

INDEPENDENCE HOLDING CO
Form 10-Q
May 10, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X]

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the quarterly period ended **March 31, 2007**

[]

Transition Report under Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the transition period from: _____ to _____

Commission File Number: **0-10306**

INDEPENDENCE HOLDING COMPANY

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

58-1407235

(I.R.S. Employer Identification No.)

96 CUMMINGS POINT ROAD, STAMFORD, CONNECTICUT

06902

(Address of principal executive offices)

(Zip Code)

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

NOT APPLICABLE

Former name, former address and former fiscal year, if changed since last report.

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

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

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

Class
Common stock, \$ 1.00 par value

Outstanding at May 9, 2007
15,190,789 Shares

INDEPENDENCE HOLDING COMPANY

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

Forward-Looking Statements

Certain statements in this document are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to the financial condition, results of operations, cash flows, plans, objectives, future performance and business of the Company. In this context, forward-looking statements often address the Company's expected future business and financial performance, and often (but not always) contain words such as expect, anticipate, intend, plan, believe, seek, or will. Forward-looking statements by their nature are matters that are, to differing degrees, uncertain. With respect to the Company, particular uncertainties that could adversely or positively affect its future results include, but are not limited to, economic conditions in the markets in which the Company operates, new federal or state governmental regulation, the Company's ability effectively to operate, integrate and leverage any past or future strategic acquisition, and other factors which can be found in the Company's news releases and filings with the Securities and Exchange Commission. These uncertainties may cause the Company's actual future results to be materially different than those expressed in its forward-looking statements. The Company does not undertake to update its forward-looking statements.

PART I - FINANCIAL INFORMATION**Item 1.****Financial Statements**

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

	March 31,	December
	2007	31,
	(unaudited)	2006
ASSETS:		
Investments:		
Short-term investments	\$ 5,592	\$ 9,910
Securities purchased under agreements to resell	13,704	68,849
Fixed maturities	720,353	665,340
Equity securities	78,161	60,043
Other investments	44,949	55,034
Total investments	862,759	859,176
Cash and cash equivalents	11,162	17,543
Due from securities brokers	8,176	660
Investment in American Independence Corp. ("AMIC")	40,604	39,942
Deferred acquisition costs	54,377	55,021
Due and unpaid premiums	58,820	23,860
Due from reinsurers	125,486	111,476
Premium and claim funds	48,460	51,244
Notes and other receivables	18,111	13,994
Goodwill	47,243	46,603
Other assets	45,881	40,165
Total assets	\$ 1,321,079	\$ 1,259,684

LIABILITIES AND STOCKHOLDERS' EQUITY:**LIABILITIES:**

Insurance reserves-health	\$	199,311	\$	175,048
Insurance reserves-life and annuity		251,745		252,860
Funds on deposit		386,403		387,757
Unearned premiums		21,256		19,982
Policy claims-health		7,516		7,407
Policy claims-life		11,185		6,799
Other policyholders' funds		18,230		18,299
Due to securities brokers		3,138		-
Due to reinsurers		53,810		38,109
Accounts payable, accruals and other liabilities		76,577		69,127
Debt		15,000		15,000
Junior subordinated debt securities		38,146		38,146
Total liabilities		1,082,317		1,028,534

STOCKHOLDERS' EQUITY:

Preferred stock (none issued)		-		-
Common stock \$1.00 par value, 20,000,000 shares authorized; 15,307,180 and 15,293,862 shares issued, respectively; 15,188,785 and 15,175,467 shares outstanding, respectively		15,307		15,294
Paid-in capital		98,353		97,873
Accumulated other comprehensive loss		(6,785)		(9,302)
Treasury stock, at cost, 118,395 shares		(2,237)		(2,237)
Retained earnings		134,124		129,522
Total stockholders' equity		238,762		231,150
Total liabilities and stockholders' equity	\$	1,321,079	\$	1,259,684

The accompanying notes are an integral part of these consolidated financial statements.

