ENGELHARD CORP
Form SC 14D9/A
May 30, 2006

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

SCHEDULE 14D-9/A

Solicitation/Recommendation Statement under
Section 14(d)(4) of the Securities Exchange Act of 1934

Amendment No. 30

ENGELHARD CORPORATION

(Name of Subject Company)

ENGELHARD CORPORATION

(Name of Person(s) Filing Statement)

Common Stock, par value $1.00 per share
(including the associated Series A Junior Participating Preferred Stock Purchase Rights)
(Title of Class of Securities)

292845104
(CUSIP Number of Class of Securities)

Arthur A. Dornbusch II, Esq.
Vice President, General Counsel and Secretary
Engelhard Corporation
101 Wood Avenue
Iselin, New Jersey 08830
(732) 205-5000

(Name, Address and Telephone Number of Person Authorized to Receive Notices and Communications on Behalf of the Person(s) Filing Statement)

With Copies to:
Kenneth W. Orce, Esq.
W. Leslie Duffy, Esq.
Cahill Gordon & Reindel LLP
80 Pine Street
New York, New York 10005
(212) 701-3000

[ ] Check the box if the filing relates solely to preliminary communications made before the commencement of a tender offer.

This Amendment No. 30 (this Amendment) amends and supplements the Solicitation / Recommendation Statement on Schedule 14D-9 filed on January 23, 2006, as amended by Amendments No. 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28 and 29 (as so amended, the Schedule 14D-9), by Engelhard Corporation, a Delaware corporation (the Company or Engelhard). Except as specifically provided herein, this Amendment does not modify any of the information previously reported on the Schedule 14D-9.

Item 4. The Solicitation or Recommendation.

Item 4, Section (a) Solicitation or Recommendation is hereby amended and supplemented by adding the following at the end thereof:

As more fully described below in Sections (b) and (c) of this Item 4, at a meeting held on May 29, 2006, the Board carefully considered and reviewed with the Company's financial and legal advisors the terms and conditions of the Merger Agreement (as defined below) and the transactions contemplated thereby, including the terms and conditions of BASF's Offer of $39 per Share in cash and the Merger, and the comparative benefits and risks of the Company's previously announced recapitalization plan. After such consideration and review, the Board unanimously determined (1) to terminate the Company's self-tender offer for up to 26 million Shares or approximately 20% of the Company's Shares outstanding (including Shares underlying exercisable options), (2) that the terms of the Merger Agreement and the transactions contemplated thereby, including BASF's Offer of $39 per Share in cash and the Merger, are advisably fair to and in the best interest of the Company's shareholders, (3) to enter into the Merger Agreement and (4) to recommend that the Company's shareholders tender their Shares into BASF's Offer.

Accordingly, the Board of Directors recommends that the Company's shareholders accept BASF's Offer of $39 per Share in cash, tender their shares to the Offeror for purchase in the $39 Offer, and, if required by applicable Delaware law, approve and adopt the Merger Agreement.

Item 4, Section (b) Background of the Schedule 14D-9 is hereby amended and supplemented by adding the following at the end thereof:

On May 22, 2006, BASF increased its Offer to acquire all of the outstanding Shares to $39 per Share in cash, which represented the third price BASF offered to the Englehard shareholders. BASF originally offered $37 per share in cash on January 9, 2006 and then BASF increased its cash offer price to $38 per Share on May 1, 2006.

On May 22, 2006, the Board held a telephonic meeting to review and discuss BASF's increased Offer with the Company's financial advisor, Merrill Lynch, and the Company's legal advisors, Cahill Gordon & Reindel LLP (Cahill Gordon) and Wachtell Lipton Rosen & Katz (Wachtell Lipton). Representatives of Merrill Lynch reviewed with the Board the terms of the revised BASF offer and reviewed various financial analyses thereof, and the Company's legal advisors reviewed with the Board its fiduciary duties.

On May 24, 2006, the Board held another telephonic meeting to review and discuss the increased BASF Offer with the Company's financial advisor, Merrill Lynch, and the Company's legal advisors, Cahill Gordon and Wachtell Lipton.

On May 24, 2006, Mr. Barry Perry, our Chairman and Chief Executive Officer, called Dr. Jürgen Hambrecht, Chairman of the Board of Executive Directors of BASF, who was unavailable while traveling.

On May 25, 2006, Mr. Perry spoke by telephone with Dr. Hambrecht to discuss BASF's offer. Dr. Hambrecht indicated that he would contact Mr. Perry the following day.

On May 25, 2006, the Board held a telephonic meeting with the Company's financial advisor, Merrill Lynch, and the Company's legal advisors, Cahill Gordon and Wachtell Lipton, during which Mr. Perry reviewed with the Board his conversation with Dr. Hambrecht.

On May 26, 2006, Mr. Perry and Dr. Hambrecht had further conversations by telephone and further discussed BASF's offer.

On May 26, 2006, the Board held another telephonic meeting with Merrill Lynch, Cahill Gordon and Wachtell Lipton, during which Mr. Perry reviewed with the Board his conversations with Dr. Hambrecht and the

Board discussed the BASF offer. During this meeting, the Board authorized the Company’s management and its financial and legal advisors to contact BASF to negotiate the potential terms and conditions of a merger agreement between the Company and BASF.

From May 26, 2006 through May 29, 2006, the Company and its financial and legal advisors negotiated the terms and conditions of a proposed merger agreement (the “Merger Agreement”) with BASF, which contemplated acceptance of BASF’s Offer of $39 per Share and the subsequent merger (the “Merger”) of Iron Acquisition Corporation (“Merger Sub”), a wholly-owned subsidiary of BASF, with and into the Company.

On May 29, 2006, the Board held another telephonic meeting to review and discuss the revised BASF Offer and proposed Merger Agreement with the Company’s financial advisor, Merrill Lynch, and the Company’s legal advisors, Cahill Gordon and Wachtell Lipton. In addition, representatives of J.P. Morgan Securities Inc. (“JPMorgan”), which had been retained to render an opinion as to the fairness from a financial point of view of the consideration offered in a third party acquisition of the Company, also attended the meeting. The Company’s legal advisors, Cahill Gordon and Wachtell Lipton, again reviewed and discussed with the Board its fiduciary duties and reviewed the terms and conditions of the Merger Agreement. Merrill Lynch made a presentation to Engelhard’s Board regarding the $39 per Share offer, including valuation considerations and other matters related to the BASF Offer. Merrill Lynch and JPMorgan each provided to the Board its respective oral opinion, subsequently confirmed in writing, each to the effect that, as of May 29, 2006, and subject to the qualifications and limitations set forth in their respective opinions, copies of which are filed as exhibits hereto, the consideration to be received by holders of Company Common Stock (other than BASF and its affiliates) of $39 per Share contemplated by BASF’s revised Offer is fair from a financial point of view to such holders (other than BASF and its affiliates). Following this review and discussion, the Board of Directors unanimously determined (1) to terminate the Company’s self-tender offer for up to 26 million Shares or approximately 20% of the Company’s Shares outstanding (including Shares underlying exercisable options), (2) that the terms of the Merger Agreement and the transactions contemplated thereby, including BASF’s Offer of $39 per Share in cash and the Merger, are advisably fair to and in the best interest of the Company’s shareholders, (3) to enter into the Merger Agreement and (4) to recommend that the Company’s shareholders tender their Shares into BASF’s Offer. The Merger Agreement contains a limited set of representations and warranties relating to the Company and the transactions contemplated thereby, including corporate power and authority, non-contravention and receipt of all necessary consents, and also contains customary covenants relating to Engelhard’s conduct of business prior to the closing of BASF’s offer. In addition, the Merger Agreement provides fewer and more narrow conditions to closing than had been the case with BASF’s offer absent the Merger Agreement. Pursuant to the Merger Agreement, following the consummation of the BASF offer, Merger Sub will merge with and into the Company and the Company will become a wholly owned subsidiary of BASF. The foregoing summary of the Merger Agreement is qualified in its entirety by reference to the Merger Agreement, which is attached as Exhibit (e)(32) hereto and incorporated herein by reference. In addition, as contemplated by the Merger Agreement, the Board adopted an amendment to the Rights Agreement to make the terms of the Rights Agreement inapplicable to the Offer and the Merger and to make Article Seven of the Company’s Restated Certificate of Incorporation inapplicable to the Offer and the Merger as well. The Board also determined to postpone or adjourn the Company’s annual meeting until June 30, 2006.

