby incorporated by reference from our definitive proxy statement relating to the annual meeting of IHC s stockholders to be held in June 2011, which definitive proxy statement will be filed with the SEC.

ITEM 14.

PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item is hereby incorporated by reference from our definitive proxy statement relating to the annual meeting of IHC s stockholders to be held in June 2011, which definitive proxy statement will be filed with the SEC.

PART IV

ITEM 15.

EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) (1) and (2)

See Index to Consolidated Financial Statements and Schedules on page 58.

(a) (3) EXHIBITS

See Exhibit Index on page 117.

SIGNATURES

Pursuant to the requirements of Section 13 or Section 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 17, 2011.

INDEPENDENCE HOLDING COMPANY

REGISTRANT

By:

/s/ Roy T. K. Thung

Roy T.K. Thung

President and

Chief Executive Officer

(Principal Executive Officer)

By:

/s/ Teresa A. Herbert

Teresa A. Herbert

Senior Vice President and

Chief Financial Officer

(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated as of the 17th day of March, 2011.

/s/ Larry R. Graber Larry R. Graber Director and Senior Vice President	/s/ Steven B. Lapin Steven B. Lapin Director and Vice Chairman
/s/ Allan C. Kirkman Allan C. Kirkman Director	/s/ James G. Tatum James G. Tatum Director
/s/ John L. Lahey John L. Lahey Director	/s/ Roy T.K. Thung Roy T.K. Thung Chief Executive Officer, President and Chairman (Principal Executive Officer)

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES

*All other schedules have been omitted as they are not applicable or not required, or the information is included in the Consolidated Financial Statements or Notes thereto.

Report of Management on Internal Control Over Financial Reporting

The Board of Directors and Stockholders

Independence Holding Company:

The management of Independence Holding Company ("IHC") is responsible for establishing and maintaining adequate internal control over financial reporting. IHC's internal control system is a process designed to provide reasonable assurance to the Company's management and board of directors regarding the reliability of financial reporting and fair presentation of published financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of IHC's internal control over financial reporting as of December 31, 2010. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control-Integrated Framework*. Based on our assessment we concluded that, as of December 31, 2010, IHC's internal control over financial reporting is effective.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Independence Holding Company:

We have audited the accompanying consolidated balance sheets of Independence Holding Company and subsidiaries (the "Company") as of December 31, 2010 and 2009, and the related consolidated statements of operations, changes in stockholders equity, and cash flows for each of the years in the three-year period ended December 31, 2010. In connection with our audits of the consolidated financial statements, we have also audited financial statement schedules I to III. These consolidated financial statements and schedules are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements and schedules based on our audits.

We conducted our audits in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Independence Holding Company and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

As discussed in Note 1, effective April 1, 2009, the Company changed its method of evaluating other-than-temporary impairments of fixed maturity securities due to the adoption of new accounting requirements issued by the Financial Accounting Standards Board.

/s/ KPMG LLP

New York, New York

March 17, 2011

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31,

	2010	2009
ASSETS:	(In thousands, except share data)	
Investments:		
Short-term investments	$ 53	$ 52
Securities purchased under agreements to resell	41,081	42,708
Fixed maturities, available-for-sale	793,656	689,863
Equity securities, available-for-sale	48,073	60,815
Other investments	36,864	37,643
Total investments	919,727	831,081
Cash and cash equivalents	11,426	7,394
Due from securities brokers	15,022	5,579
Investment in American Independence Corp. ("AMIC")	-	19,234
Deferred acquisition costs	43,465	44,244
Due and unpaid premiums	48,586	48,731
Due from reinsurers	154,243	184,583
Premium and claim funds	37,646	43,663
Notes and other receivables	16,766	13,528
Goodwill	51,713	48,859
Other assets	63,198	57,580
TOTAL ASSETS	$ 1,361,792	$ 1,304,476
LIABILITIES AND STOCKHOLDERS' EQUITY:		
LIABILITIES:		
Insurance reserves-health	$ 181,447	$ 184,146
Insurance reserves-life and annuity	278,000	270,987
Funds on deposit	408,566	408,298
Unearned premiums	4,043	13,217
Policy claims-health	16,521	18,655
Policy claims-life	11,809	11,392
Other policyholders' funds	20,195	20,517
Due to securities brokers	32,469	8,187
Due to reinsurers	31,554	45,516
Accounts payable, accruals and other liabilities	70,497	71,362
Liabilities related to discontinued operations	771	1,546
Debt	7,500	9,000
Junior subordinated debt securities	38,146	38,146
TOTAL LIABILITIES	1,101,518	1,100,969
STOCKHOLDERS' EQUITY:		
Preferred stock (none issued)	-	-

Common stock $1.00 par value, 20,000,000 shares authorized; 15,472,020 and 15,459,720 shares issued, 15,232,865 and 15,426,965 shares outstanding	15,472	15,460
Paid-in capital	101,003	100,447
Accumulated other comprehensive income (loss)	633	(7,104)
Treasury stock, at cost; 239,155 and 32,755 shares	(1,917)	(326)
Retained earnings	115,437	94,490
TOTAL IHC STOCKHOLDERS EQUITY	230,628	202,967
NONCONTROLLING INTERESTS IN SUBSIDIARIES	29,646	540
TOTAL EQUITY	260,274	203,507
TOTAL LIABILITIES AND EQUITY	$ 1,361,792	$ 1,304,476

See accompanying notes to consolidated financial statements.

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31,

	2010	2009	2008
	(In thousands, except per share data)		
REVENUES:			
Premiums earned:			
Health	$ 289,586	$ 258,099	$ 280,214
Life and annuity	36,560	36,700	37,074
Net investment income	41,801	43,520	44,044
Fee income	32,741	29,322	39,672
Net realized investment gains (losses)	4,646	8,789	(12,401)
Total other-than-temporary impairment losses (no current period non-credit impairment losses were recognized in other comprehensive income)	(3,819)	(29,991)	(38,247)
Equity income from AMIC	280	1,289	480
Gain on bargain purchase of AMIC	27,830	-	-
Other income	5,743	7,110	2,851
	435,368	354,838	353,687
EXPENSES:			
Insurance benefits, claims and reserves:			
Health	201,136	180,265	192,504
Life and annuity	50,182	44,969	48,033
Selling, general and administrative expenses	139,643	139,370	144,006
Amortization of deferred acquisition costs	6,243	5,519	6,345
Interest expense on debt	1,912	2,817	3,776
	399,116	372,940	394,664
Income (loss) from continuing operations before income taxes (benefits)	36,252	(18,102)	(40,977)
Income taxes (benefits)	12,583	(10,669)	(16,399)
Income (loss) from continuing operations	23,669	(7,433)	(24,578)
Discontinued operations:			
Income (loss) from discontinued operations	(256)	301	644
Net income (loss)	23,413	(7,132)	(23,934)
(Income) loss from noncontrolling interests in subsidiaries	(1,676)	10	94
NET INCOME (LOSS) ATTRIBUTABLE TO IHC	$ 21,737	$ (7,122)	$ (23,840)
Basic income (loss) per common share:			
Income (loss) from continuing operations	$ 1.44	$ (.48)	$ (1.59)
Income (loss) from discontinued operations	(.02)	.02	.04

Basic loss per common share	$	1.42	$	(.46)	$	(1.55)
WEIGHTED AVERAGE SHARES OUTSTANDING		15,268		15,418		15,387
Diluted income (loss) per common share:						
Income (loss) from continuing operations	$	1.44	$	(.48)	$	(1.59)
Income (loss) from discontinued operations		(.02)		.02		.04
Diluted loss per common share	$	1.42	$	(.46)	$	(1.55)
WEIGHTED AVERAGE DILUTED SHARES OUTSTANDING		15,270		15,418		15,387

See accompanying notes to consolidated financial statements.