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

	Three Months Ended	
	March 31,	
	2007	2006
REVENUES:		
Premiums earned:		
Health	\$ 72,822	\$ 55,373
Life and annuity	11,665	10,915
Net investment income	12,034	11,931
Fee income	10,187	7,411
Net realized investment gains	420	417
Equity income from AMIC	535	176
Other income	1,408	617
	109,071	86,840
EXPENSES:		
Insurance benefits, claims and reserves:		
Health	48,641	37,296
Life and annuity	13,638	12,884
Selling, general and administrative expenses	36,467	27,149
Amortization of deferred acquisitions costs	2,491	2,518
Interest expense on debt	1,056	903
	102,293	80,750
Income before income taxes	6,778	6,090
Income tax expense	2,176	2,061
Net income	\$ 4,602	\$ 4,029

Basic income per common share	\$.30	\$.28
Weighted average shares outstanding		15,182		14,495
Diluted income per common share	\$.30	\$.27
Weighted average diluted shares outstanding		15,335		14,869

The accompanying notes are an integral part of these consolidated financial statements.

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended	
	March 31,	
	2007	2006
CASH FLOWS PROVIDED BY (USED BY) OPERATING ACTIVITIES:		
Net income	\$ 4,602	\$ 4,029
Adjustments to reconcile net income to net change in cash from operating activities:		
Amortization of deferred acquisition costs	2,491	2,518
Net realized investment gains	(420)	(417)
Equity income from AMIC and other equity method investments	(535)	(342)
Depreciation and amortization	1,089	577
Share-based compensation expenses	440	336
Deferred tax expense	274	71
Other	386	288
Changes in assets and liabilities:		
Net sales of trading securities	134	163
Change in insurance liabilities	26,578	(3,983)
Deductions from (additions to) deferred acquisition costs, net	(2,483)	801
Change in net amounts due from and to reinsurers	1,690	1,743
Change in premium and claim funds	2,784	(669)
Change in income tax liability	747	178
Change in due and unpaid premiums	(34,961)	997
Change in other assets	(5,447)	(3,848)
Change in other liabilities	6,026	(4,646)
Net change in cash from operating activities	3,395	(2,204)
CASH FLOWS PROVIDED BY (USED BY) INVESTING ACTIVITIES:		
	(4,378)	(2,922)

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Change in net amount due from and to securities brokers		
Net proceeds of short-term investments	4,334	8,180
Net (purchases) sales of securities under resale and repurchase agreements	55,145	38,347
Sales of equity securities	23,347	7,282
Purchases of equity securities	(40,181)	(14,930)
Sales of fixed maturities	93,837	84,189
Maturities and other repayments of fixed maturities	21,129	13,252
Purchases of fixed maturities	(166,763)	(110,210)
Sales of other investments	10,334	-
Additional investments in other investments, net of distributions	(250)	(220)
Cash paid in acquisitions of companies, net of cash acquired	(3,500)	(20,950)
Cash (paid) received in purchases of policy blocks	-	(224)
Change in notes and other receivables	(2,999)	(1,639)
Other	(390)	(1,011)
Net change in cash from investing activities	(10,335)	(856)

CASH FLOWS PROVIDED BY (USED BY) FINANCING ACTIVITIES:

Proceeds from issuance of common stock	-	2,500
Exercises of common stock options	17	77
Excess tax benefits from exercise of stock options	6	96
Proceeds of investment-type insurance contracts	916	5,918
Dividends paid	(380)	(353)
Net change in cash from financing activities	559	8,238
Net change in cash and cash equivalents	(6,381)	5,178
Cash and cash equivalents, beginning of year	17,543	12,659
Cash and cash equivalents, end of period	\$ 11,162	\$ 17,837

The accompanying notes are an integral part of these consolidated financial statements.

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

Note 1.

Significant Accounting Policies and Practices

(A)

Business and Organization

Independence Holding Company, a Delaware corporation ("IHC"), is a holding company principally engaged in the life and health insurance business through: (i) its wholly owned insurance companies, Standard Security Life Insurance Company of New York ("Standard Security Life") and Madison National Life Insurance Company, Inc. ("Madison National Life"); and (ii) its marketing and administrative companies, including Insurers Administrative Corporation (IAC), managing general underwriters ("MGUs") in which it owns a significant voting interest, Health Plan Administrators (HPA), GroupLink, Inc. (GroupLink), IHC Health Solutions, Inc. (IHC Health Solutions), and Community America Insurance Services, Inc. (CAIS). 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." The Company also owns a 48% equity interest in American Independence Corp. ("AMIC"), which owns Independence American Insurance Company (Independence American) and several MGUs.