On May 30, 2006, the Company issued a press release announcing, among other things, the termination of the Company’s self-tender offer for up to 26 million Shares for $45 per Share in cash, the execution of the Merger Agreement, the Board’s recommendation that the Company’s shareholders tender their Shares into the BASF Offer and that the Board would adjourn the annual meeting until June 30, 2006. A copy of the press release is attached hereto as an exhibit and is incorporated herein by reference.

Item 4, Section (c) — Reasons for the Recommendation of the Schedule 14D-9 is hereby amended and supplemented by adding the following at the end thereof:

The Board’s unanimous decision to terminate the Company’s self-tender offer for up to 26 million Shares or approximately 20% of the Company’s Shares (including shares underlying exercisable options) and instead enter into the Merger Agreement and recommend BASF’s revised $39 per Share Offer is based on, among others, the reasons set forth below:

1. Comparative Value of Recapitalization Plan and BASF $39 Offer. The value of the recapitalization plan depends on the future earnings of the Company and the market’s valuation of those earnings. In the recent

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weeks since the announcement of the recapitalization plan, forward price to earnings multiples (P/E multiples) for key industry peers (Johnson Matthey and Umicore) as well as its broader specialty chemicals peer group (10 companies including Johnson Matthey and Umicore) have declined. While on the day prior to the announcement of the self-tender offer, the forward P/E multiple of Johnson Matthey was 17.2x and the forward multiple of Umicore was 15.5x, on Friday, May 25, 2006, these forward P/E multiples were 15.5 and 13.1, respectively. Since the announcement of the recapitalization plan, forward P/E multiples of nine out of 10 companies in the broader peer group have declined with an average decrease of 1.1x. With the increase in BASFs offer to $39 per Share and such decline in forward P/E multiples, the comparative current value of the recapitalization plan based on 2007 expected earnings may be lower than the all-cash offer of $39 per Share by BASF. The Board also considered that, as is evident from many factors including the decline in forward P/E multiples referenced above, the value of the recapital-ization plan is uncertain and subject to numerous factors outside the Companys control. The $39 per Share value represented by BASFs Offer is a fixed cash price at a value the Board believes to be fair.

2. Greater Certainty of Consummation of Offer and Merger. The Board considered that the consummation of the BASF offer pursuant to the terms of the merger agreement would be subject to significantly fewer and more narrow conditions than had been the case with BASFs offer absent the Merger Agreement.

3. Most Attractive Acquisition Price Available at This Time. After a careful review of BASFs original, unsolicited offer for the Company, the Companys Board of Directors conducted a thorough and robust exploration of strategic alternatives to maximize value for shareholders, which included contacting numerous potential buyers. This four-month process yielded one bidder, BASF, which bid three separate times for all of the Company. On January 9, 2006, BASF offered $37 per Share in cash; on May 1, 2006, BASF offered $38 per Share in cash; and on May 22, 2006, BASF offered $39 per Share in cash. All offers from BASF were for 100% of the Shares outstanding. The Board is confident that this third offer of $39 per Share in cash was the best and final offer from BASF for the Company.

4. The BASF Offer Represents a Meaningful Premium to the Historical Trading Price of the Stock prior to the Announcement of the Offer. The $39 per Share BASF Offer represents a premium of 29.4% to the closing price of the Shares on December 30, 2005, the last trading day prior to BASFs public announcement of its unsolicited $37 per Share Offer, and a premium of 37.3% and 40.2% to the Companys 30 and 90 day average trading price of $28.41 and $27.82, respectively, or a 19.2% and 105.0% premium to the Companys 3 year prior high and low trading prices of $32.72 and $19.02, respectively. In addition, BASFs $39 per Share offer price is significantly higher than any price at which the Companys shares had ever traded prior to the BASF Offer.

5. Timing of Completion. The Board considered the anticipated timing of consummation of the BASF Offer, which should allow shareholders to receive the BASF Offer price of $39 per Share promptly, followed by the merger in connection with which remaining shareholders are to receive the same consideration as received by shareholders who tender their shares in the Offer.

6. Fairness Opinions of Merrill Lynch and JPMorgan. The Board considered presentations from Merrill Lynch and JPMorgan. These presentations included detailed analyses, including a discounted cash flow analysis assuming the Company remained independent, precedent merger and acquisition transactions analysis involving comparable chemicals companies, and analyses of historical and current valuation multiples of key industry peers and the broader specialty chemicals peer groups. Merrill Lynch and JPMorgan each delivered to the Board its respective oral opinion on May 29, 2006, subsequently confirmed in writing, to the effect that, as of such date, the $39 per Share price of the BASF Offer and the Merger were fair from a financial point of view to the Companys shareholders (other than BASF and its affiliates). The Merrill Lynch and JPMorgan opinions, which are attached as Annex A and Annex B, respectively, hereto and incorporated herein by reference, set forth the procedures followed, assumptions made, matters considered and limitations on the review undertaken by Merrill Lynch and JPMorgan in providing their respective opinions. The Board also considered that JPMorgan was entitled to receive a fee of $4.25 million upon delivery of its opinion, and that Merrill Lynch will become entitled to a fee of approximately $32 million, contingent upon consummation of the transaction, in consideration of providing financial advice to the Board.

The opinions of Merrill Lynch and JPMorgan were addressed to and presented for the benefit of the Board in connection with its consideration of the Offer and the Merger and are directed only to the fairness from a financial point of view of the consideration to be received by the holders of Company Common Stock (other than

BASF and its affiliates) pursuant to the Offer and the Merger. These opinions do not constitute a recommendation to any shareholder as to whether such shareholder should tender any Shares pursuant to the BASF offer or any matter related thereto. Holders of the Company Common Stock are encouraged to read such opinions carefully in their entirety.

7. The Board□s Belief that $39 is the Highest Price BASF would Offer. The Board believed that $39 per Share was the highest price that BASF would be willing to pay and that BASF would be highly unlikely to be willing to pay a higher price in the future. In this regard, the Board believed that there were no more desirable strategic or other transaction alternatives to the BASF transaction available, noting in particular the length of time that BASF□s Offer had been outstanding, the substantial publicity the Offer had received and the Company□s numerous inquiries of other potential acquirors or strategic partners, none of which led to negotiations or agreements for an alternative transaction superior to the BASF Offer. The Board also believed that entering into the Merger Agreement, which by its terms permits the Board to terminate the Merger Agreement to enter into a binding agreement with respect to a □Superior Proposal□ was unlikely to prevent any realistic opportunity for an acquisition of the Company on terms more favorable to those in the Merger Agreement.