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY YEARS ENDED DECEMBER 31, 2008, 2009 AND 2010 (In thousands, except share data)

	COMMON STOCK		PAID-IN	ACCUMULATED OTHER COMPREHENSIVE	TREASURY STOCK, AT COST		RETAINED	TO STOC
	SHARES	AMOUNT	CAPITAL	INCOME (LOSS)	SHARES	AMOUNT	EARNINGS	I
BALANCE AT DECEMBER 31, 2007	15,366,281	$ 15,366	$ 99,805	$ (16,125)	(137,760)	$ (2,626)	$ 126,431	$
Net loss							(23,840)	
Net change in unrealized gains (losses) on available-for-sale securities				(38,166)				
Total comprehensive loss								
Stock issuance					127,520	2,422	(1,021)	
Repurchase of common stock					(23,015)	(133)		
Acquisition of Majestic Underwriters, LLC noncontrolling interests								
Exercise of common stock options and related tax benefits	45,094	45	73					
Common stock dividend ($.05 per share)							(771)	
Share- based compensation expense and related tax benefits	23,516	24	1,178		500	11	(1)	
Other capital transactions			30					

BALANCE AT DECEMBER 31, 2008	15,434,891	15,435	101,086	(54,291)	(32,755)	(326)	100,798
Cumulative effect of adjustment on April 1, 2009 due to new accounting guidance, net of $852 tax				(1,591)			1,591
Net loss							(7,122)
Net change in unrealized gains (losses) on available-for-sale securities				48,778			
Total comprehensive income (loss)							
Acquisition of Wisconsin Underwriting Associates, LLC							
Acquisition of GroupLink, Inc noncontrolling interests			(426)				
Common stock dividend ($.05 per share)							(771)
Share-based compensation expense and related tax benefits	24,503	25	(248)				
Other capital transactions	326	-	35				(6)
BALANCE DECEMBER 31, 2009	15,459,720	15,460	100,447	(7,104)	(32,755)	(326)	94,490
Net income							21,737
Net change in unrealized gains (losses) on available-for-sale securities				7,737			
Total comprehensive income							

Repurchase of common stock					(206,400)	(1,591)	
Acquisition of MedWatch							
Acquisition of HBA							
Acquisition of American Independence Corp			(4)				
Common stock dividend ($.05 per share)							(762)
Share-based compensation expense and related tax benefits	12,300	12	514				
Contributions from noncontrolling interests							
Distributions to noncontrolling interests							
Other capital transactions			46				(28)
BALANCE AT DECMEBER 31, 2010	15,472,020 $	15,472 $	101,003 $	633	(239,155) $	(1,917) $	115,437 $

See accompanying notes to consolidated financial statements.

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31,

	2010	2009	2008
		(In thousands)	
Cash Flows Provided By (Used By) Operating Activities:			
Net income (loss)	$ 23,413	$ (7,132)	$ (23,934)
Adjustments to reconcile net loss to net change in cash from operating activities:			
Gain on bargain purchase of AMIC	(27,830)	-	-
(Income) loss from discontinued operations	256	(301)	(644)
Amortization of deferred acquisition costs	6,243	5,519	6,345
Net realized investment (gains) losses	(4,646)	(8,789)	12,401
Other-than-temporary impairment losses	3,819	29,991	38,247
Equity income from AMIC and other equity method investments	(974)	(2,015)	(1,143)
Depreciation and amortization	4,650	5,379	5,328
Share-based compensation expenses	734	518	1,180
Deferred tax expense (benefits)	15,101	(12,449)	(18,101)
Other	2,328	5,512	(2,105)
Changes in assets and liabilities:			
Net (purchases) sales of trading securities	(1,619)	-	493
Change in insurance liabilities	(34,787)	(25,676)	(12,113)
Additions to deferred acquisition costs	(8,343)	1,079	(3,109)
Change in net amounts due from and to reinsurers	24,985	(38,421)	(507)
Change in premium and claim funds	10,363	8,508	(2,703)
Change in current income tax liability	(4,320)	77	(1,531)
Change in due and unpaid premiums	9,946	6,932	8,842
Change in other assets	1,379	3,545	(1,902)
Change in other liabilities	(15,007)	2,265	(2,261)
Net change in cash from operating activities of continuing operations	5,691	(25,458)	2,783
Net change in cash from operating activities of discontinued operations	(1,196)	(2,568)	(18,030)
Net change in cash from operating activities	4,495	(28,026)	(15,247)
Cash Flows Provided By (Used By) Investing Activities:			
Change in net amount due from and to securities brokers	14,490	5,207	738
Net sales (purchases) of short-term investments	-	-	3,254
Net sales (purchases) of securities under resale			

and repurchase agreements	2,930	18,115	(47,066)
Sales of equity securities	123,178	18,696	60,600
Purchases of equity securities	(105,637)	(4,718)	(44,905)
Sales of fixed maturities	614,588	463,932	393,210
Maturities and other repayments of fixed maturities	129,876	170,613	74,692
Purchases of fixed maturities	(778,153)	(643,435)	(546,969)
Proceeds of sales of other investments	-	-	2,000
Additional investments in other investments, net of distributions	1,719	808	6,614
Cash acquired in acquisition of AMIC, net of cash paid	4,562	-	-
Cash paid in acquisitions of companies, net of cash acquired	(3,469)	(775)	(998)
Additional equity investment in AMIC (equity method)	-	-	(1,401)
Cash (paid) received in acquisitions of policy blocks	1,192	-	57,279
Change in notes and other receivables	1,170	2,472	(1,628)
Other	(1,869)	(2,095)	(2,437)
Net change in cash from investing activities	4,577	28,820	(47,017)
Cash Flows Provided By (Used By) Financing Activities:			
Proceeds from issuance of common stock	-	1	1,401
Repurchases of common stock	(1,591)	-	(133)
Exercises of common stock options	-	-	173
Excess tax (expense) benefit from exercises of common stock options			
and vesting of restricted stock	(51)	(720)	(363)
Proceeds (withdrawals) of investment-type insurance contracts	(1,117)	1,298	(602)
Repayment of debt	(1,500)	(1,000)	(2,500)
Dividends paid	(767)	(746)	(768)
Other	(14)	-	-
Net change in cash from financing activities	(5,040)	(1,167)	(2,792)
Net change in cash and cash equivalents	4,032	(373)	(65,056)
Cash and cash equivalents, beginning of year	7,394	7,767	72,823
Cash and cash equivalents, end of year	$ 11,426	$ 7,394	$ 7,767

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1.

Significant Accounting Policies and Practices

(A)

Business and Organization

Independence Holding Company, a Delaware corporation (IHC), is a holding company principally engaged in the life and health insurance business through: (i) its wholly owned insurance companies, Standard Security Life Insurance Company of New York ("Standard Security Life") and Madison National Life Insurance Company, Inc. ("Madison National Life"); (ii) its majority owned insurance company, Independence American Insurance Company (Independence American) and (iii) its marketing and administrative companies, including IHC Administrative Services, Inc., managing general underwriters ("MGUs") in which it owns a significant voting interest, IHC Health Solutions, Inc. (IHC Health Solutions), Actuarial Management Corporation ("AMC"), MedWatch, LLC and Hospital Bill Analysis, LLC. 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." At December 31, 2010, the Company also owned a 50.1% interest in American Independence Corp. ("AMIC").

Geneve Corporation, a diversified financial holding company, and its affiliated entities, held 54% of IHC's outstanding common stock at December 31, 2010.

(B)

Basis of Presentation

The Consolidated Financial Statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) 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. 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.

(C)

Reclassifications

Certain amounts in prior years' consolidated financial statements and Notes thereto have been reclassified to conform to the 2010 presentation.

(D)

Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are issued or are available to be issued. The Company has evaluated all such events occurring subsequent to the balance sheet date herein of December 31, 2010. The effects of all subsequent events that provided additional evidence about conditions that existed at the date of the balance sheet, including estimates, if any, have been recognized in the accompanying Consolidated Balance Sheet and Consolidated Statements of Operations as of and for the year ended December 31, 2010. The Company did not recognize subsequent events that provided evidence about conditions that arose after the balance sheet date.