Geneve Corporation, a diversified financial holding company, and its affiliated entities held approximately 54% of IHC's outstanding common stock at March 31, 2007.

(B)

Basis of Presentation

The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles and include the accounts of IHC and its consolidated subsidiaries. All significant intercompany transactions have been eliminated in consolidation. The preparation of financial statements in conformity with U.S. generally

accepted accounting principles requires management to make estimates and assumptions that affect: (i) the reported amounts of assets and liabilities; (ii) the disclosure of contingent assets and liabilities at the date of the financial statements; and (iii) the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. IHC's annual report on Form 10-K as filed with the Securities and Exchange Commission should be read in conjunction with the accompanying consolidated financial statements.

In the opinion of management, all adjustments (consisting only of normal recurring accruals) that are necessary for a fair presentation of the consolidated financial position and results of operations for the interim periods have been included. The consolidated results of operations for the three months ended March 31, 2007 are not necessarily indicative of the results to be anticipated for the entire year.

(C)

Reclassifications

Certain amounts in prior years' Consolidated Financial Statements and Notes thereto have been reclassified to conform to the 2007 presentation.

(D)

Recent Accounting Pronouncements

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115" ("SFAS 159"). SFAS 159 would create a fair value option of accounting for qualifying financial assets and liabilities under which an irrevocable election could be made at inception to measure such assets and liabilities initially and subsequently at fair value, with all changes in fair value reported in earnings. SFAS 159 is effective as of the beginning of the first fiscal year beginning after

November 15, 2007. The adoption of SFAS 159 is optional. The Company is in the process of analyzing the effects of adoption of SFAS 159 on the Company's consolidated financial statements.

In February 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 155, Accounting for Certain Hybrid Financial Instruments (SFAS 155), which amends SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133) and SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (SFAS 140). SFAS 155 simplifies the accounting for certain derivatives embedded in other financial instruments by allowing them to be accounted for as a whole if the holder elects to account for the whole instrument on a fair value basis. SFAS 155 also clarifies and amends certain other provisions of SFAS 133 and SFAS 140. SFAS 155 is effective for all financial instruments acquired, issued or subject to a re-measurement event occurring in fiscal years beginning after September 15, 2006. The adoption of SFAS 155 did not have a material impact on the Company's consolidated financial statements.

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109" ("Interpretation 48"), which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The recognition threshold is based on a determination of whether it is more likely than not that a tax position will be sustained upon examination based on the technical merits of the position. Only tax positions that meet the more-likely-than-not recognition threshold at the effective date may be recognized or continue to be recognized upon adoption of FIN 48. Interpretation 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Interpretation 48 is effective for fiscal years beginning after December 15, 2006. The cumulative effect of applying the provisions of Interpretation 48 is reported as an adjustment to retained earnings as of the beginning of the year of adoption. The amount of the cumulative-effect adjustment is the difference between the net amount of assets and liabilities recognized in the balance sheet prior to the application of Interpretation 48 and the net amount of assets and liabilities recognized as a result of applying Interpretation 48. The adoption of Interpretation 48 on January 1, 2007 did not have a material impact on the Company's consolidated financial statements and the Company believes there are no significant tax positions that would require disclosure under Interpretation 48. The Internal Revenue Service is currently auditing our 2003 and 2004 consolidated income tax returns. It is anticipated that this examination will be completed within the next twelve months. Management believes that it has made adequate provision for all income tax uncertainties, such that the outcome of any unresolved issues or claims will not result in a material change to our financial position or results of operations.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The adoption of SFAS 157 is not expected to have a material effect on the Company's consolidated financial statements.

