INDEPENDENCE HOLDING CO
Form 10-Q
May 10, 2012

**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, 2012.**

[ ]

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

For the transition period from: ________ to _________

Commission File Number: **0-10306**

**INDEPENDENCE HOLDING COMPANY**

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware** | **58-1407235** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

**96 CUMMINGS POINT ROAD, STAMFORD, CONNECTICUT** **06902**

(Address of principal executive offices) (Zip Code)

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

**NOT APPLICABLE**

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

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

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

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

| | |
|---|---|
| Large Accelerated Filer [ ] | Accelerated Filer [ ] |
| Non-Accelerated Filer [X ] | Smaller Reporting Company [ ] |

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

| Class | Outstanding at May 4, 2012 |
|---|---|
| **Common stock, $ 1.00 par value** | **17,991,661 Shares** |

**INDEPENDENCE HOLDING COMPANY**

**INDEX**

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

**Forward-Looking Statements**

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

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

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

**PART I - FINANCIAL INFORMATION**

**Item 1.**

**Financial Statements**

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

| | March 31, 2012 (Unaudited) | December 31, 2011 |
|---|---|---|
| **ASSETS:** | | |
| Investments: | | |
| Short-term investments | $ 50 | $ 50 |
| Securities purchased under agreements to resell | 17,112 | 17,258 |
| Trading securities | 6,851 | - |
| Fixed maturities, available-for-sale | 716,809 | 842,873 |
| Equity securities, available-for-sale | 29,463 | 37,541 |
| Other investments | 32,496 | 35,223 |
| Total investments | 802,781 | 932,945 |
| Cash and cash equivalents | 9,286 | 18,227 |
| Due from securities brokers | 9,585 | 12,106 |
| Deferred acquisition costs | 37,270 | 37,101 |
| Due and unpaid premiums | 39,091 | 37,341 |
| Due from reinsurers | 306,933 | 159,729 |
| Premium and claim funds | 40,194 | 43,604 |
| Notes and other receivables | 19,827 | 15,500 |
| Goodwill | 50,318 | 50,318 |
| Other assets | 49,126 | 51,988 |
| **TOTAL ASSETS** | $ 1,364,411 | $ 1,358,859 |
| **LIABILITIES AND STOCKHOLDERS EQUITY:** | | |
| **LIABILITIES:** | | |
| Insurance reserves-health | $ 173,531 | $ 179,042 |
| Insurance reserves-life and annuity | 279,611 | 279,636 |
| Funds on deposit | 421,796 | 417,310 |
| Unearned premiums | 5,935 | 4,319 |
| Policy claims-health | 14,024 | 13,945 |
| Policy claims-life | 12,035 | 11,948 |
| Other policyholders' funds | 22,010 | 21,546 |
| Due to securities brokers | 1,988 | 383 |
| Due to reinsurers | 44,581 | 40,030 |
| Accounts payable, accruals and other liabilities | 60,504 | 66,410 |
| Debt | 10,000 | 10,000 |

| | | | | |
|---|---|---|---|---|
| Junior subordinated debt securities | | 38,146 | | 38,146 |
| **TOTAL LIABILITIES** | | 1,084,161 | | 1,082,715 |
| **STOCKHOLDERS EQUITY:** | | | | |
| **IHC STOCKHOLDERS' EQUITY:** | | | | |
| Preferred stock (none issued) | | - | | - - |
| Common stock $1.00 par value, 20,000,000 shares authorized; 18,457,336 and 18,450,917 shares issued; 18,008,947 and 18,052,661 shares outstanding | | 18,457 | | 18,451 |
| Paid-in capital | | 126,377 | | 126,298 |
| Accumulated other comprehensive income | | 8,270 | | 7,853 |
| Treasury stock, at cost; 448,389 and 398,257 shares | | (3,747) | | (3,277) |
| Retained earnings | | 115,675 | | 111,752 |
| **TOTAL IHC STOCKHOLDERS EQUITY** | | 265,032 | | 261,077 |
| **NONCONTROLLING INTERESTS IN SUBSIDIARIES** | | 15,218 | | 15,067 |
| **TOTAL EQUITY** | | 280,250 | | 276,144 |
| **TOTAL LIABILITIES AND EQUITY** | $ | 1,364,411 | $ | 1,358,859 |