The foregoing discussion of the information and factors considered by the Board of the Company is not intended to be exhaustive, but addresses the material information and factors considered by the Board in their consideration of the Offer and $39 BASF Offer. In view of the variety of factors and the amount of information considered, the Board did not find it practicable to provide specific assessments of, quantify or otherwise assign any relative weights to, the specific factors considered in determining their recommendations. Such determination was made after consideration of the factors taken as a whole. Individual members of the Board may have given differing weights to different factors. In addition, in arriving at their respective recommendations, the members of the Board were aware of the interests of certain officers and directors of the Company as described under Item 3 of this Schedule 14D-9.

Item 4, Section (d) (□Intent to tender□) of the Schedule 14D-9 is hereby amended and supplemented by adding the following at the end thereof:

To the Company□s knowledge, each of the Company□s executive officers, directors, affiliates and subsidiaries currently intends to sell or tender for purchase pursuant to the Offer any Shares owned of record or beneficially owned by such person.

Item 8. Additional Information

Item 8 of the Schedule 14D-9 is hereby amended and supplemented by adding the following to the end of the paragraph entitled *□Board Action Regarding Rights Agreement□:*

At its meeting on May 29, 2006, the Board took action, as permitted by the Rights Agreement, to make the provisions of the Rights Agreement, which otherwise could be triggered by the Offer and Merger, inapplicable to the Offer and the Merger. An amendment to the Rights Agreement has been approved and executed by the Company.

Item 9. Exhibits

Item 9 of the Schedule 14D-9 is hereby amended and restated as follows:

Exhibit No.	Description
(a)(1)	Letter to Shareholders of Engelhard Corporation, dated January 23, 2006, from Barry W. Perry, Chairman and Chief Executive Officer of Engelhard Corporation.*
(a)(2)	Text of email to Employees of Engelhard Corporation, dated January 23, 2006, from Barry W. Perry, Chairman and Chief Executive Officer of Engelhard Corporation.*
(a)(3)	Press Release, dated January 23, 2006.*
(a)(4)	Letter to Barry W. Perry, dated December 21, 2005, from Dr. Jürgen Hambrecht, Chairman of

	BASF.*
(a)(5)	Letter to Barry W. Perry, dated December 21, 2005, from Dr. Jürgen Hambrecht, Chairman of BASF.*

Exhibit No.	Description
(a)(6)	Letter to Barry W. Perry, dated December 22, 2005, from Dr. Jürgen Hambrecht, Chairman of BASF.*
(a)(7)	Letter to Barry W. Perry, dated December 27, 2005, from Dr. Jürgen Hambrecht, Chairman of BASF.*
(a)(8)	Letter to the Board of Directors of Engelhard Corporation, dated January 3, 2006, from Dr. Jürgen Hambrecht, Chairman of BASF.*
(a)(9)	Letter to Dr. Jürgen Hambrecht, Chairman of BASF, dated January 23, 2006, from Barry W. Perry, Chairman and Chief Executive Officer of Engelhard Corporation.*
(a)(10)	Press release, dated January 27, 2006.*
(a)(11)	Investor Presentation entitled Engelhard Response to BASF Offer.*
(a)(12)	Press release, dated February 2, 2006 (incorporated by reference to Form 8-K filed with the SEC on February 2, 2006).*
(a)(13)	Conference Call Transcript (incorporated by reference to Form 8-K filed with the SEC on February 6, 2006).*
(a)(14)	Press release, dated February 6, 2006 (incorporated by reference to Form 8-K filed with the SEC on February 6, 2006).*
(a)(15)	Press release, dated February 8, 2006 (incorporated by reference to Form 8-K filed with the SEC on February 8, 2006).*
(a)(16)	Press release, dated February 16, 2006 (incorporated by reference to Form 8-K filed with the SEC on February 16, 2006).*
(a)(17)	Press release, dated March 1, 2006 (incorporated by reference to Form 8-K filed with the SEC on March 1, 2006).*
(a)(18)	Press release, dated March 7, 2006 (incorporated by reference to Form 8-K filed with the SEC on March 7, 2006).*
(a)(19)	Press release, dated March 16, 2006 (incorporated by reference to Form 8-K filed with the SEC on March 16, 2006).*
(a)(20)	Press release, dated March 16, 2006 (incorporated by reference to Form 8-K filed with the SEC on March 16, 2006).*
(a)(21)	Press release, dated March 21, 2006 (incorporated by reference to Form 8-K filed with the SEC on March 21, 2006).*
(a)(22)	Press release, dated March 23, 2006 (incorporated by reference to Form 8-K filed with the SEC on March 23, 2006).*
(a)(23)	Press release, dated March 28, 2006 (incorporated by reference to Form 8-K filed with the SEC on March 28, 2006).*
(a)(24)	Press release, dated April 10, 2006 (incorporated by reference to Form 8-K filed with the SEC on April 10, 2006).*
(a)(25)	Press release, dated April 12, 2006 (incorporated by reference to Form 8-K filed with the SEC on April 12, 2006).*
(a)(26)	Press release, dated April 17, 2006 (incorporated by reference to Form 8-K filed with the SEC on April 17, 2006).*
(a)(27)	Press release, dated April 20, 2006 (incorporated by reference to Form 8-K filed with the SEC on April 20, 2006).*
(a)(28)	Press release, dated April 26, 2006 (incorporated by reference to Form 8-K filed with the SEC on April 26, 2006).*

Exhibit No.	Description
(a)(29)	Press release, dated April 26, 2006 (incorporated by reference to Form 8-K filed with the SEC on April 26, 2006).*
(a)(30)	Investor Presentation entitled Recapitalization Plan (incorporated by reference to Form 8-K filed with the SEC on April 26, 2006).*
(a)(31)	Text of email to Employees of Engelhard Corporation, dated April 26, 2006, from Barry W. Perry, Chairman and Chief Executive Officer of Engelhard Corporation (incorporated by reference to Form 8-K filed with the SEC on April 26, 2006).*
(a)(32)	Opinion of Merrill Lynch, Pierce, Fenner & Smith Incorporated, dated April 25, 2006.*
(a)(33)	Commitment Letter of JPMorgan Chase Bank, N.A., J.P. Morgan Securities Inc., Merrill Lynch Bank USA and Merrill Lynch, Pierce, Fenner & Smith, dated April 25, 2006.*
(a)(34)	Amendment of the By-Laws of Engelhard Corporation (incorporated by reference to Form 8-K filed with the SEC on April 26, 2006).*
(a)(35)	Conference Call Transcript (incorporated by reference to Form 8-K filed with the SEC on May 1, 2006).*
(a)(36)	Press release, dated May 1, 2006 (incorporated by reference to Form 8-K filed with the SEC on May 1, 2006).*
(a)(37)	Press release, dated May 4, 2006 (incorporated by reference to Form 8-K filed with the SEC on May 4, 2006).*
(a)(38)	Schedule TO, dated May 5, 2006 (incorporated by reference to Schedule TO filed with the SEC on May 5, 2006).*
(a)(39)	Press release, dated May 8, 2006 (incorporated by reference to Form 8-K filed with the SEC on May 8, 2006).*
(a)(40)	Preliminary Proxy Statement, dated May 8, 2006 (incorporated by reference to Form 14A filed with the SEC on May 8, 2006).*
(a)(41)	Press release, dated May 15, 2006 (incorporated by reference to Form 14A filed with the SEC on May 15, 2006).*
(a)(42)	Shareholder Presentation entitled Ensuring Fair Value For Engelhards Shareholders (incorporated by reference to Form 14A filed with the SEC on May 17, 2006).*
(a)(43)	Press release, dated May 17, 2006 (incorporated by reference to Form 14A filed with the SEC on May 17, 2006).*
(a)(44)	Press release, dated May 17, 2006 (incorporated by reference to Form 14A filed with the SEC on May 18, 2006).*
(a)(45)	Schedule TO-I Amendment No. 2, dated May 19, 2006 (incorporated by reference to Schedule TO-I/A filed with the SEC on May 19, 2006).*
(a)(46)	Press release, dated May 22, 2006 (incorporated by reference to Form 14A filed with the SEC on May 22, 2006).*
(a)(47)	Press release, dated May 22, 2006 (incorporated by reference to Form 14A filed with the SEC on May 22, 2006).*
(a)(48)	Schedule TO-I Amendment No. 3, dated May 22, 2006 (incorporated by reference to Schedule TO-I/A filed with the SEC on May 22, 2006).*
(a)(49)	Opinion of Merrill Lynch, Pierce, Fenner & Smith Incorporated, dated May 29, 2006.
(a)(50)	Opinion of J.P. Morgan Securities, Inc., dated May 29, 2006.