In September 2005, the AICPA's Accounting Standards Executive Committee issued Statement of Position 05-1, "Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts" ("SOP 05-1"). SOP 05-1 provides guidance on accounting by insurance enterprises for

deferred acquisition costs on internal replacements of insurance and investment contracts other than those specifically described in SFAS 97, "Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments". SOP 05-1 defines an internal replacement as a modification in product benefits, features, rights, or coverages that occurs by the exchange of a contract for a new contract, or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. A replacement contract that is substantially changed will be accounted for as an extinguishment

of the replaced contract resulting in a release of the unamortized deferred acquisition costs, unearned revenue, and deferred sales inducements associated with the replaced contract. SOP 05-1 is effective for internal replacements occurring in fiscal years beginning after December 15, 2006. The adoption of SOP 05-1 did not have a material impact on the Company's consolidated financial statements.

Note 2.

American Independence Corp.

AMIC is an insurance holding company engaged in the insurance and reinsurance business as a result of its acquisition of First Standard Holdings Corp. ("FSHC") from the Company in November 2002. AMIC does business with the Insurance Group, including reinsurance treaties under which, in 2006, Standard Security Life and Madison National Life ceded to Independence American an average of 22% of their medical stop-loss business, 10% of a majority of their fully insured health business and 20% of their New York Statutory Disability business. IHC owned 48% of AMIC's outstanding common stock at March 31, 2007 and December 31, 2006, which was purchased in various transactions from 2002 through 2005. IHC accounts for its investment in AMIC under the equity method. At March 31, 2007 and December 31, 2006, IHC's investment in AMIC had a total carrying value of \$45,075,000 and \$44,412,000, respectively, including goodwill of \$4,470,000 at both dates. This goodwill represents the excess of IHC's cost over the underlying equity in AMIC's net assets at the respective purchase dates. At March 31, 2007 and December 31, 2006, based on the closing market price of AMIC's common stock, the fair value of the AMIC shares owned by IHC was approximately \$42,282,000 and \$43,866,000, respectively.

For the quarter ended March 31, 2007 and 2006, IHC recorded \$535,000 and \$176,000 of equity income from its investment in AMIC, representing IHC's proportionate share of income based on its ownership interests during those periods. AMIC paid no dividends on its common stock in the three month periods ended March 31, 2007 and 2006.

IHC and its subsidiaries earned \$200,000 and \$139,000 for the quarters ended March 31, 2007 and 2006, respectively, from service agreements with AMIC and its subsidiaries. These are reimbursements to IHC and its subsidiaries, at agreed upon rates including an overhead factor, for management services provided by IHC and its subsidiaries, including accounting, legal, compliance, underwriting and claims. The Company ceded premiums to AMIC of \$16,101,000 and \$13,674,000 for the three months ended March 31, 2007 and 2006, respectively. Benefits to policyholders on business ceded to AMIC were \$11,155,000 in the first quarter of 2007 and \$9,317,000 in the first quarter of 2006. Additionally, AMIC subsidiaries market, underwrite and provide administrative services (including premium collection, medical management and claims adjudication) for a substantial portion of the Medical Stop-Loss business written by the insurance subsidiaries of IHC. IHC recorded net commission expense of \$1,050,000 and \$1,316,000 in the first quarter of 2007 and 2006, respectively, for these services. The Company also contracts for several types of insurance coverage (e.g. directors and officers and professional liability converge) jointly with AMIC. The cost of this coverage is allocated between the Company and AMIC according to the type of risk, and IHC's portion is recorded in Selling, General and Administrative Expenses.

Included in the Company's Consolidated Balance Sheets at March 31, 2007 and December 31, 2006, respectively, are the following balances arising from transactions in the normal course of business with AMIC and its subsidiaries: Due from reinsurers \$15,572,000 and \$15,324,000; Other assets \$7,392,000 and \$5,971,000; and Other liabilities \$533,000 and \$518,000.

Note 3.

Income Per Common Share

Included in the diluted income per share calculations are 153,000 and 374,000 shares for the three months ended March 31, 2007 and 2006, respectively, from the assumed exercise of options and vesting of restricted stock, using the treasury stock method. Net income does not change as a result of the assumed dilution.