**See the accompanying Notes to Condensed Consolidated Financial Statements.**

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

| | Three Months Ended March 31, 2012 | Three Months Ended March 31, 2011 |
|---|---|---|
| **REVENUES:** | | |
| Premiums earned: | | |
| Health | $ 74,285 | $ 75,723 |
| Life and annuity | 9,489 | 10,150 |
| Net investment income | 8,751 | 10,116 |
| Fee income | 7,421 | 7,377 |
| Other income | 1,156 | 1,458 |
| Net realized investment gains (losses) | 1,137 | (202) |
| Other-than-temporary impairment losses: | | |
| Total other-than-temporary impairment losses | (83) | (303) |
| Portion of losses recognized in other comprehensive income | - | - |
| Net impairment losses recognized in earnings | (83) | (303) |
| | 102,156 | 104,319 |
| **EXPENSES:** | | |
| Insurance benefits, claims and reserves: | | |
| Health | 46,193 | 50,576 |
| Life and annuity | 10,942 | 13,673 |
| Selling, general and administrative expenses | 36,472 | 35,986 |
| Amortization of deferred acquisitions costs | 1,594 | 1,691 |
| Interest expense on debt | 539 | 457 |
| | 95,740 | 102,383 |
| Income from operations before income taxes | 6,416 | 1,936 |
| Income taxes (benefits) | 2,086 | (1,864) |
| **Net income** | 4,330 | 3,800 |
| Less: income from noncontrolling interests in subsidiaries | (408) | (616) |
| **NET INCOME ATTRIBUTABLE TO IHC** | $ 3,922 | $ 3,184 |
| **Basic income per common share** | $ .22 | $ .19 |
| WEIGHTED AVERAGE SHARES OUTSTANDING | 18,029 | 17,027 |
| **Diluted income per common share** | $ .22 | $ .19 |

| | | |
|---|---|---|
| WEIGHTED AVERAGE DILUTED SHARES OUTSTANDING | 18,176 | 17,031 |

**See the accompanying Notes to Condensed Consolidated Financial Statements.**

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

| | Three Months Ended March 31, 2012 | Three Months Ended March 31, 2011 |
|---|---|---|
| Net income | $ 4,330 | $ 3,800 |
| Other comprehensive income (loss): | | |
| Unrealized gains (losses) on available-for-sale securities | 719 | (264) |
| Other-than-temporary impairment losses recorded in other comprehensive income | - | - |
| Allocation to deferred acquisition costs | (14) | 82 |
| Unrealized gains (losses) on derivative instruments | (36) | - |
| Other comprehensive income (loss) before income taxes (benefits) | 669 | (182) |
| Income taxes (benefits) related to other comprehensive income | 286 | (57) |
| Other comprehensive income (loss), net of tax | 383 | (125) |
| Comprehensive income, net of tax | 4,713 | 3,675 |
| Comprehensive income, net of tax, attributable to noncontrolling interests: | | |
| Income from noncontrolling interests in subsidiaries | (408) | (616) |
| Other comprehensive loss, net of tax, attributable to noncontrolling interests: | | |
| Unrealized losses on available-for-sale securities, net of tax | 33 | 31 |
| Other-than-temporary impairment losses recorded in other comprehensive income (loss), net of tax | - | - |
| Other comprehensive loss, net of tax, attributable to noncontrolling interests | 33 | 31 |
| Comprehensive income, net of tax, attributable to noncontrolling interests: | (375) | (585) |
| Comprehensive income, net of tax, attributable to IHC | $ 4,338 | $ 3,090 |