Exhibit No.	Description
(a)(51)	Schedule TO-I Amendment No. 4, dated May 30, 2006 (incorporated by reference to Schedule TO-I/A filed with the SEC on May 30, 2006).
(a)(52)	Press release, dated May 30, 2006 (incorporated by reference to Form 8-K filed with the SEC on May 30, 2006).
(a)(53)	Form of Agreement and Plan of Merger among BASF Aktiengesellschaft, Iron Acquisition Corporation and the Company, dated May 30, 2006 (incorporated by reference to Form 8-K filed with the SEC on May 30, 2006).
(a)(54)	Definitive Additional Material, dated May 30, 2006 (incorporated by reference to Form 14A filed with the SEC on May 30, 2006).
(e)(1)	Rights Agreement, dated as of October 1, 1998 between the Company and ChaseMellon Shareholder Services, L.L.C., as Rights Agent (incorporated by reference to Form 8-K filed with the SEC on October 29, 1998).*
(e)(2)	Employment Agreement for Barry W. Perry, effective August 2, 2001 (incorporated by reference to Form 10-Q filed with the SEC on August 13, 2001).*
(e)(3)	Amendment to Employment Agreement for Barry W. Perry, effective February 13, 2002 (incorporated by reference to Form 10-K filed with the SEC on March 21, 2002).*
(e)(4)	Amendment to Employment Agreement for Barry W. Perry, effective February 3, 2005 (incorporated by reference to Form 8-K filed with the SEC on February 3, 2005).*
(e)(5)	2004 Share Performance Incentive Plan for Barry W. Perry, effective February 12, 2004 (incorporated by reference to Form 10-K filed with the SEC on March 11, 2004).*
(e)(6)	Engelhard Corporation Form of Change in Control Agreement (incorporated by reference to Form 10-Q filed with the SEC on May 8, 2003).*
(e)(7)	Engelhard Corporation Annual Restricted Cash Incentive Compensation Plan, effective as of December 15, 2000 (incorporated by reference to Form 10-K filed with the SEC on March 30, 2001).*
(e)(8)	Engelhard Corporation 2002 Long Term Incentive Plan, effective May 2, 2002 (incorporated by reference to the 2001 Proxy Statement filed with the SEC on March 26, 2002).*
(e)(9)	Engelhard Corporation Stock Option Plan of 1991conformed copy includes amendments through March 2002 (incorporated by reference to Form 10-K filed with the SEC on March 25, 2003).*
(e)(10)	Engelhard Corporation Stock Option Plan of 1999 for Certain Key Employees (Non Section 16(b) Officers), effective February 1, 2001conformed copy includes amendments through March 2001 (incorporated by reference to Form 10-K filed with the SEC on March 25, 2003).*
(e)(11)	Deferred Compensation Plan for Key Employees of Engelhard Corporation, effective August 1, 1985conformed copy includes amendments through October 2001 (incorporated by reference to Form 10-K filed with the SEC on March 25, 2003).*
(e)(12)	Deferred Compensation Plan for Directors of Engelhard Corporation, as restated as of May 7, 1987conformed copy includes amendments through December 2002 (incorporated by reference to Form 10-K filed with the SEC on March 25, 2003).*
(e)(13)	Key Employees Stock Bonus Plan of Engelhard Corporation, effective July 1, 1986conformed copy includes amendments through March 2002 (incorporated by reference to Form 10-K filed with the SEC on March 25, 2003).*
(e)(14)	Stock Bonus Plan for Non-Employee Directors of Engelhard Corporation, effective July 1, 1986

conformed copy includes amendments through October 1998 (incorporated by reference to Form 10-K filed with the SEC on March 25, 2003).*

Exhibit No.	Description
(e)(15)	Amendment to Key Employees Stock Bonus Plan of Engelhard Corporation Employees (incorporated by reference to Form 10-Q filed with the SEC on November 8, 2004).*
(e)(16)	Engelhard Corporation Directors and Executives Deferred Compensation Plan (1986-1989)conformed copy includes amendments through December 2001 (incorporated by reference to Form 10-K filed with the SEC on March 25, 2003).*
(e)(17)	Engelhard Corporation Directors and Executives Deferred Compensation Plan (1990-1993)-conformed copy includes amendments through December 2001 (incorporated by reference to Form 10-K filed with the SEC on March 25, 2003).*
(e)(18)	Retirement Plan for Directors of Engelhard Corporation, effective January 1, 1985conformed copy includes amendments through April 2000 (incorporated by reference to Form 10-K filed with the SEC on March 25, 2003).*
(e)(19)	Supplemental Retirement Program of Engelhard Corporation as amended and restated, effective January 1, 1989conformed copy includes amendments through February 2001 (incorporated by reference to Form 10-K filed with the SEC on March 25, 2003).*
(e)(20)	Amendment to the Supplemental Retirement Program of Engelhard Corporation, effective as of October 2, 2003 (incorporated by reference to Form 10-Q filed with the SEC on November 13, 2003).*
(e)(21)	Supplemental Retirement Trust Agreement, effective April 2002 (incorporated by reference to Form 10-K filed with the SEC on March 25, 2003).*
(e)(22)	Engelhard Corporation Directors Stock Option Plan as amended and restated, effective May 4, 1995conformed copy includes amendments through March 2001 (incorporated by reference to Form 10-K filed with the SEC on March 25, 2003).*
(e)(23)	Engelhard Corporation Employee Stock Option Plan as amended and restated, effective May 4, 1995 (incorporated by reference to Form 10-K filed with the SEC on March 25, 2003).*
(e)(24)	Engelhard Corporation Deferred Stock Plan for Non-Employee Directors-conformed copy includes amendments made through December 2002 (incorporated by reference to Form 10-K filed with the SEC on March 25, 2003).*
(e)(25)	Form of Stock Option Agreement used pursuant to the Engelhard Corporation Stock Option Plan of 1999 for Certain Key Employees (incorporated by reference to Form 10-Q filed with the SEC on August 6, 2004).*
(e)(26)	Form of Stock Option Agreement used pursuant to the Engelhard Corporation 2002 Long Term Incentive Plan (incorporated by reference to Form 10-Q filed with the SEC on August 6, 2004).*
(e)(27)	Form of Restricted Share Unit Agreement used pursuant to the Engelhard Corporation 2002 Long Term Incentive Plan Employees (incorporated by reference to Form 10-Q filed with the Securities and Exchange Commission on August 6, 2004).*
(e)(28)	Change in Control Agreement for Edward Wolynic, effective January 21, 2006 (incorporated by reference to Form 8-K filed with the SEC on January 23, 2006).*
(e)(29)	Salary Continuation Policy (incorporated by reference to Form 8-K filed with the SEC on January 23, 2006).*
(e)(30)	Enhanced Salary Continuation Policy (incorporated by reference to Form 8-K filed with the SEC on January 23, 2006).*
(e)(31)	Form of letter agreement (incorporated by reference to Form 8-K filed with the SEC on January 23, 2006).*