Note 4.**Investments**

The following tables summarize, for all securities in an unrealized loss position at March 31, 2007 and December 31, 2006, 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	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2007	(In thousands)					
Corporate securities	\$ 51,891	\$ 855	\$ 216,715	\$ 7,839	\$ 268,606	\$ 8,694
CMO and ABS ⁽¹⁾	48,363	165	82,463	2,213	130,826	2,378
U.S. Government obligations	-	-	36,532	1,151	36,532	1,151
Agency MBS ⁽²⁾	-	-	18,542	461	18,542	461
GSE ⁽³⁾	33,079	205	46,018	1,532	79,097	1,737
States and political subdivisions	13,974	49	5,638	224	19,612	273
Total fixed maturities	147,307	1,274	405,908	13,420	553,215	14,694
Common stock	5,512	227	-	-	5,512	227
Preferred stock	16,706	325	2,562	107	19,268	432
Total temporarily impaired securities	\$ 169,525	\$ 1,826	\$ 408,470	\$ 13,527	\$ 577,995	\$ 15,353

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2006	(In thousands)					
Corporate securities	\$ 115,055	\$ 2,255	\$ 194,932	\$ 7,896	\$ 309,987	\$ 10,151

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CMO and ABS ⁽¹⁾	55,126	430	73,582	2,289	128,708	2,719
U.S. Government obligations	-	-	60,566	2,398	60,566	2,398
Agency MBS ⁽²⁾	-	-	19,447	481	19,447	481
GSE ⁽³⁾	9,250	121	47,494	1,696	56,744	1,817
States and political subdivisions	14,303	20	5,615	254	19,918	274
T o t a l f i x e d maturities	193,734	2,826	401,636	15,014	595,370	17,840
Common stock	4,664	312	-	-	4,664	312
Preferred stock	7,216	40	2,607	135	9,823	175
Total temporarily impaired securities	\$ 205,614	\$ 3,178	\$ 404,243	\$ 15,149	\$ 609,857	\$ 18,327

(1)

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

(2)

Mortgage-backed securities (MBS).

(3)

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

The Company reviews its investment securities regularly and determines whether other-than-temporary impairments have occurred. If a decline in fair value is judged by management to be other-than-temporary, a loss is recognized by a charge to the Consolidated Statements of Operations, establishing a new cost basis for the security. The factors considered by management in its regular review include, but are not limited to: the length of time and extent to which the fair value has been less than cost; the financial condition and near-term prospects of the issuer; adverse changes in ratings announced by one or more rating agencies; whether the issuer of a debt security has remained current on principal and interest payments; whether the decline in fair value appears to be issuer specific or, alternatively, a reflection of general market or industry conditions (including, in the case of fixed maturities, the effect of changes in market interest rates); and the Company's intent and ability to hold the security for a period of time sufficient to allow for a recovery in fair value. For securities within the scope of Emerging Issues Task Force Issue 99-20, such as purchased interest-only securities, an impairment loss is recognized when there has been a decrease in expected cash flows combined with a decline in the security's fair value below cost. Based on management's review of the portfolio, which considered these factors, the Company did not consider these investments to be other-than-temporarily impaired at March 31, 2007 and December 31, 2006. For the three months ended March 31, 2007, the Company did not record any realized losses for other-than-temporary impairments.

Substantially all of the unrealized losses at March 31, 2007 and December 31, 2006 relate to investment grade securities and are attributable to changes in market interest rates subsequent to purchase. There were no securities with unrealized losses that were individually significant dollar amounts at March 31, 2007 and December 31, 2006. At March 31, 2007 and December 31, 2006, a total of 71 and 76 securities, respectively, were in a continuous unrealized loss position for less than 12 months and 83 and 76 securities, respectively, had continuous unrealized losses for 12 months or longer. For fixed maturities, there are no securities past due or securities for which the Company currently believes it is not probable that it will collect all amounts due according to the contractual terms of the investment.

Note 5.

Other Investments

The Company had invested \$8,288,000 at December 31, 2006 in Dolphin Limited Partnership A ("DLP-A"), a domestic feeder fund for Dolphin Limited Partnership I L.P., a Delaware limited partnership. The Company's net investment income for the three months ended March 31, 2007 and 2006 includes \$46,000 and \$566,000, respectively, for its proportionate share of net income of DLP-A. The Company liquidated its investment in DLP-A in February 2007.