**See the accompanying Notes to Condensed Consolidated Financial Statements.**

**INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)**
**THREE MONTHS ENDED MARCH 31, 2012 (In thousands)**

| | COMMON STOCK | PAID-IN CAPITAL | ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) | TREASURY STOCK, AT COST | RETAINED EARNINGS | TOTAL IHC STOCKHOLDERS' EQUITY | NON CONTRO INTERES SUBSIDI |
|---|---|---|---|---|---|---|---|
| **BALANCE AT DECEMBER 31, 2011** | $ 18,451 | $ 126,298 | $ 7,853 | $ (3,277) | $ 111,752 | $ 261,077 | $ |
| Net income | | | | | 3,922 | 3,922 | |
| Other comprehensive income (loss), net of tax | | | 416 | | | 416 | |
| Repurchases of common | | | | (470) | 12 | (458) | |
| Acquire noncontrolling interests in American Independence Corp. | | 12 | 1 | | | 13 | |
| Common stock dividend | | | | | (11) | (11) | |
| Share-based compensation expenses and related tax benefits | 6 | 58 | | | | 64 | |
| Distributions to noncontrolling interests | | | | | | - | |
| Other capital | | 9 | | | | 9 | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| transactions | | | | | | | |
| **BALANCE AT MARCH 31, 2012** | $ 18,457 | $ 126,377 | $ 8,270 | $ (3,747) | $ 115,675 | $ 265,032 | $ |

**See the accompanying Notes to Condensed Consolidated Financial Statements.**

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

| | Three Months Ended March 31, 2012 | 2011 |
|---|---|---|
| **CASH FLOWS PROVIDED BY (USED BY) OPERATING ACTIVITIES:** | | |
| Net income | $ 4,330 | $ 3,800 |
| Adjustments to reconcile net income to net change in cash from operating activities: | | |
| Amortization of deferred acquisition costs | 1,594 | 1,691 |
| Net realized investment (gains) losses | (1,137) | 202 |
| Other-than-temporary impairment losses | 83 | 303 |
| Equity income from equity method investments | (458) | (542) |
| Depreciation and amortization | 990 | 1,123 |
| Share-based compensation expenses | 478 | 138 |
| Deferred tax (benefit) expense | 1,789 | (605) |
| Other | 1,782 | 878 |
| Changes in assets and liabilities: | | |
| Net sales (purchases) of trading securities | (928) | - |
| Change in insurance liabilities | 803 | 279 |
| Additions to deferred acquisition costs, net | (1,776) | (1,722) |
| Change in net amounts due from and to reinsurers | (142,652) | (2,181) |
| Change in premium and claim funds | 3,410 | (2,112) |
| Change in current income tax liability | 1,013 | (1,621) |
| Change in due and unpaid premiums | (1,749) | 2,748 |
| Change in other assets | (155) | (1,122) |
| Change in other liabilities | (6,260) | 1,279 |
| Net change in cash from operating activities | (138,843) | 2,536 |
| **CASH FLOWS PROVIDED BY (USED BY) INVESTING ACTIVITIES:** | | |
| Change in net amount due from and to securities brokers | 4,126 | (20,947) |
| Net sales of securities under resale and repurchase agreements | 146 | 20,303 |
| Sales of equity securities | 4,928 | 14,993 |
| Purchases of equity securities | (2,001) | (19,015) |
| Sales of fixed maturities | 246,167 | 89,904 |
| Maturities and other repayments of fixed maturities | 12,797 | 17,799 |
| Purchases of fixed maturities | (133,450) | (103,417) |
| Additional investments in other investments, net of distributions | 3,185 | (617) |
| Change in notes and other receivables | (4,292) | (481) |
| Other investing activities | (896) | (372) |

| | | |
|---|---|---|
| Net change in cash from investing activities | 130,710 | (1,850) |
| **CASH FLOWS PROVIDED BY (USED BY) FINANCING ACTIVITIES:** | | |
| Repurchases of common stock | (457) | - |
| Excess tax expense from expired stock options | (57) | (117) |
| Cash paid in acquisitions of noncontrolling interests | (267) | (1,000) |
| Proceeds of investment-type insurance contracts | 392 | 803 |
| Dividends paid | (421) | (381) |
| Other capital transactions | 2 | 21 |
| Net change in cash from financing activities | (808) | (674) |
| Net change in cash and cash equivalents | (8,941) | 12 |
| Cash and cash equivalents, beginning of year | 18,227 | 11,426 |
| Cash and cash equivalents, end of period | $ 9,286 | $ 11,438 |