(E)

Cash Equivalents and Short-Term Investments

Cash equivalents are carried at cost which approximates fair value and include principally interest-bearing deposits at brokers, money market instruments and U.S. Treasury securities with original maturities of less than 91 days. Investments with original maturities of 91 days to one year are considered short-term investments and are carried at cost which approximates fair value.

(F)

Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase

Securities purchased under agreements to resell ("resale agreements") and securities sold under agreements to repurchase ("repurchase agreements") are carried at the amounts at which the securities will be subsequently resold or repurchased as specified in the agreements.

(G)

Investment Securities

(i) Investments in fixed maturities, redeemable preferred securities, equity securities and derivatives (options and options on futures contracts) are accounted for as follows:

(a) Securities which are held for trading purposes are carried at estimated fair value ("fair value"). Changes in fair value are credited or charged, as appropriate, to net realized investment gains (losses) in the Consolidated Statements of Operations.

(b) Securities not held for trading purposes which may or may not be held to maturity ("available-for-sale securities") are carried at fair value. Unrealized gains and losses deemed temporary, net of deferred income taxes and adjustments to deferred policy acquisition costs, are credited or charged, as appropriate, directly to accumulated other comprehensive income or loss (a component of stockholders' equity). Premiums and discounts on debt securities purchased at other than par value are amortized and accreted, respectively, to interest income in the Consolidated Statements of Operations, using the constant yield method over the period to maturity. Net realized gains and losses on sales of available-for-sale securities are credited or charged to net realized investment gains (losses) in the Consolidated Statements of Operations.

(ii) Financial instruments sold, but not yet purchased, represent obligations to replace borrowed securities that have been sold. Such transactions occur in anticipation of declines in the fair value of the securities. The Company's risk is an increase in the fair value of the securities sold in excess of the consideration received, but that risk is mitigated as a result of relationships to certain securities owned. Unrealized gains or losses on open transactions are credited or charged, as appropriate, to net realized investments gains in the Consolidated Statements of Operations. While the transaction is open, the Company will also incur an expense for any accrued dividends or interest payable to the lender of the securities. When the transaction is closed, the Company realizes a gain or loss in an amount equal to the difference between the price at which the securities were sold and the cost of replacing the borrowed securities. There were no such transactions outstanding at December 31, 2010 and 2009.

(iii) Gains or losses on sales of securities are determined on the basis of specific identification.

(iv) The Company enters into derivative transactions, such as put and call option contracts and options on interest rate futures contracts, to minimize losses on portions of the Company's fixed income portfolio in a rapidly changing interest rate environment. Equity index options are entered into to offset price fluctuations in the equity markets. These derivative financial instruments are all readily marketable and are carried on the Consolidated Balance Sheets at their current fair value with changes in fair value (unrealized gains and losses), credited or charged, as appropriate, to net realized investment gains (losses) in the Consolidated Statements of Operations (hedge accounting is not applied to these derivatives). There were no such derivative transactions outstanding at December 31, 2010 and 2009.

(v) Fair value is determined using quoted market prices when available. 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. When there are limited or inactive trading markets, we use industry-standard pricing methodologies, including discounted cash flow models, whose inputs are based on management assumptions and available current market information. Further, we retain independent pricing vendors to assist in valuing certain instruments.

(vi) The Company reviews its investment securities regularly and determines whether other-than-temporary impairments have occurred. Beginning April 1, 2009, the Company adopted a new accounting standard that specified new criteria for identifying and recognizing other-than-temporary impairment losses on fixed maturities. 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 Company's intent to sell, or be required to sell, the debt security before the anticipated recovery of its remaining amortized cost basis; the financial condition and near-term prospects of the issuer; adverse changes in ratings announced by one or more rating agencies; subordinated credit support; whether the issuer of a debt security has remained current on principal and interest payments; current expected cash flows; whether the decline in fair value appears to be issuer specific or, alternatively, a reflection of general market or industry conditions including the effect of changes in market interest rates. If the Company intends to sell a debt security, or it is more likely than not that it would be required to sell a debt security before the recovery of its amortized cost basis, the entire difference between the security's amortized cost basis and its fair value at the balance sheet date would be recognized by a charge to total other-than-temporary impairment losses in the Consolidated Statement of Operations. If a decline in fair value of a debt security is judged by management to be other-than-temporary and; (i) the Company does not intend to sell the security; and (ii) it is not more likely than not that it will be required to sell the security prior to recovery of the security s amortized cost, the Company assesses whether the present value of the cash flows to be collected from the security is less than its amortized cost basis. To the extent that the present value of the cash flows generated by a debt security is less than the amortized cost basis, a credit loss exists. For any such security, the impairment is bifurcated into (a) the amount of the total impairment related to the credit loss, and (b) the amount of the total impairment related to all other factors. The amount of the other-than-temporary impairment related to the credit loss is recognized by a charge to total other-than-temporary impairment losses in the Consolidated Statement of Operations, establishing a new cost basis for the security. The amount of the other-than-temporary impairment related to all other factors is recognized in other comprehensive income in the Consolidated Balance Sheet. It is reasonably possible that further declines in estimated fair values of such investments, or changes in assumptions or estimates of anticipated recoveries and/or cash flows, may cause further other-than-temporary impairments in the near term, which could be significant.

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

Prior to April 1, 2009, the Company assessed its ability and intent to hold a fixed maturity for a period of time sufficient to allow for a recovery in fair value. If the Company could not assert this condition, an other-than-temporary impairment loss was recognized in the Consolidated Statement of Operations.

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

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

(H)

Investment in American Independence Corp.

IHC acquired a controlling interest in AMIC on March 5, 2010. Prior to obtaining control, the Company carried its investment in AMIC on the equity method, with the Company's share of equity income or loss credited or charged, as appropriate, to the Consolidated Statements of Operations with a corresponding change to the investment in AMIC. As an equity method investment, the Company s investment in AMIC, including related goodwill, was reviewed, at least annually, to determine whether an other-than-temporary impairment occurred. Upon achieving control on March 5, 2010, AMIC s income and expense amounts became consolidated with IHC s results. The Consolidated Balance Sheet at December 31, 2010 includes the consolidated assets and liabilities of AMIC. See Note 2 for further information regarding the Company s investment in AMIC.

(I)

Other Investments

Investment partnership interests relate to limited investment partnerships that have relatively "market neutral" arbitrage strategies, or strategies that are relatively insensitive to interest rates. All securities held by these partnerships are carried at fair value. The Company's investment partnership interests are carried at a value which approximates the Company's equity in the underlying net assets of the partnerships or the equivalent of the net asset value per share. Operating partnership interests relate to insurance related limited operating partnerships. The Company's operating partnership interests are carried on the equity method which approximates the Company's equity in the underlying net assets of the partnership. Equity income or loss on all partnership interests are credited or charged, as appropriate, to the Consolidated Statements of Operations.

Policy loans are stated at their aggregate unpaid balances.

(J)

Deferred Acquisition Costs ("DAC")

Costs that vary with and are primarily related to acquiring insurance policies and investment type contracts are deferred and recorded as deferred policy acquisition costs ("DAC"). These costs are principally broker fees, agent commissions, and the purchase prices of the acquired blocks of insurance policies and investment type policies. DAC is amortized to expense and reported separately in the Consolidated Statements of Operations. All DAC within a particular product type is amortized on the same basis using the following methods:

For traditional life insurance and other premium paying policies, amortization of DAC is charged to expense over the related premium revenue recognition period. Assumptions used in the amortization of DAC are determined based upon the conditions as of the date of policy issue or assumption and are not generally revised during the life of the policy.