Exhibit No.	Description
(e)(32)	Agreement and Plan of Merger among BASF Aktiengesellschaft, Iron Acquisition Corporation and Engelhard Corporation, dated as of May 30, 2006 (incorporated by reference to Form 8-K filed with the SEC on May 30, 2006).
(g)	Not applicable.
*	Filed previously.

SIGNATURE

After due inquiry and to the best of my knowledge and belief, I certify that the information set forth in this Statement is true, complete and correct.

ENGELHARD CORPORATION

By: /s/ Michael A. Sperduto

Name: Michael A. Sperduto
Title: Vice President and Chief Financial Officer

Dated: May 30, 2006

Annex A

Global Markets & Investment
Banking Group

4 World Financial Center
North Tower 30th Floor
New York, New York 10080
212 449 1000

May 29, 2006

Board of Directors
Engelhard Corporation
101 Wood Avenue
Iselin, NJ 08830

Members of the Board of Directors:

Engelhard Corporation (the “Company”), BASF Aktiengesellschaft (“Acquiror”) and Iron Acquisition Corporation, an indirect, wholly-owned subsidiary of Acquiror (“Acquisition Sub”), propose to enter into an Agreement and Plan of Merger (the “Agreement”) pursuant to which (i) Acquiror is offering to purchase, through Acquisition Sub, all of the outstanding shares of common stock, par value $1.00 per share (the “Common Stock”), of the Company, together with the associated Series A Junior Participating Preferred Stock purchase rights issued pursuant to the Rights Agreement, dated as of October 1, 1998, between the Company and ChaseMellon Shareholder Services, L.L.C., as Rights Agent (the “Rights,” and together with the Common Stock, the “Shares”), at a purchase price of US$39.00 per Share less an amount equal to any dividend paid or payable to stockholders after the date of the Agreement (the “Offer Price”), net to the seller in cash (subject to applicable withholding taxes), without interest, upon the terms and subject to the conditions set forth in the Amended and Restated Offer to Purchase, dated May 9, 2006 (the “Offer to Purchase”), and in the related Letter of Transmittal (which, together with the Offer to Purchase, collectively constitute the “Offer”), (ii) following the purchase by Acquisition Sub of the Shares pursuant to the Offer, Acquisition Sub will be merged with and into the Company in a merger (the “Merger”) in which each outstanding share of Common Stock not acquired in the Offer, other than shares held in treasury (but excluding shares, if any, in any of the Company’s employee benefit plans) or held by Acquiror or any of its affiliates, or as to which dissenter’s rights have been perfected, will be converted into the right to receive the Offer Price, and (iii) the Company will become an indirect, wholly-owned subsidiary of Acquiror. The terms and conditions of the Offer are more fully set forth in the Tender Offer Statement on Schedule TO filed by Acquiror and Acquisition Sub with the Securities and Exchange Commission on January 9, 2006, together with all exhibits thereto and documents incorporated by reference therein, and amended by Amendments Nos. 1 through 20 thereto (as so amended, the “Schedule TO”). The Offer and the Merger, taken together, are referred to as the “Transaction”.

You have asked us whether, in our opinion, the Offer Price to be received by the holders of the Common Stock pursuant to the Transaction is fair from a financial point of view to such holders (other than Acquiror and its affiliates).

In arriving at the opinion set forth below, we have, among other things:

(1) Reviewed certain publicly available business and financial information relating to the Company that we deemed to be relevant;

(2) Reviewed certain information, including financial forecasts, relating to the business, earnings, cash flow, assets, liabilities and prospects of the Company furnished to us by the Company;

(3) Conducted discussions with members of senior management and representatives of the Company concerning the matters described in clauses 1 and 2 above;

(4) Reviewed the market prices and valuation multiples for the Common Stock and compared them with those of certain publicly traded companies that we deemed to be relevant;

(5) Reviewed the results of operations of the Company and compared them with those of certain publicly traded companies that we deemed to be relevant;

(6) Reviewed selected comparable transactions;

(7) Compared the proposed financial terms of the Transaction with the financial terms of certain other transactions that we deemed to be relevant;

(8) Participated in certain discussions and negotiations among representatives of the Company and Acquiror and their respective financial and legal advisors;

(9) Reviewed a proposed draft, dated May 29, 2006, of the Agreement;

(10) Reviewed the Schedule TO; and

(11) Reviewed such other financial studies and analyses and took into account such other matters as we deemed necessary, including our assessment of general economic, market and monetary conditions.

In preparing our opinion, we have assumed and relied on the accuracy and completeness of all information supplied or otherwise made available to us, discussed with or reviewed by or for us, or publicly available, and we have not assumed any responsibility for independently verifying such information or undertaken an independent evaluation or appraisal of any of the assets or liabilities of the Company or been furnished with any such evaluation or appraisal, nor have we evaluated the solvency or fair value of the Company under any state or federal laws relating to bankruptcy, insolvency or similar matters. In addition, we have not assumed any obligation to conduct any physical inspection of the properties or facilities of the Company. With respect to the financial forecast information furnished to or discussed with us by the Company, we have assumed that they have been reasonably prepared and reflect the best currently available estimates and judgment of the Company's management as to the expected future financial performance of the Company. We have also assumed that the final form of the Agreement will be substantially similar to the last draft reviewed by us.

Our opinion is necessarily based upon market, economic and other conditions as they exist and can be evaluated on, and on the information made available to us as of, the date hereof.

We are acting as financial advisor to the Company in connection with the Transaction and will receive a fee from the Company for our services if the proposed Transaction is consummated. In addition, the Company has agreed to indemnify us for certain liabilities arising out of our engagement. We have, in the past, provided financial advisory and financing services to the Company, including as Syndication Agent, Joint Lead Arranger and Joint Book Manager on the Company's previously proposed, but unused, 364 day US$1.5 billion credit facility, and to Acquiror and may continue to do so and have received, and may receive, fees for the rendering of such services. In addition, in the ordinary course of our business, we may actively trade the Common Stock and other securities of the Company, as well as securities of Acquiror, for our own account and for the accounts of customers and, accordingly, may at any time hold a long or short position in such securities.

This opinion is for the use and benefit of the Board of Directors of the Company. Our opinion does not address the merits of the underlying decision by the Company to engage in the Transaction and does not constitute a recommendation to any stockholder as to whether such stockholder should tender any Shares pursuant to the Offer, or with respect to how such stockholder should vote on the Merger or any matter related thereto. In addition, you have not asked us to address, and this opinion does not address, the fairness to, or any other consideration of, the holders of any class of securities, creditors or other constituencies of the Company, other than the holders of the Common Stock.