Note 6.

CAM Acquisition

In January 2007, IHC Health Solutions, Inc., a wholly owned subsidiary of IHC, acquired 100% of the outstanding membership interests in CA Marketing and Management Services, LLC ("CAM") for a total purchase price of \$3,500,000. The Company recorded goodwill of \$640,000 and other intangible assets of \$2,860,000 primarily for the

fair value of agent and management services relationships, which is being amortized over a weighted average period of 9.06 years. CAM was previously 100% owned by a senior officer of IHC. The Audit Committee of the Board of Directors of IHC unanimously approved the transaction, and upon recommendation by the Audit Committee, it was unanimously approved by the Board of Directors.

Pro forma results of operations for the quarter ended March 31, 2006, as though this acquisition had been completed at the beginning of such period, have not been presented since the effect of the acquisition was not material.

Note 7.**Goodwill and Other Intangible Assets**

At March 31, 2007 and December 31, 2006, the Company had goodwill of \$47,243,000 and \$46,603,000, respectively, and other intangible assets (included in other assets in the Consolidated Balance Sheets) of \$16,961,000 and \$13,984,000 (which includes \$1,308,000 capitalized software classified in Fixed Assets at December 31, 2006), respectively. The change in the carrying amount of goodwill and other intangible assets for the first quarter of 2007 is as follows (in thousands):

	Goodwill	Other Intangible Assets
Balance at December 31, 2006	\$ 46,603	\$ 13,984
CAM acquisition	640	2,860
Capitalized software development	-	828
Amortization expense	-	(711)
Balance at March 31, 2007	\$ 47,243	\$ 16,961

Note 8.**Share-Based Compensation**

Effective January 1, 2006, under the modified prospective method, the Company adopted the provisions of SFAS No. 123R, "Share-Based Payment" ("SFAS 123R"), which revises SFAS No. 123, Accounting for Stock-Based Compensation (SFAS 123) and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees and its related interpretations (APB 25). SFAS 123R applies to all awards granted after its effective date and to modifications, repurchases or cancellations of existing awards after that date. Additionally, under the modified prospective method of adoption, the Company recognizes compensation expense for the portion of outstanding awards on the adoption date for which the requisite service period has not yet been rendered based on the grant-date fair value of those awards.

For the three months ended March 31, 2007 and 2006, total share-based compensation expense was \$440,000 and \$336,000, respectively,

Under the terms of the Company's stock-based compensation plans, option exercise prices are equal to the quoted market price of the shares at the date of grant; option terms range from five to ten years; and vesting periods are three years for employee options. The Company may also grant shares of restricted stock. These shares are valued at the quoted market price of the shares at the date of grant, and have a three year vesting period. There were 1,005,522

shares available for future option or restricted-stock grants under the shareholder-approved plans at March 31, 2007. All of these available shares relate to the Company's 2006 Stock Incentive Plan that was approved by shareholders in June 2006.

The Company's stock option activity for the three months ended March 31, 2007 is as follows:

	Shares Under Option	Weighted- Average Exercise Price
December 31, 2006	858,351	\$ 17.03
Granted	32,000	21.49
Exercised	(1,800)	9.39
March 31, 2007	888,551	17.21

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The following table summarizes information regarding outstanding and exercisable options as of March 31:

	Outstanding	Exercisable
Number of options	888,551	547,681
Weighted average exercise price per share	\$ 17.21	\$ 14.77
Aggregate intrinsic value for all options	\$ 4,230,000	\$ 3,943,000
Weighted average contractual term remaining	2.4 years	1.6 years

The fair value of each option award is estimated on the date of grant using the Black Scholes option valuation model. The weighted average grant-date fair-value of options granted during the three months ended March 31, 2007 and 2006 was \$6.51 and \$7.14 per share, respectively. The assumptions set forth in the table below were used to value the stock options granted during the three month period ended March 31:

	2007	2006
Weighted-average risk-free interest rate	4.44%	4.48%
Annual dividend rate per share	\$.05	\$.05
Weighted-average volatility factor of the Company's common stock	30.3%	32.4%
Weighted-average expected term of options	4.5 years	4.4 years

Compensation expense of \$273,000 and \$288,000 was recognized in the three months ended March 31, 2007 and 2006, respectively, for the portion of the grant-date fair value of stock options vesting during that period.