For long duration type contracts, such as annuities and universal life business, amortization of DAC is charged to expense over the life of the underlying contracts based on the present value of the estimated gross profits ("EGPs") expected to be realized over the life of the book of contracts. EGPs consist of margins based on expected mortality rates, persistency rates, interest rate spreads, and other revenues and expenses. The Company regularly evaluates its EGPs to determine if actual experience or other evidence suggests that earlier estimates should be revised. If the Company determines that the current assumptions underlying the EGPs are no longer the best estimate for the future due to changes in actual versus expected mortality rates, persistency rates, interest rate spreads, or other revenues and expenses, the future EGPs are updated using the new assumptions and prospective unlocking occurs.

These updated EGPs are utilized for future amortization calculations. The total amortization recorded to date is adjusted through a current charge or credit to the Consolidated Statements of Operations.

Internal replacements of insurance and investment contracts determined to result in a replacement contract that is substantially changed from the original contract will be accounted for as an extinguishment of the original contract, resulting in a release of the unamortized deferred acquisition costs, unearned revenue, and deferral of sales inducements associated with the replaced contract.

Deferred acquisition costs have been decreased by $3,042,000 and $11,559,000 in 2010 and 2009 respectively, and increased by $11,340,000 in 2008, representing the portion of unrealized gains in 2010 and 2009, and unrealized losses in 2008, on investment securities available-for-sale that have been allocated to deferred acquisition costs on interest sensitive products rather than to stockholders' equity as a component of other comprehensive income or loss.

(K)

Property and Equipment

Property and equipment of $4,206,000 and $5,276,000 are included in other assets at December 31, 2010 and 2009, respectively, net of accumulated depreciation and amortization of $12,698,000 and $10,261,000, respectively. Improvements are capitalized while repair and maintenance costs are charged to operations as incurred. Depreciation of property and equipment has been provided on the straight-line method over the estimated useful lives of the respective assets. Amortization of leasehold improvements has been provided on the straight-line method over the shorter of the lease term or the estimated useful life of the asset.

(L)

Insurance Reserves

The Company maintains loss reserves to cover its estimated liability for unpaid losses and loss adjustment expenses, where material, including legal, other fees, and costs not associated with specific claims but related to the claims payment function), for reported and unreported claims incurred as of the end of each accounting period. These loss reserves are based on actuarial assumptions and are maintained at levels that are in accordance with U.S. generally accepted accounting principles. Many factors could affect these reserves, including economic and social conditions, frequency and severity of claims, medical trend resulting from the influences of underlying cost inflation, changes in utilization and demand for medical services, and changes in doctrines of legal liability and damage awards in litigation. Therefore, the Company s reserves are necessarily based on estimates, assumptions and analysis of historical experience. The Company s results depend upon the variation between actual claims experience and the assumptions used in determining reserves and pricing products. Reserve assumptions and estimates require significant judgment and, therefore, are inherently uncertain. The Company cannot determine with precision the ultimate amounts that will be paid for actual claims or the timing of those payments. The Company's estimate of loss represents management's best estimate of the Company's liability at the balance sheet date.

Loss reserves differ for short-duration and long-duration insurance policies, including annuities. Reserves are based on approved actuarial methods, but necessarily include assumptions about expenses, mortality, morbidity, lapse rates and future yield on related investments.

All of the Company s short-duration contracts are generated from its accident and health business, and are accounted for based on actuarial estimates of the amount of loss inherent in that period s claims, including losses incurred for which claims have not been reported. Short-duration contract loss estimates rely on actuarial observations of ultimate loss experience for similar historical events.

Health

Medical Stop-Loss

Liabilities for insurance reserves on medical stop-loss coverages, are computed using completion factors and expected Net Loss Ratios derived from actual historical premium and claim data. Reserves for medical stop-loss insurance are more volatile in nature than those for fully insured medical insurance. This is primarily due to the excess nature of medical stop-loss, with very high deductibles applying to specific claims on any individual claimant and in the aggregate for a given group. The level of these deductibles makes it more difficult to predict the amount and payment pattern of such claims. Furthermore, these excess claims are highly sensitive to changes in factors such as medical trend, provider contracts and medical treatment protocols, adding to the difficulty in predicting claim values and estimating reserves. Also, because medical stop-loss is in excess of an underlying benefit plan, there is an additional layer of claim reporting and processing that can affect claim payment patterns. Finally, changes in the distribution of business by effective month can affect reserve estimates due to the timing of claim occurrences and the time required to accumulate claims against the stop-loss deductible.

The two primary or key assumptions underlying the calculation of loss reserves for Medical Stop-Loss business are (i) projected Net Loss Ratio, and (ii) claim development patterns. The projected Net Loss Ratio is set at expected levels consistent with the underlying assumptions (Projected Net Loss Ratio). Claim development patterns are set quarterly as reserve estimates are developed and are based on recent claim development history (Claim Development Patterns). The Company uses the Projected Net Loss Ratio to establish reserves until developing losses provide a better indication of ultimate results and it is feasible to set reserves based on Claim Development Patterns. The Company has concluded that a reasonably likely change in the Projected Net Loss Ratio assumption could have a material effect on the Company s financial condition, results of operations, or liquidity (Material Effect) but a reasonably likely change in the Claim Development Pattern would not have a Material Effect.

Projected Net Loss Ratio

Generally, during the first twelve months of an underwriting year, reserves for Medical Stop-Loss are first set at the Projected Net Loss Ratio, which is set using assumptions developed using completed prior experience trended forward. The Projected Net Loss Ratio is the Company s best estimate of future performance until such time as developing losses provide a better indication of ultimate results.

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

Claim Development Patterns

Subsequent to the first twelve months of an underwriting year, the Company s developing losses provide a better indication of ultimate losses. At this point, claims have developed to a level where Claim Development Patterns can be applied to generate reasonably reliable estimates of ultimate claim levels. Development factors based on historical patterns are applied to paid and reported claims to estimate fully developed claims. Claim Development Patterns are reviewed quarterly as reserve estimates are developed and are based on recent claim development history. The Company must determine whether changes in development represent true indications of emerging experience or are simply due to random claim fluctuations.

The Company also establishes its best estimates of claim development factors to be applied to more developed treaty year experience. While these factors are based on historical Claim Development Patterns, actual claim development may vary from these estimates.

Predicting ultimate claims and estimating reserves in Medical Stop-Loss is more complex than first dollar medical and disability business due to the excess of loss nature of these products with very high deductibles applying to specific claims on any individual claimant and in the aggregate for a given group. The level of these deductibles makes it more difficult to predict the amount and payment pattern of such claims. Fluctuations in results for specific coverage are primarily due to the severity and frequency of individual claims, whereas fluctuations in aggregate coverage are largely attributable to frequency of underlying claims rather than severity.

Due to the short-term nature of Medical Stop-Loss, redundancies or deficiencies will typically emerge during the course of the following year rather than over a number of years. The Company typically maintains its reserves based on underlying assumptions until it determines that an adjustment is appropriate based on emerging experience from all of its MGUs for prior underwriting years.

Fully Insured Health

Reserves for Fully Insured Health business are established to provide for the liability for incurred but not paid claims. Reserves are calculated using standard actuarial methods and practices. The primary assumption in the determination of Fully Insured Health reserves is that historical Claim Development Patterns are representative of future Claim Development Patterns. Factors which may affect this assumption include changes in claim payment processing times and procedures, changes in time delay in submission of claims, and the incidence of unusually large claims. Liabilities for fully insured medical reserves and disability coverages are computed using completion factors and expected Net Loss Ratios derived from actual historical premium and claim data. The reserving analysis includes a review of claim processing statistical measures and large claim early notifications; the potential impacts of any changes in these factors are not material. The delay in submission of claims tends to be stable over time and not subject to significant volatility.