On the basis of and subject to the foregoing, we are of the opinion that, as of the date hereof, the Offer Price to be received by the holders of the Common Stock pursuant to the Transaction is fair from a financial point of view to such holders (other than Acquiror and its affiliates).

Very truly yours,

/s/ Merrill Lynch, Pierce, Fenner & Smith Incorporated

MERRILL LYNCH, PIERCE, FENNER & SMITH
INCORPORATED

Annex B

May 29, 2006

The Board of Directors
Engelhard Corporation
101 Wood Avenue
Iselin, NJ 08830-0770

Members of the Board of Directors:

You have requested our opinion as to the fairness, from a financial point of view, to the holders of common stock, par value $1.00 per share (the "Company Common Stock"), of Engelhard Corporation (the "Company") of the consideration to be received by such holders, other than BASF AG ("Acquiror") and its affiliates, pursuant to an Agreement and Plan of Merger (the "Agreement") proposed to be entered into among the Company, Acquiror and Iron Acquisition Corporation, an indirect, wholly-owned subsidiary of Acquiror ("Merger Sub"). Pursuant to the Agreement, (i) Acquiror is offering to purchase, through Merger Sub, all of the outstanding shares of the Company Common Stock, together with the associated Series A Junior Participating Preferred Stock purchase rights issued pursuant to the Rights Agreement, dated as of October 1, 1998, between the Company and ChaseMellon Shareholder Services, L.L.C., as Rights Agent (the "Rights," and together with the Company Common Stock, the "Shares"), at a purchase price of US$39.00 per Share less an amount equal to any dividend paid or payable to shareholders after the date of the Agreement (the "Offer Price"), net to the seller in cash (subject to applicable withholding taxes), without interest, upon the terms and subject to the conditions set forth in the Amended and Restated Offer to Purchase, dated May 9, 2006 (the "Offer to Purchase"), and in the related Letter of Transmittal (which, together with the Offer to Purchase, collectively constitute the "Offer"), (ii) following the purchase by Merger Sub of the Shares pursuant to the Offer, Merger Sub will be merged with and into the Company in a merger (the "Merger") in which each outstanding share of Company Common Stock not acquired in the Offer, other than shares held in treasury (but excluding shares, if any, in any of the Company's employee benefit plans) or held by Acquiror or any of its affiliates, or as to which dissenter's rights have been perfected, will be converted into the right to receive the Offer Price, and (iii) the Company will become an indirect, wholly-owned subsidiary of Acquiror. The terms and conditions of the Offer are more fully set forth in the Tender Offer Statement on Schedule TO filed by Acquiror and Merger Sub with the Securities and Exchange Commission on January 9, 2006, together with all exhibits thereto and documents incorporated by reference therein, and amended by Amendments Nos. 1 through 20 thereto (as so amended, the "Schedule TO"). The Offer and the Merger, taken together, are referred to as the "Transaction".

In arriving at our opinion, we have (i) reviewed the Schedule TO; (ii) reviewed a proposed draft, dated May 29, 2006, of the Agreement; (iii) reviewed certain publicly available business and financial information concerning the Company and the industries in which it operates; (iv) compared the proposed financial terms of the Transaction with the publicly available financial terms of certain transactions involving companies we deemed relevant and the consideration received for such companies; (v) compared the financial and operating performance of the Company with publicly available information concerning certain other companies we deemed relevant and reviewed the current and historical market prices of the Company Common Stock and certain publicly traded securities of such other companies; (vi) reviewed certain internal financial analyses and forecasts prepared by the management of the Company relating to its business; and (vii) performed such other financial studies and analyses and considered such other information as we deemed appropriate for the purposes of this opinion.

In addition, we have held discussions with certain members of the management of the Company with respect to certain aspects of the Transaction, and the past and current business operations of the Company, the financial condition and future prospects and operations of the Company, and certain other matters we believed necessary or appropriate to our inquiry.

In giving our opinion, we have relied upon and assumed, without assuming responsibility or liability for independent verification, the accuracy and completeness of all information that was publicly available or was furnished to or discussed with us by the Company or otherwise reviewed by or for us. We have not conducted or

been provided with any valuation or appraisal of any assets or liabilities, nor have we evaluated the solvency of the Company, Acquiror or Merger Sub under any state or federal laws relating to bankruptcy, insolvency or similar matters. In relying on financial analyses and forecasts provided to us, we have assumed that they have been reasonably prepared based on assumptions reflecting the best currently available estimates and judgments by management as to the expected future results of operations and financial condition of the Company to which such analyses or forecasts relate. We express no view as to such analyses or forecasts or the assumptions on which they were based. We have also assumed that the Transaction contemplated by the Agreement will be consummated as described in the Agreement, and that the definitive Agreement will not differ in any material respects from the proposed draft thereof furnished to us. We have relied as to all legal matters relevant to rendering our opinion upon the advice of counsel. We have further assumed that all material governmental, regulatory or other consents and approvals necessary for the consummation of the Transaction will be obtained without any adverse effect on the Company.

Our opinion is necessarily based on economic, market and other conditions as in effect on, and the information made available to us as of, the date hereof. It should be understood that subsequent developments may affect this opinion and that we do not have any obligation to update, revise, or reaffirm this opinion. Our opinion is limited to the fairness, from a financial point of view, of the Offer Price to be received by the holders of the Company Common Stock other than Acquiror and its affiliates in the proposed Transaction and we express no opinion as to the fairness of the Transaction to, or any consideration of, the holders of any other class of securities, creditors or other constituencies of the Company or as to the underlying decision by the Company to engage in the Transaction.

We have acted as financial advisor to the Company with respect to the proposed Transaction and will receive a fee from the Company for our services if the proposed Transaction is consummated. In addition, the Company has agreed to indemnify us for certain liabilities arising out of our engagement. We and our affiliates have, in the past, provided financial advisory and financing services to the Company and Parent and/or their respective affiliates, including having acted in May 2003 as Joint Bookrunner for the offering by the Company of 10-year notes in the aggregate principal amount of US$150 million, in March 2005 as Arranger and Administrative Agent on the Company's five-year US$800 million revolving credit facility, in 2004 and 2005 as Bookrunner on Acquiror's US$2.5 billion syndicated credit facility, and in 2002 as a financial advisor to a subsidiary of Acquiror in a proposed acquisition. We and our affiliates also may continue to provide financial advisory and financing services to the Company, including acting as Administrative Agent, Joint Lead Arranger and Joint Book Runner on the Company's 364 day US$1.5 billion credit facility and co-dealer manager on the Company's self-tender offer, and to Parent and/or their respective affiliates in the future. In connection with the foregoing investment banking services we and our affiliates have received, and may in the future receive, compensation. In the ordinary course of our businesses, we and our affiliates may actively trade the debt and equity securities of the Company or Acquiror for our own account or for the accounts of customers and, accordingly, we may at any time hold long or short positions in such securities.

On the basis of and subject to the foregoing, it is our opinion as of the date hereof that the Offer Price to be received by the holders of the Company Common Stock other than Acquiror and its affiliates in the proposed Transaction is fair, from a financial point of view, to such holders.