**See the accompanying Notes to Condensed Consolidated Financial Statements.**

**INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements**

**(Unaudited)**

**Note 1.**

**Significant Accounting Policies and Practices**

**(A)**

**Business and Organization**

Independence Holding Company, a Delaware corporation ( IHC ), is a holding company principally engaged in the life and health insurance business through: (i) its insurance companies, Standard Security Life Insurance Company of New York ("Standard Security Life"), Madison National Life Insurance Company, Inc. ("Madison National Life"), and Independence American Insurance Company ( Independence American ); and (ii) its marketing and administrative companies, including IHC Risk Solutions, LLC ( Risk Solutions ), IHC Health Solutions, Inc. ( Health Solutions ), and Actuarial Management Corporation ("AMC"). These companies are sometimes collectively referred to as the Insurance Group , and IHC and its subsidiaries (including the Insurance Group) are sometimes collectively referred to as the "Company." IHC also owns a significant equity interest in a managing general underwriter ( MGU ) that writes medical stop-loss for Standard Security Life. At March 31, 2012, the Company also owned a 78.5% interest in American Independence Corp. ( AMIC ).

Geneve Corporation, a diversified financial holding company, and its affiliated entities held approximately 50.7% of IHC's outstanding common stock at March 31, 2012.

**(B)**

**Basis of Presentation**

The Condensed Consolidated Financial Statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP") for interim financial statements and with the instructions to Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The Condensed Consolidated Financial Statements include the accounts of IHC and its consolidated subsidiaries. All significant intercompany transactions have been eliminated in consolidation. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect: (i) the reported amounts of assets and liabilities; (ii) the disclosure of contingent assets and liabilities at the date of the financial statements; and (iii) the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. IHC s annual report on Form 10-K as filed with the Securities and Exchange Commission should be read in conjunction with the accompanying Condensed Consolidated Financial Statements.

In February 2012, IHC declared a special 10% stock dividend to shareholders of record on February 17, 2012 with a distribution date of March 5, 2012. All references to number of common shares and earnings per share amount have been adjusted retroactively for all periods presented to reflect the change in capital structure.

In the opinion of management, all adjustments (consisting only of normal recurring accruals) that are necessary for a fair presentation of the consolidated financial position and results of operations for the interim periods have been included. The condensed consolidated results of operations for the three months ended March 31, 2012 are not necessarily indicative of the results to be anticipated for the entire year.

**(C)**

**Recent Accounting Pronouncements**

***Recently Adopted Accounting Standards***

In September 2011, the FASB issued guidance related to evaluating goodwill for impairment. The new guidance provides entities with the option to perform a qualitative assessment of whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount before applying the quantitative two-step goodwill impairment test. If an entity concludes that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, it would not be required to perform the quantitative two-step goodwill impairment test. Entities also have the option to bypass the assessment of qualitative factors for any reporting unit in any period and proceed directly to performing the first step of the quantitative two-step goodwill impairment test, as was required prior to the issuance of this new guidance. An entity may begin or resume performing the qualitative assessment in any subsequent period. This guidance was effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this guidance, effective January 1, 2012, did not have a material effect on the Company s consolidated financial statements.

In June and December 2011, the FASB issued guidance that requires all non-owner changes in stockholders equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. For public entities, the amendments were effective for fiscal years and interim periods within those years, beginning after December 15, 2011 and should be applied retrospectively. This standard only affected the Company s presentation of comprehensive income and did not affect the Company s consolidated financial statements.

In May 2011, the FASB issued guidance to achieve common fair value measurement and disclosure requirements in U.S. GAAP and IFRS. Some of the amendments in this update clarify the FASB s intent about the application of certain existing fair value measurement requirements and other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. None of the amendments in this update require additional fair value measurements and are not intended to establish valuation standards or affect valuation practices outside of financial reporting. For public entities, this guidance was effective during interim and annual periods beginning after December 15, 2011. The adoption of this guidance, effective January 1, 2012, did not have a material effect on the Company s consolidated financial statements.