While these calculations are based on standard methodologies, they are estimates based on historical patterns. To the extent that actual claim payment patterns differ from historical patterns, such estimated reserves may be redundant or inadequate. The effects of such deviations are evaluated by considering claim backlog statistics and reviewing the reasonableness of projected claim ratios. Other factors which may affect the accuracy of reserve estimates include the proportion of large claims which may take longer to adjudicate, changes in billing patterns by providers and changes in claim management practices such as hospital bill audits.

Long Term Disability

The Company s long term disability reserves are developed using actuarial principles and assumptions that consider, among other things, future offsets and recoveries, elimination periods, interest rates, probability of rehabilitation or mortality, incidence and termination rates based on the Company s experience. The loss reserve is made up of case reserves, incurred but not reported reserves, reopen reserves, and loss adjustment expense. Incurred but not reported and reopen reserves are calculated by a hind-sight study, which takes historical experience and develops the reserve as a percentage of premiums from prior years.

The two primary assumptions on which long term disability reserves are based are: (i) morbidity levels; and (ii) recovery rates. If morbidity levels increase, for example due to an epidemic or a recessionary environment, the Company would increase reserves because there would be more new claims than expected. In regard to the assumed recovery rate, if disabled lives recover more quickly than anticipated then the existing claims reserves would be reduced; if less quickly, the existing claims reserves would be increased.

Life

For traditional life insurance products, the Company computes insurance reserves primarily using the net premium method based on anticipated investment yield, mortality, and withdrawals. These methods are widely used in the life insurance industry to estimate the liabilities for insurance reserves. Inherent in these calculations are management and actuarial judgments and estimates that could significantly impact the ending reserve liabilities and, consequently, operating results. Actual results may differ, and these estimates are subject to interpretation and change.

Policyholder funds represent interest-bearing liabilities arising from the sale of products, such as universal life, interest-sensitive life and annuities. Policyholder funds are primarily comprised of deposits received and interest credited to the benefit of the policyholder less surrenders and withdrawals, mortality charges and administrative expenses.

Interest Credited

Interest credited to policyholder funds represents interest accrued or paid on interest-sensitive life policies and investment policies. Amounts charged to operations (including interest credited and benefit claims incurred in excess of related policyholder account balances) are reported as insurance benefits, claims and reserves-life and annuity. Credit rates for certain annuities and interest-sensitive life policies are adjusted periodically by the Company to reflect current market conditions, subject to contractually guaranteed minimum rates.

Management believes that the Company's methods of estimating the liabilities for insurance reserves provided appropriate levels of reserves at December 31, 2010 and 2009. Changes in the Company's reserve estimates are recorded through a charge or credit to its earnings.

(M)

Funds on Deposit

Funds received (net of mortality and expense charges) for certain long-duration contracts (principally deferred annuities and universal life policies) are credited directly to a policyholder liability account, funds on deposit. Withdrawals are recorded directly as a reduction of respective policyholders' funds on deposit. Amounts on deposit were credited at annual rates ranging from 2.9% to 6.5% in 2010, and 1.7% to 6.5% in 2009 and 2.5% to 8.0% in 2008. The average credited rate was 4.1% in 2010, 4.2% in 2009, and 4.1% in 2008.

(N)

Insurance Premium Revenue Recognition and Policy Charges

Health

Premiums from short-duration medical insurance contracts are intended to cover expected claim costs resulting from insured events that occur during a fixed period of short duration. The Company has the ability to not renew the contract or to revise the premium rates at the end of each annual contract period to cover future insured events. Insurance premiums from annual health contracts are collected monthly and are recognized as revenue evenly as insurance protection is provided.

Premiums related to long-term and short-term disability contracts are recognized on a pro rata basis over the applicable contract term.

Life

Traditional life insurance products consist principally of products with fixed and guaranteed premiums and benefits, primarily term and whole life insurance products. Revenue from these products are recognized as premium when due.

Annuities and interest-sensitive life contracts, such as universal life and interest sensitive whole life, are contracts whose terms are not fixed and guaranteed. Premiums from these policies are reported as funds on deposit. Policy charges consist of fees assessed against the policyholder for cost of insurance (mortality risk), policy administration and early surrender. These revenues are recognized when assessed against the policyholder account balance.

Policies that do not subject the Company to significant risk arising from mortality or morbidity are considered investment contracts. Deposits received for such contracts are reported as other policyholder funds. Policy charges for investment contracts consist of fees assessed against the policyholder account for maintenance, administration and surrender of the policy prior to contractually specified dates, and are recognized when assessed against the policyholder account balance.

(O)

Participating Policies

Participating policies represent 11.4%, 11.8% and 11.8% of the individual life insurance in-force and 11.3%, 14.4% and 4.7% of the net life and annuity premiums earned, as of and for the years ended December 31, 2010, 2009 and 2008, respectively, and provide for the payment of dividends. Dividends to policyholders are determined annually and are payable only upon declaration by the Board of Directors of the insurance companies.

(P)

Deferred Income Taxes

The provision for deferred income taxes is based on the asset and liability method of accounting for income taxes. Under this method, deferred income taxes are recognized by applying enacted statutory tax rates to temporary differences between amounts reported in the Consolidated Financial Statements and the tax bases of existing assets and liabilities. A valuation allowance is recognized for the portion of deferred tax assets that, in management's judgment, is not likely to be realized. The effect on deferred income taxes of a change in tax rates or laws is recognized in income tax expense in the period that includes the enactment date.

Interest and penalties are classified as other interest expense and are included in selling, general and administrative expenses in the Consolidated Statements of Operations.

(Q)

Income Per Common Share

Included in the diluted earnings per share calculation for 2010 are 2,000 incremental common shares from the assumed exercise of dilutive stock options and from the assumed vesting of dilutive restricted stock, computed using the treasury stock method. For the years ended December 31, 2009 and 2008, such shares were deemed anti-dilutive.

(R)

Reinsurance

Amounts paid for or recoverable under reinsurance contracts are included in total assets or total liabilities as due from reinsurers or due to reinsurers. The cost of reinsurance related to long-duration contracts is accounted for over the life of the underlying reinsured policies using assumptions consistent with those used to account for the underlying policies.

(S)

Share-Based Compensation

Compensation costs for equity awards, such as stock options and non-vested stock, are measured based on grant-date fair value and are recognized in the Consolidated Statements of Operations over the requisite service period (which is usually the vesting period). For such awards with only service conditions, the Company recognizes the compensation cost on a straight-line basis over the requisite service period for the entire award.

Compensation costs for liability-classified awards, such as share appreciation rights (SARs) and share-based performance awards, are measured and accrued each reporting period in the Consolidated Statements of Operations as the requisite service or performance conditions are met.

(T)

Goodwill and Other Intangible Assets

Goodwill carrying amounts are evaluated for impairment at the reporting unit level, which is equivalent to an operating segment, at least annually. If the fair value of a reporting unit is less than its carrying amount, further evaluation is required to determine if a write-down of goodwill is required. In determining the fair value of each reporting unit, we used an income approach, applying a discounted cash flow method which included a residual value. Based on historical experience, we make assumptions as to: (i) expected future performance and future economic conditions, (ii) projected operating earnings, (iii) projected new and renewal business as well as profit margins on such business, and (iv) a discount rate that incorporated an appropriate risk level for the reporting unit. Any impairment write-down of goodwill would be charged to expense.

Other intangible assets are amortized to expense over their estimated useful lives and are subject to impairment testing. Any impairment write-down of other intangible assets would be charged to expense.

(U)

Derivative Instruments

All derivatives, whether designated in hedging relationships or not, are required to be recorded in the balance sheet as assets or liabilities at fair value. Hedge accounting is permitted only if certain criteria are met, including a requirement that a highly effective relationship exist between the derivative instrument and the hedged item, both at inception of the hedge and on an ongoing basis. Results of effective hedges are recognized in other comprehensive income for cash flow hedges and in current earnings for fair value hedges. The ineffective portions of hedge results are recognized in current earnings.