The total intrinsic value of options exercised during the three month periods ended March 31, 2007 and 2006 was \$23,000 and \$304,000, respectively. Cash proceeds received from those options exercised during the three months ended March 31, 2007 and 2006 were \$17,000 and \$77,000, respectively.

The Company issued 4,800 and 37,075 restricted stock awards during the three months ended March 31, 2007 and 2006, respectively, with weighted-average grant-date fair values of \$21.19 and \$22.56 per share, respectively. The total fair value of restricted stock that vested during the first three months of 2007 was \$278,000. No shares of restricted stock vested during the first three months of 2006. Restricted stock expense was \$93,000 and \$47,000, respectively, for the three months ended March 31, 2007 and 2006.

The following table summarizes restricted stock activity for the three months ended March 31, 2007:

	No. of Shares		Weighted-Average Grant-Date Fair Value
December 31, 2006	50,325	\$	22.11
Granted	4,800		21.19
Vested	(12,323)		22.56
Forfeited	(100)		22.69
March 31, 2007	42,702		21.88

As of March 31, 2007, there was \$1,537,000 and \$815,000 of total unrecognized compensation expense related to non-vested options and non-vested restricted stock awards, respectively, which will be recognized over the remaining requisite weighted-average service periods of 1.2 years and 2.1 years, respectively.

Note 9.

Income Taxes

The provision for income taxes shown in the Consolidated Statements of Operations was computed based on the Company's estimate of the effective tax rate expected to be applicable for the current fiscal year.

The deferred income tax expense for the three months ended March 31, 2007 allocated to stockholders' equity (principally for net unrealized gains on investment securities) was \$1,355,000, representing the decrease in the related net deferred tax asset to \$3,783,000 at March 31, 2007 from \$5,138,000 at December 31, 2006

Note 10.

Supplemental Disclosures of Cash Flow Information

Cash payments for income taxes were \$1,080,000 and \$1,695,000 for the three months ended March 31, 2007 and 2006, respectively. Cash payments for interest were \$1,002,000 and \$847,000 for the three months ended March 31, 2007 and 2006, respectively.

Note 11.

Comprehensive Income (Loss)

The components of comprehensive income (loss) include (i) net income or loss reported in the Consolidated Statements of Operations, and (ii) certain amounts reported directly in stockholders' equity, principally the after-tax net unrealized gains and losses on securities available for sale (net of deferred acquisition costs). The comprehensive income (loss) for the three months ended March 31, 2007 and 2006 is summarized as follows:

**Three Months Ended
March 31,**

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	2007		2006
	(In thousands)		
Net income	\$	4,602	\$ 4,029
Unrealized gains (losses) arising during the period, net of income taxes		2,517	(8,328)
Comprehensive income (loss)	\$	7,119	\$ (4,299)

Note 12.**Segment Reporting**

The Insurance Group principally engages in the life and health insurance business. Information by business segment for the three months ended March 31, 2007 and 2006 is presented below:

	2007	Three Months Ended March 31, (In thousands)	2006
Revenues:			
Medical Stop-Loss ^(A)	\$	42,062	\$ 37,089
Fully Insured Health		29,717	14,258
Group disability, life, annuities and DBL		14,254	13,113
Individual life, annuities and other		16,580	15,393
Credit life and disability		5,672	5,462
Corporate		366	1,108
		108,651	86,423
Net realized investment gains		420	417
	\$	109,071	\$ 86,840
Income Before Income Taxes:			
Medical Stop-Loss	\$	4,749	\$ 3,766
Fully Insured Health ^(B)		291	505
Group disability, life, annuities and DBL		1,299	502
Individual life, annuities and other		3,267	2,122
Credit life and disability		(836)	