In April 2011, the FASB issued guidance that amends existing standards with regards to transfers of financial assets under repurchase and other agreements that entitle and obligate the transferor to repurchase or redeem the assets prior to maturity. Specifically, with respect to assessing effective control in such agreements, the criteria that the transferor must have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even upon the transferee's default, has been eliminated; as has the corresponding criterion calling for the transferor to have obtained cash or other sufficient collateral to purchase replacement assets from a third party, which was required to demonstrate such ability. This guidance was effective for the first interim or annual period beginning after December 15, 2011. The adoption of this guidance, effective January 1, 2012, did not 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 was effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. The adoption of this guidance, which was applied prospectively January 1, 2012, had a negligible impact on the Company s consolidated financial statements.

***Recently Issued Accounting Standards Not Yet Adopted***

In December 2011, the FASB issued guidance to amend the disclosure requirements on offsetting financial instruments and related derivatives. Entities are required to provide both net and gross information for these assets and liabilities in order to enhance comparability between those entities that prepare their financial statements on the basis of U.S. GAAP and those entities that prepare their financial statements on the basis of International Financial Reporting Standards ( IFRS ). The amendments in this Update are effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The adoption of this guidance is not expected to have a material effect on the Company s consolidated financial statements.

In July 2011, the FASB issued guidance specifying that the liability for the fees paid to the Federal Government by health insurers as a result of recent healthcare reform legislation should be estimated and recorded in full once the entity provides qualifying health insurance in the applicable calendar year in which the fee is payable with a corresponding deferred cost that is amortized to expense using a straight-line method of allocation unless another method better allocates the fee over the calendar year that it is payable. The amendments in this Update are effective for calendar years beginning after December 31, 2013, when the fee initially becomes effective. 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 2011, Standard Security Life and Madison National Life ceded to Independence American an average of 20% of their medical stop-loss business, 9% of a majority of their fully insured health business and 20% of their New York Statutory Disability business.

During the first quarter of 2012, IHC acquired an aggregate 5,124 shares of AMIC common stock from noncontrolling interests for an aggregate of $23,000 cash consideration. As a result of these transactions, the Company: (i) recorded a $12,000 credit to paid-in capital representing the difference between the fair value of the consideration paid and the carrying value of the noncontrolling interest; and (ii) increased its ownership interest in AMIC to 78.5%.

**Note 3.**

**Income Per Common Share**

Included in the diluted income per share calculations for the three months ended March 31, 2012 and 2011 are 147,000 and 4,000, respectively, of incremental shares from the assumed exercise of dilutive stock options and the assumed vesting of dilutive restricted stock, computed using the treasury stock method.

**Note 4.**

**Investments**

The cost (amortized cost with respect to certain fixed maturities), gross unrealized gains, gross unrealized losses and fair value of investment securities are as follows:

| | March 31, 2012 | | | |
|---|---|---|---|---|
| | AMORTIZED COST | GROSS UNREALIZED GAINS | GROSS UNREALIZED LOSSES | FAIR VALUE |
| | | (In thousands) | | |
| **FIXED MATURITIES AVAILABLE-FOR-SALE:** | | | | |
| Corporate securities | $ 343,552 | $ 5,446 | $ (3,283) | $ 345,715 |
| CMOs- residential (1) | 22,419 | 5,114 | (735) | 26,798 |
| CMOs - commercial | 1,448 | - | (915) | 533 |
| U.S. Government obligations | 21,671 | 627 | (4) | 22,294 |
| Agency MBS - residential (2) | 499 | 43 | - | 542 |
| GSEs (3) | 60,395 | 510 | (162) | 60,743 |
| States and political subdivisions | 253,358 | 7,558 | (732) | 260,184 |
| Total fixed maturities | $ 703,342 | $ 19,298 | $ (5,831) | $ 716,809 |
| **EQUITY SECURITIES AVAILABLE-FOR-SALE:** | | | | |
| Common stocks | $ 3,001 | $ 84 | $ (5) | $ 3,080 |
| Preferred stock - perpetual | 16,349 | 406 | - | 16,755 |
| Preferred stock - with maturities | 8,051 | 1,577 | - | 9,628 |
| Total equity securities | $ 27,401 | $ 2,067 | $ (5) | $ 29,463 |