The Company had an interest rate swap agreement, which expired in August 2009, designated and effective as a cash flow hedge. The objective of the swap was to reduce the variability in cash flows associated with the re-pricing of interest rates on certain variable rate debt. Changes in fair value of the swap were recorded in accumulated other comprehensive income or loss and reclassified to net income as earnings were affected by the variability in the interest payments on the hedged debt.

(V)

Recent Accounting Pronouncements

Recently Adopted Accounting Standards

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

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

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

In April 2009, the FASB provided guidance on debt securities classified as available-for-sale and held-to-maturity that are subject to other-than-temporary impairment guidance. These provisions modified the accounting guidance for determining fair value of financial instruments under distressed market conditions, revised the recognition and measurement requirements for other-than-temporary impairment losses on debt securities and expanded the related disclosures about other-than-temporary impairments for both debt and equity securities. This guidance was effective for interim and annual reporting periods ending after June 15, 2009 to be applied to existing and new investments held by an entity as of the beginning of the interim period in which it was adopted. For debt securities held at the beginning of the interim period for which an other-than-temporary impairment was previously recognized, if an entity did not intend to sell and it was not more likely than not that the entity would be required to sell the security before recovery of its amortized cost basis, the entity recognized the cumulative effect of initially applying this guidance as an adjustment to the opening balance of retained earnings with a corresponding adjustment to accumulated other comprehensive income, net of tax. The amortized cost basis of the security was to be adjusted by the cumulative-effect adjustment before taxes. As of March 31, 2009, the Company had previously recognized

$18,123,000 and $4,788,000 of other-than-temporary impairments on available-for-sale fixed maturities and certain preferred stocks evaluated as debt securities, respectively, in the Consolidated Statement of Operations. The Company determined that (a) the portion of the previously recorded losses on debt securities and preferred stocks evaluated as debt securities representing a credit loss is $20,517,000, and (b) the amount of a cumulative-effect adjustment to the opening balance of retained earnings and corresponding adjustment to accumulated other comprehensive income representing the amount of previously recorded losses on debt securities and preferred stocks evaluated as debt securities related to all other factors is $1,542,000, net of $852,000 of tax benefits. The Company also recorded an additional $49,000 adjustment to the opening balance of retained earnings and a corresponding adjustment to accumulated other comprehensive income representing its proportionate share of AMIC's cumulative-effect adjustment as a result of its adoption of this guidance.

Recently Issued Accounting Standards Not Yet Adopted

In December 2010, the FASB issued guidance that clarifies the existing requirements for pro forma revenue and earnings disclosures, and expands the supplemental pro forma revenue and earnings disclosures, for public companies that have completed business acquisitions. The amendments in this guidance are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The adoption of this guidance is not expected to have a material effect on the Company s consolidated financial statements.

In December 2010, the FASB issued guidance that amends existing goodwill impairment test standards to include a requirement that entities perform Step 2 of the goodwill impairment test for reporting units with zero or negative carrying amounts if it is more likely than not that an impairment exists. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The adoption of this guidance is not expected to have a material effect on the Company s consolidated financial statements.

In October 2010, the FASB issued guidance that specifies the accounting treatment for the costs incurred by insurance entities when acquiring new and renewal insurance contracts. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011 and should be applied prospectively upon adoption. The Company is currently evaluating the potential impact the amendments in this update will have on its consolidated financial statements.

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

In January 2010, the FASB issued standards requiring entities to provide the activity of Level 3 security purchases, sales, issuances, and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2010. The adoption of this guidance is not expected to have a material effect 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 2010, Standard Security Life and Madison National Life ceded to Independence American an average of 20% of their medical stop-loss business, 8% of a majority of their fully insured health business and 20% of their New York Statutory Disability business.

Acquisition of AMIC

In March 2010, IHC acquired a controlling interest in AMIC as a result of the purchase of AMIC common stock in the open market. The principal reasons for acquiring control were: (i) the low market price of the AMIC stock; (ii) the improved financial presentation for IHC resulting from the consolidation of financial reporting; and (iii) a closer relationship that will create greater long-term value for both companies. The acquisition furthers IHC's goal of creating efficiencies by integrating the back office operations of our MGUs and marketing companies. Share purchases of 27,668 shares, or $141,000, through March 5, 2010 (the "Acquisition Date"), totaling 0.33% of voting equity interest, brought the total of AMIC shares owned by the Company to more than 50% of AMIC's outstanding common stock and as a result, IHC has included AMIC s consolidated assets and liabilities and results of operations subsequent to the Acquisition Date in its consolidated financial results as of and for the period ended December 31, 2010.

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

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

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

Investments	$	58,418
Cash and cash equivalents		4,761
Identifiable intangible assets		12,200
Deferred tax assets, net		10,654
Other assets		31,127
Total identifiable assets		117,160
Insurance liabilities		27,671
Other liabilities		19,023
Total liabilities		46,694
Net identifiable assets acquired		70,466
Purchase consideration		(71)
Fair value of equity investment prior to the acquisition		(22,013)
Noncontrolling interests in AMIC		(22,065)
Elimination of the fair value adjustment related to AMIC s investment in Majestic		(688)
Gain on bargain purchase		25,629
Gain on fair value of equity investment prior to the acquisition		2,201
Total gain on bargain purchase of AMIC, pretax		27,830
Deferred income taxes		11,097
Total gain on bargain purchase of AMIC, after tax	$	16,733

For the period from the Acquisition Date to December 31, 2010, the Company s Consolidated Statement of Operations includes revenues and net income of $74,187,000 and $2,711,000, respectively, from AMIC.

Presented below are the Company s consolidated revenues and net income had the acquisition date been January 1, 2009. The pro forma information presented is not indicative of the results of operations in future periods, nor does it necessarily reflect the results of operations that would have resulted had the acquisition been completed as of the beginning of the prior period presented.

	Year Ended 2010	2009
	(In thousands)	
Revenues	$ 421,139	$ 480,164
Net Income	$ 7,193	$ 11,244

For the purpose of the pro forma disclosures above, the gain resulting from the bargain purchase transaction has been excluded from the revenues and net income for 2010. Instead, the gain is included in the revenues and net income for 2009 and has been adjusted to reflect the reversal of the other-than-temporary impairment the Company recorded during the fourth quarter of 2009 as it related to the Company s equity method investment in AMIC. Other pro forma adjustments to revenues principally reflect the elimination of intercompany fee income and the elimination of the Company s equity income related to AMIC. Other pro forma adjustments to net income principally reflect the elimination of intercompany fee income and the corresponding administrative expenses, in addition to the elimination of the Company s equity income related to AMIC.

Subsequent to the Acquisition Date, IHC purchased an additional 9,537 shares of AMIC common stock for a total consideration of $58,000 through December 31, 2010.

Equity Investment in AMIC

At December 31, 2009, IHC owned 49.7% of AMIC's outstanding common stock which was purchased in various transactions from 2002 through 2008 and accounted for its investment in AMIC under the equity method. In the fourth quarter of 2009, under the equity method of accounting, due to the length of time, and the magnitude of the amount by which the quoted market price of AMIC had been below IHC s carrying value, the Company recorded an other-than-temporary impairment loss of $29,198,000 on its investment in AMIC, which net of $12,446,000 of deferred taxes, reduced earnings in 2009 by $16,752,000. This loss was significantly offset by the gain on the bargain purchase of AMIC common shares discussed above. At December 31, 2009, the carrying value of IHC's investment in AMIC was $19,234,000.

During the period from January 1, 2010 to the Acquisition Date (the Stub Period) IHC recorded $280,000 of equity income from its investment in AMIC. During the years ended December 31, 2009 and 2008, IHC recorded $1,289,000 and $480,000, respectively, of equity income from its investments in AMIC. These amounts represent IHC's proportionate share of income based on its ownership interests during those periods. AMIC paid no dividends on its common stock during the Stub Period in 2010 or during the years ended December 31, 2009 or 2008.