This letter is provided to the Board of Directors of the Company in connection with and for the purposes of its evaluation of the Transaction. This opinion does not constitute a recommendation to any shareholder of the Company as to whether such shareholder should tender any Shares in connection with the Offer or how such shareholder should vote with respect to the Merger or any other matter. This opinion may not be disclosed, referred to, or communicated (in whole or in part) to any third party for any purpose whatsoever except with our prior written approval. This opinion may be reproduced in full in any proxy or information statement or solicitation/recommendation statement mailed to shareholders of the Company but may not otherwise be disclosed publicly in any manner without our prior written approval.

Very truly yours,

/s/ J.P. Morgan Securities Inc.

J.P. MORGAN SECURITIES INC.

D>) (1,811)

Cash (used in) provided by continuing operations
160,763 (66,665)
Cash (used in) provided by discontinued operations

Net cash (used in) provided by investing activities
160,763 (66,665)

Financing Activities:

Repayment of student loan credit facility
(4,900) (5,050)
Decrease in investment products
(3,775) (4,004)
Change in cash overdraft
2,607 4,383
Proceeds from shares issued to agent plans and other
4,265 4,415
Purchases of treasury stock
(7,855) (14,390)
Dividends paid
(120,652)
Excess tax reduction from equity based compensation
(1,086) (1,108)

Cash used in continuing operations
(131,396) (15,754)
Cash (used in) provided by discontinued operations

Net cash used in financing activities
(131,396) (15,754)

Net change in cash and cash equivalents
(2,937) (100,339)
Cash and cash equivalents at beginning of period
17,406 100,339

Cash and cash equivalents at end of period in continuing operations
$14,469 $

Supplemental disclosures:

Income taxes paid
$808 $6,279

Interest paid
$14,279 $19,878

See Notes to Consolidated Condensed Financial Statements.

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HEALTHMARKETS, INC.
and Subsidiaries
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION

The accompanying consolidated condensed financial statements for HealthMarkets, Inc. (the Company or HealthMarkets) and its subsidiaries have been prepared in accordance with United States generally accepted accounting principles (GAAP) for interim financial information and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, such financial statements do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, these financial statements include all adjustments, consisting of normal recurring adjustments and accruals, necessary for the fair presentation of the consolidated condensed balance sheets, statements of income, statements of comprehensive income and statements of cash flows for the periods presented. The accompanying December 31, 2009 consolidated condensed balance sheet was derived from audited consolidated financial statements, but does not include all disclosures required by GAAP for annual financial statement purposes. Preparing financial statements requires management to make estimates and assumptions that affect the amounts that are reported in the financial statements and the accompanying disclosures. Although these estimates are based on management s knowledge of current events and actions that HealthMarkets may undertake in the future, actual results may differ materially from the estimates. Operating results for the three and six months ended June 30, 2010 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2010. We have evaluated subsequent events for recognition or disclosure through the date we filed this Form 10-Q with the Securities and Exchange Commission (the SEC). For further information, refer to the consolidated financial statements and notes thereto, included in the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

Concentrations

Through its Commercial Health Division (formerly the Self-Employed Agency Division), the Company s insurance subsidiaries provide health insurance products in 41 states and the District of Columbia. As is the case with many of HealthMarkets competitors in this market, a substantial portion of the Company s insurance subsidiaries products are issued to members of various independent membership associations that act as the master policyholder for such products. In 2010, the two principal membership associations in the self-employed market through which the Company s health insurance products were made available were the Alliance for Affordable Services (AAS) and Americans for Financial Security (AFS). While the Company believes that its insurance subsidiaries are providing association group coverage in full compliance with applicable law, changes in the relationship with the membership associations and/or changes in the laws and regulations governing association group insurance could have a material adverse impact on the Company s financial condition and results of operations. During the six months ended June 30, 2010, the Company issued approximately 44% and 13%, of its new policies through AAS and AFS, respectively. Additionally, during the six months ended June 30, 2010, the Company generated approximately 55% of its health premium revenue from new and existing business from the following 10 states:

	Percentage
California	14%
Texas	7%
Florida	6%
Massachusetts	6%
Illinois	5%
Washington	4%
North Carolina	4%
Maine	3%
Pennsylvania	3%
Wisconsin	3%

55%

2010 Change in Estimate Amortization of Intangible Assets

On January 1, 2010, the Company re-evaluated the amortization period related to an intangible asset recorded in the Commercial Health Division. See Note 6 of Notes to Consolidated Condensed Financial Statements.

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Reclassification

Certain amounts in the 2009 financial statements have been reclassified to conform to the 2010 financial statement presentation.

Recent Accounting Pronouncements

In July 2010, the Financial Account Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* (ASU 2010-20). ASU 2010-20 provides enhanced disclosures related to the credit quality of financing receivables and the allowance for credit losses, and provides that new and existing disclosures should be disaggregated based on how an entity develops its allowance for credit losses and how it manages credit exposures. Under the provisions of ASU 2010-20, additional disclosures required for financing receivables include information regarding the aging of past due receivables, credit quality indicators, and modifications of financing receivables. The provisions of ASU 2010-20 are effective for periods ending after December 15, 2010, with the exception of the amendments to the rollforward of the allowance for credit losses and the disclosures about modifications which are effective for periods beginning after December 15, 2010. Comparative disclosures are required only for periods ending subsequent to initial adoption. The Company is currently assessing the effects of adopting the provisions of ASU 2010-20.

In April 2010, the FASB issued ASU No. 2010-15, *How Investments Held through Separate Accounts Affect an Insurer s Consolidation Analysis of Those Investments,* (ASU 2010-15). ASU 2010-15 clarifies that insurance companies should not consider separate account interests held for the benefit of policy holders in an investment to be the insurer s interests and that the Company should not combine those interests with its general account interest in the same investment when assessing the investment for consolidation, unless the separate account interests are held for the benefit of a related party policy holder. Additionally, ASU provides guidance on how an insurer should consolidate an investment fund in situations in which the insurer concludes that consolidation is required. ASU 2010-15 is effective for interim and annual periods beginning after December 15, 2010. The Company does not anticipate that the adoption of ASU 2010-15 will have a material impact on the Company s financial position or results of operations.

In March 2010, the FASB issued ASU No. 2010-11, *Derivatives and Hedging (Topic 815) Scope Exception Related to Embedded Credit Derivatives,* (ASU 2010-11). ASU 2010-11 clarifies the scope exception for embedded credit derivative features related to the transfer of credit risk in the form of subordination of one financial instrument to another. This standard also addresses how to determine which embedded credit derivative features, including those in collateralized debt obligations and synthetic collateralized debt obligations, are considered to be embedded derivatives that should not be analyzed for potential bifurcation and separate accounting. ASU 2010-11 is effective for the third quarter of 2010. The Company has not yet determined the impact that the adoption of this guidance will have on its financial position and results of operations.

On January 1, 2010, the Company adopted ASU No. 2009-17, *Consolidations: Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities* (ASU 2009-17), which provides amendments to FASB Accounting Standards Codification (ASC) Topic 810, *Consolidation*. ASU 2009-17 modifies financial reporting for variable interest entities (VIEs). Under this guidance, companies are required to perform a periodic analysis to determine whether their variable interest must be consolidated by the Company. Additionally, Companies must disclose significant judgments and assumptions made when determining whether it must consolidate a VIE. Upon adoption, the Company determined that Grapevine Finance, LLC (Grapevine) is a VIE and, as such, the Company began consolidating the activities of Grapevine on January 1, 2010. See Note 5 of Notes to Consolidated Condensed Financial Statements.