| | December 31, 2011 | | | |
|---|---|---|---|---|
| | AMORTIZED COST | GROSS UNREALIZED GAINS | GROSS UNREALIZED LOSSES | FAIR VALUE |
| | (In thousands) | | | |
| **FIXED MATURITIES AVAILABLE-FOR-SALE:** | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Corporate securities | $ | 319,343 | $ | 5,873 | $ | (2,076) | $ | 323,140 |
| CMOs - residential [1] | | 33,119 | | 5,200 | | (1,544) | | 36,775 |
| CMOs - commercial | | 1,448 | | - | | (910) | | 538 |
| U.S. Government obligations | | 164,807 | | 1,775 | | - | | 166,582 |
| Agency MBS - residential [2] | | 539 | | 46 | | - | | 585 |
| GSEs [3] | | 59,633 | | 379 | | (161) | | 59,851 |
| States and political subdivisions | | 250,361 | | 5,692 | | (651) | | 255,402 |
| Total fixed maturities | $ | 829,250 | $ | 18,965 | $ | (5,342) | $ | 842,873 |
| **EQUITY SECURITIES AVAILABLE-FOR-SALE:** | | | | | | | | |
| Common stocks | $ | 6,537 | $ | 311 | $ | (149) | $ | 6,699 |
| Preferred stock - perpetual | | 21,767 | | 422 | | (451) | | 21,738 |
| Preferred stock - with maturities | | 8,051 | | 1,136 | | (83) | | 9,104 |
| Total equity securities | $ | 36,355 | $ | 1,869 | $ | (683) | $ | 37,541 |

(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 available-for-sale securities (residential CMO s and certain preferred stocks with maturities) at March 31, 2012 and December 31, 2011 include $1,897,000 and $2,625,000, respectively, of the non-credit related component of other-than-temporary impairment losses, pretax, that were recognized in accumulated other comprehensive income.

The amortized cost and fair value of fixed maturities available-for-sale at March 31, 2012, 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 | $ 10,495 | $ 10,694 | 1.5% |
| Due after one year through five years | 153,663 | 156,083 | 21.8% |
| Due after five years through ten years | 173,812 | 175,236 | 24.4% |
| Due after ten years | 283,493 | 289,001 | 40.3% |
| | 621,463 | 631,014 | 88.0% |
| CMO and MBS | | | |
| 15 year | 39,228 | 42,781 | 6.0% |
| 20 year | 813 | 830 | .1% |
| 30 year | 41,838 | 42,184 | 5.9% |
| | $ 703,342 | $ 716,809 | 100.0% |

The following tables summarize, for all available-for-sale securities in an unrealized loss position at March 31, 2012 and December 31, 2011, respectively, the aggregate fair value and gross unrealized loss by length of time those securities that have continuously been in an unrealized loss position:

| | Less than 12 Months | | 12 Months or Longer | | Total | |
|---|---|---|---|---|---|---|
| March 31, 2012 | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | | | (In thousands) | | | |
| Corporate securities | $ 137,266 | $ (2,950) | $ 19,630 | $ (333) | $ 156,896 | $ (3,283) |
| CMOs - residential | 200 | (134) | 8,726 | (601) | 8,926 | (735) |

| | | | | | | |
|---|---|---|---|---|---|---|
| CMO's - commercial | - | - | 533 | (915) | 533 | (915) |
| U.S. Government obligations | 1,238 | (4) | - | - | 1,238 | (4) |
| Agency MBS residential | - | - | - | - | - | - |
| GSEs | 13,356 | (89) | 3,336 | (73) | 16,692 | (162) |
| States and political subdivisions | 52,214 | | | | | |