The following disclosures summarize the effects of certain transactions between IHC and its subsidiaries with AMIC during the Stub Period and other periods prior to the Acquisition Date. Subsequent to the Acquisition Date, the effects of these transactions are eliminated in consolidation. IHC and its subsidiaries recorded income of $208,000 during the Stub Period in 2010 and $1,083,000 and $805,000, respectively, for the years ended December 31, 2009 and 2008 from service agreements with AMIC and its subsidiaries. These are reimbursements to IHC and its subsidiaries, at agreed upon rates including an overhead factor, for management services provided by IHC and its subsidiaries, including accounting, legal, compliance, underwriting and claims. The Company ceded premiums to AMIC of $5,867,000 during the Stub Period in 2010 and $45,519,000 and $57,031,000, respectively, for the years ended

December 31, 2009 and 2008. Benefits to policyholders on business ceded to AMIC were $3,020,000 during the Stub Period in 2010 and $31,009,000 and $39,670,000, respectively, for the years ended December 31, 2009 and 2008. Additionally, AMIC subsidiaries market, underwrite and provide administrative services (including premium collection, medical management and claims adjudication) for a substantial portion of the Medical Stop-Loss business written by the insurance subsidiaries of IHC. IHC recorded gross premiums of $8,452,000 during the Stub Period in 2010 and $62,259,000 and $76,835,000, respectively, for the years ended December 31, 2009 and 2008 and IHC recorded net commission expense of $326,000 during the Stub Period in 2010 and $2,567,000 and $3,632,000, respectively, for the years ended December 31, 2009 and 2008 for these services. The Company also contracts for several types of insurance coverage (e.g. directors and officers and professional liability coverage) jointly with AMIC. The cost of this coverage is allocated between the Company and AMIC according to the type of risk, and IHC s portion is recorded in Selling, General and Administrative Expenses.

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

The condensed balance sheet of AMIC at December 31, 2009 is as follows (in thousands):

Investments, at fair value	$	57,630
Cash and restricted cash		9,594
Goodwill		23,561
Deferred tax asset, net		11,272
Other assets		32,325
Total assets	$	134,382
Insurance liabilities	$	34,807
Other liabilities		10,316
Total liabilities		45,123
AMIC shareholders' equity		88,973
Noncontrolling interests in subsidiaries		286
Total equity		89,259
Total liabilities and equity	$	134,382

AMIC's condensed operating results for the years ended December 31, 2009 and 2008 are as follows:

	2009	2008
	(In thousands)	
Revenues	$ 104,247	$ 113,312
Expenses	99,609	111,170
Income from continuing operations before income taxes	4,638	2,142
Provision for income taxes	1,472	631
Income from continuing operations	3,166	1,511
Loss from discontinued operations	-	(75)
Net income	3,166	1,436
Net income attributable to non-controlling interests	(554)	(471)
Net income attributable to AMIC	$ 2,612	$ 965
Net income attributable to AMIC per common share:		
Basic	$ .31	$ .11
Diluted	$ .31	$ .11

In January 2011, a subsidiary of IHC acquired 200,000 shares of AMIC common stock for $1,000,000 cash. Subsequent to year end, through March 15, 2011, IHC acquired an aggregate 900,325 shares of AMIC common stock in exchange for an aggregate 600,218 shares of IHC s common stock in various private placements of unregistered securities under Section 4(2) of the Securities Act of 1933, as amended. Accordingly, the shares are "restricted securities", subject to a 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. As a result of these transactions, the Company s ownership interest in AMIC increased to 63.0%.

Note 3.

Securities Purchased Under Agreements to Resell

Securities purchased under agreements to resell are utilized to invest excess funds on a short-term basis. At December 31, 2010, the Company had $41,081,000 in resale agreements outstanding, all of which settled on January 3, 2011 and were subsequently reinvested. The Company maintains control of securities purchased under resale agreements, values the collateral on a daily basis and obtains additional collateral, if necessary, to protect the Company in the event of default by the counterparties.

Note 4.

Investment Securities

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:

	December 31, 2010			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
	(In thousands)			
FIXED MATURITIES AVAILABLE-FOR-SALE:				
Corporate securities	$ 272,061	$ 3,595	$ (3,661)	$ 271,995
CMOs (1) - residential	58,829	6,662	(1,847)	63,644
CMOs (1) - commercial	1,447	-	(639)	808
U.S. Government obligations	16,617	351	-	16,968
Agency MBS (2) residential	10,069	206	(51)	10,224
GSEs (3)	70,199	510	(182)	70,527
States and political subdivisions	365,578	2,070	(8,158)	359,490
Total fixed maturities	$ 794,800	$ 13,394	$ (14,538)	$ 793,656
EQUITY SECURITIES AVAILABLE-FOR-SALE:				
Common stocks	$ 4,600	$ 167	$ (98)	$ 4,669
Preferred stocks-perpetuals	31,530	1,065	(315)	32,280
Preferred stocks-with maturities	9,790	1,334	-	11,124
Total equity securities	$ 45,920	$ 2,566	$ (413)	$ 48,073

	December 31, 2009			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
	(In thousands)			

FIXED MATURITIES								
AVAILABLE-FOR-SALE:								
Corporate securities	$	207,554	$	332	$	(7,357)	$	200,529
CMOs [1] - residential		78,889		3,620		(8,582)		73,927
CMOs [1] - commercial		868		-		(402)		466
U.S. Government obligations		6,319		44		-		6,363
Agency MBS [2] residential		40,156		182		-		40,338
GSEs [3]		15,398		-		(251)		15,147
States and political subdivisions		358,012		3,170		(8,089)		353,093
Total fixed maturities	$	707,196	$	7,348	$	(24,681)	$	689,863
EQUITY SECURITIES								
AVAILABLE-FOR-SALE:								
Common stocks	$	3,790	$	151	$	(69)	$	3,872
Preferred stocks-perpetuals		32,434		3,509		(215)		35,728
Preferred stocks-with maturities		20,996		747		(528)		21,215
Total equity securities	$	57,220	$	4,407	$	(812)	$	60,815

(1)

Collateralized mortgage obligations (CMOs).

(2)

Mortgage-backed securities (MBS).

(3)

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

The unrealized gains (losses) on certain preferred stocks with maturities at December 31, 2010 and 2009 include $1,763,000 and $2,394,000, respectively, related to the non-credit related component of other-than-temporary impairment losses recorded in accumulated other comprehensive income in connection with new accounting standards adopted on April 1, 2009.

The amortized cost and fair value of fixed maturities at December 31, 2010, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. The average life of mortgage-backed securities is affected by prepayments on the underlying loans and, therefore, is materially shorter than the original stated maturity.

	AMORTIZED COST	FAIR VALUE	% OF TOTAL FAIR VALUE
	(In thousands)		
Due in one year or less	$ -	$ -	-
Due after one year through five years	170,930	172,455	21.7%
Due after five years through ten years	148,661	147,677	18.6%
Due after ten years	338,068	331,857	41.8%
	657,659	651,989	82.1%
CMO and MBS			
15 year	72,202	76,597	9.7%
20 year	11,937	11,886	1.5%
30 year	53,002	53,184	6.7%
	$ 794,800	$ 793,656	100.0%

The following table summarizes, for all securities in an unrealized loss position at December 31, 2010 and 2009, 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	
December 31, 2010	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In thousands)			
Corporate securities	$ 103,247	$ 3,404	$ 12,253	$ 257	$ 115,500	$ 3,661
CMOs [(1)] - residential	12,494	476	16,979	1,371	29,473	1,847
CMOs [(1)] - commercial	-	-	808	639	808	639
	5,085	51	-	-	5,085	51

Agency MBS (2) residential									
GSE		32,481		170	1,389		12	33,870		182
States and political subdivisions		195,589		5,292	37,655		2,866	233,244		8,158
Total fixed maturities		348,896		9,393	69,084		5,145	417,980		14,538
Common stocks		999		98	-		-	999		98
Preferred stocks-perpetual		14,845		315	-		-	14,845		315
Total temporarily impaired securities	$	364,740	$	9,806	$ 69,084	$	5,145	$ 433,824	$	14,951

December 31, 2009	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	$ 122,122	$ 2,287	$ 66,652	$ 5,070	$ 188,774	$ 7,357
CMOs (1) - residential	7,937	990	35,757	7,592	43,694	8,582
CMOs (1) - commercial	-	-	466	402	466	402
GSE	9,901	186	5,246	65	15,147	251
States and political subdivisions	132,180	4,459	52,196	3,630	184,376	8,089
Total fixed maturities	272,140	7,922	160,317	16,759	432,457	24,681
Common stocks	1,861	69	-	-	1,861	69
Preferred stocks-perpetual	416	8	8,060	207	8,476	215
Preferred stocks-with maturities	-	-	8,692	528	8,692	528
Total temporarily impaired securities	$ 274,417	$ 7,999	$ 177,069	$ 17,494	$ 451,486	$ 25,493

At December 31, 2010 and 2009, a total of 117 and 75 fixed maturities, respectively, and 13 and 13 equity securities, respectively, were in a continuous unrealized loss position for less than 12 months. At December 31, 2010 and 2009, a total of 27 and 56 fixed maturities, respectively, and nil and 5 equity securities, respectively, had continuous unrealized losses for 12 months or longer.

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

At December 31, 2010, the Company had $28,730,000 invested in whole loan CMOs backed by Alt-A mortgages. Of this amount, 42% were in CMOs that originated in 2005 or earlier and 58% were in CMOs that originated in 2006. The unrealized losses on all other CMO s relate to prime rate CMO s and are primarily attributable to general disruptions in the credit market subsequent to purchase. The Company s mortgage security portfolio has no direct exposure to sub-prime mortgages.

Other-Than-Temporary-Impairments

Based on management's review of the portfolio, which considered the various factors described in Note 1 (G) (vi) and Note 1 (H), the Company recorded the following losses for other-than-temporary impairments for the years ended December 31, 2010, 2009 and 2008 (in thousands):

	2010	2009	2008
Other-than-temporary impairments:			
Available-for-sale securities:			
Fixed maturities	$ 3,819	$ 522	$ 18,123
Preferred stocks	-	271	20,124
	3,819	793	38,247
Investment in AMIC	-	29,198	-
Total other-than-temporary impairments	$ 3,819	$ 29,991	$ 38,247

For the year ended December 31, 2010, other-than-temporary impairments on fixed maturities of $3,819,000 consist of credit losses of $3,087,000 recorded as a result of expected cash flows of certain securities less than the securities amortized cost and $732,000 recorded as a result of the Company's intent to sell certain municipal debt securities prior to the recovery of their amortized cost bases. For the year ended December 31, 2009, the $522,000 of other-than-temporary impairments on fixed maturities resulted from the Company s intent to sell certain municipal debt securities prior to the recovery of their amortized cost bases. No losses for other-than-temporary impairments were recognized in other comprehensive income since the adoption of the new accounting standards in 2009.

Cumulative credit losses for other-than-temporary impairments recorded on securities for which a portion of an other-than-temporary impairment was recognized in other comprehensive income were as follows (in thousands):

	2010	2009
Balance at beginning of year	$ 2,394	$ -
Adoption of new accounting standards	-	2,394
Securities sold	(631)	-
Balance at end of year	$ 1,763	$ 2,394

Further deterioration in credit quality of the companies backing the securities, further deterioration in the condition of the financial services industry, a continuation of the current imbalance in liquidity that exist in the marketplace, a continuation or worsening of the current economic recession, or additional declines in real estate values may further affect the fair value of these securities and increase the potential that certain unrealized losses be designated as other-than-temporary in future periods and the Company may incur additional write-downs.

Refer to Note 2 for information regarding the other-than-temporary impairment recorded in connection with the Company s investment in AMIC in 2009.

Note 5.

Derivative Instruments

In connection with its previously outstanding $10,000,000 line of credit, a subsidiary of IHC entered into an interest rate swap with the commercial bank lender, for a notional amount equal to the debt principal amount, under which the Company received a variable rate equal to the rate on the debt and paid a fixed rate (6.65%) in order to manage the risk in overall changes in cash flows attributable to forecasted interest payments. There was no hedge ineffectiveness on this interest rate swap which was accounted for as a cash flow hedge and, in August 2009, the interest rate swap expired. For the years ended December 31, 2009 and 2008, the Company recorded $156,000 and ($82,000), respectively, of gains (losses) on the effective portion of the interest rate swap in accumulated other comprehensive loss on the accompanying Consolidated Balance Sheets, net of related taxes (benefits) of $104,000 and ($54,000), respectively.

At December 31, 2010 and 2009, the Company held no other derivative instruments and, for the years ended December 31, 2010 and 2009, recorded no gains or losses related to derivative instruments in the accompanying Consolidated Statements of Operations. For the year ended December 31, 2008, the Company recorded losses $38,000 in net realized investment gains representing the net change in fair value of a stock put on IHC shares of common stock issued in connection with the acquisition of IAC in 2006. All of the shares subject to the IHC stock put were exercised during 2008.

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 and liabilities at fair value.

Investments in fixed maturities and equity securities:

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

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

December 31, 2010

	Level 1	Level 2	Level 3	Total
ASSETS:				
Fixed maturities available-for-sale:				
Corporate securities	$ -	$ 271,995	$ -	$ 271,995
CMOs - residential	-	26,187	37,457	63,644
CMOs - commercial		-	808	808
US Government obligations	-	16,968	-	16,968
Agency MBS - residential	-	10,224	-	10,224
GSEs	-	70,527	-	70,527
States and political subdivisions	-	359,490	-	359,490
Total fixed maturities	-	755,391	38,265	793,656
Equity securities available-for-sale:				
Common stocks	4,669	-	-	4,669
Preferred stocks - perpetual	32,280	-	-	32,280
Preferred stocks - with maturities	11,124	-	-	11,124
Total equity securities	48,073	-	-	48,073
Total	$ 48,073	$ 755,391	$ 38,265	$ 841,729

December 31, 2009

	Level 1	Level 2	Level 3	Total
ASSETS:				
Fixed maturities available-for-sale:				
Corporate securities	$ -	$ 200,529	$ -	$ 200,529
CMOs - residential	-	34,885	39,042	73,927
CMOs - commercial	-	-	466	466
US Government obligations	-	6,363	-	6,363
Agency MBS - residential	-	40,338	-	40,338
GSEs	-	15,147	-	15,147
States and political subdivisions	-	353,093	-	353,093
Total fixed maturities	-	650,355	39,508	689,863
Equity securities available-for-sale:				
Common stocks	3,872	-	-	3,872
Preferred stocks - perpetual	35,728	-	-	35,728
Preferred stocks - with maturities	19,015	2,200	-	21,215
Total equity securities	58,615	2,200	-	60,815
Total	$ 58,615	$ 652,555	$ 39,508	$ 750,678

It is the Company s policy to recognize transfers of assets and liabilities between levels of the fair value hierarchy at the end of a reporting period. For the year ending December 31, 2010, there were no transfers of assets and liabilities between Level 1 and Level 2 of the fair value hierarchy. No securities were transferred out of Level 2 and into the Level 3 category as a result of limited or inactive markets during 2010. 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 2010. The changes in the carrying value of Level 3 assets and liabilities for the year ended December 31, 2010 are summarized as follows (in thousands):

	December 31, 2010		
	CMOs		
	Residential	Commercial	Total
Beginning balance	$ 39,042	$ 466	$ 39,508
Acquisition of AMIC	1,831	305	2,136
Gains (losses) included in earnings:			
Net realized investment losses	(167)	-	(167)
Other-than-temporary impairments	(3,087)	-	