On January 1, 2010, the Company adopted ASU No. 2009-16, *Accounting for Transfers of Financial Assets and Servicing Assets and Liabilities* (ASU 2009-16), which provides amendments to FASB ASC Topic 860, *Transfers and Servicing* (ASC 860). ASU 2009-16 incorporates the amendments to SFAS No. 140 made by SFAS No. 166, *Accounting for Transfers of Financial Assets an amendment of SFAS No. 140,* into the FASB ASC. ASU 2009-16 provides greater transparency about transfers of financial assets and requires that all servicing assets and servicing liabilities be initially measured at fair value. Additionally, ASU 2009-16 eliminates the concept of a non-consolidated qualifying special-purpose entity (QSPE) and removes the exception from applying FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities,* to QSPEs. Upon adoption, the Company was no

longer permitted to account for Grapevine as a QSPE, and instead was required to evaluate its activities under ASU 2009-17. See Note 5 of Notes to Consolidated Condensed Financial Statements.

During the first quarter of 2010, the Company adopted ASC Update 2009-12, *Fair Value Measurements and Disclosures Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)* (ASC 2009-12), which provides amendments to Subtopic 820, *Fair Value Measurements and Disclosures* (ASC 820), for the fair value measurement of investments in certain entities that calculate net asset value per share (or its equivalent). See Note 2 of Notes to Consolidated Condensed Financial Statements for additional disclosures required under ASC 2009-12.

During the first quarter of 2010, the Company adopted ASC Update 2010-06, *Fair Value Measurements and Disclosures: Improving Disclosures about Fair Value Measurements* (ASU 2010-06). ASU 2010-06 amends ASC Subtopic 820-10 to require new disclosures around the transfers in and out of Level 1 and Level 2 and around activity in Level 3 fair value measurements. Such guidance also provides amendments to ASC 820 which clarifies existing disclosures on the level of disaggregation, inputs and valuation techniques. See Note 2 of Notes to Consolidated Condensed Financial Statements for additional fair value measurement disclosures.

In January 2010, the FASB issued ASC Update 2010-09, *Subsequent Events: Amendments to Certain Recognition and Disclosure Requirements* (ASU 2010-09), which amends ASC Topic 855, Subsequent Events. Such guidance requires an entity to evaluate subsequent events through the date that the financial statements are issued. ASU 2010-09 is effective for interim and annual periods ending after June 15, 2010. The Company had previously evaluated subsequent events through the date the financial statements are issued and will continue to do so under this guidance.

2. FAIR VALUE MEASUREMENTS

In accordance with ASC 820, the Company categorizes its investments and certain other assets and liabilities recorded at fair value into a three-level fair value hierarchy as follows:

Level 1 Unadjusted quoted market prices for identical assets or liabilities in active markets which are accessible by the Company.

Level 2 Observable prices in active markets for similar assets or liabilities. Prices for identical or similar assets or liabilities in markets which are not active. Directly observable market inputs for substantially the full term of the asset or liability, such as interest rates and yield curves at commonly quoted intervals, volatilities, prepayment speeds, default rates, and credit spreads. Market inputs that are not directly observable but are derived from or corroborated by observable market data.

Level 3 Unobservable inputs based on the Company s own judgment as to assumptions a market participant would use, including inputs derived from extrapolation and interpolation that are not corroborated by observable market data.

The Company evaluates the various types of securities in its investment portfolio to determine the appropriate level in the fair value hierarchy based upon trading activity and the observability of market inputs. The Company employs control processes to validate the reasonableness of the fair value estimates of its assets and liabilities, including those estimates based on prices and quotes obtained from independent third party sources. The Company s procedures generally include, but are not limited to, initial and ongoing evaluation of methodologies used by independent third parties and monthly analytical reviews of the prices against current pricing trends and statistics.

Where possible, the Company utilizes quoted market prices to measure fair value. For investments that have quoted market prices in active markets, the Company uses the quoted market price as fair value and includes these prices in the amounts disclosed in Level 1 of the hierarchy. When quoted market prices in active markets are unavailable, the Company determines fair values using various valuation techniques and models based on a range of observable market inputs including pricing models, quoted market price of publicly traded securities with similar duration and yield, time value, yield curve, prepayment speeds, default rates and discounted cash flow. In most cases, these estimates are determined based on independent third party valuation information, and the amounts are disclosed in Level 2 of the fair value hierarchy. Generally, the Company obtains a single price or quote per instrument from independent third parties to assist in establishing the fair value of these investments.

If quoted market prices and independent third party valuation information are unavailable, the Company produces an estimate of fair value based on internally developed valuation techniques, which, depending on the level of observable market inputs, will render the fair value estimate as Level 2 or Level 3. On occasions when pricing service data is unavailable, the Company may rely on bid/ask spreads from dealers in determining the fair value. When dealer

quotations are used to assist in establishing the fair value, the Company generally obtains one quote per instrument. The quotes obtained from dealers or brokers are generally non-binding. When dealer quotations are used, the Company uses the mid-mark as fair value. When broker or dealer quotations are used for valuation or price verification, greater priority is given to executable quotes. As part of the price verification process, valuations based on quotes are corroborated by comparison both to other quotes and to recent trading activity in the same or similar instruments.

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To the extent the Company determines that a price or quote is inconsistent with actual trading activity observed in that investment or similar investments, or if the Company does not think the quote is reflective of the market value for the investment, the Company will internally develop a fair value using this observable market information and disclose the occurrence of this circumstance.

In accordance with ASC 820, the Company has categorized its available for sale securities into a three level fair value hierarchy based on the priority of inputs to the valuation techniques. The fair values of investments disclosed in Level 1 of the fair value hierarchy include money market funds and certain U.S. government securities, while the investments disclosed in Level 2 include the majority of the Company s fixed income investments. In cases where there is limited activity or less transparency around inputs to the valuation, the Company classifies the fair value estimates within Level 3 of the fair value hierarchy.

As of June 30, 2010, all of the Company s investments classified within Level 2 and Level 3 of the fair value hierarchy are valued based on quotes or prices obtained from independent third parties, except for $195.4 million of Corporate debt and other classified as Level 2, $1.6 million of Collateralized debt obligations classified as Level 3 and $1.1 million of Commercial-backed investments classified as Level 3. The $195.4 million of Corporate debt and other investments classified as Level 2 noted above includes $100.0 million of an investment grade corporate bond issued by UnitedHealth Group Inc. that was received as consideration for the sale of the Company s former Student Insurance Division in December 2006 and $86.7 million of an investment grade corporate bond received from a unit of the CIGNA Corporation as consideration for the receipt of the former Star HRG assets (see Note 5 of Notes to Consolidated Condensed Financial Statements).

Fair Value Hierarchy on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are categorized in the tables below based upon the lowest level of significant input to the valuations.

	Assets at Fair Value at June 30, 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
		(In thousands)		
U.S. and U.S. Government agencies	$ 4,631	$ 35,867	$	$ 40,498
Corporate debt and other		404,248		404,248
Collateralized debt obligations			2,202	2,202
Residential-backed issued by agencies		87,765		87,765
Commercial-backed issued by agencies		8,780		8,780
Residential-backed		3,162		3,162
Commercial-backed		45,357	1,117	46,474
Asset-backed		9,631		9,631
Municipals		156,065		156,065
Other invested assets (1)			1,522	1,522
Short-term investments (2)	291,711			291,711
	$ 296,342	$ 750,875	$ 4,841	$ 1,052,058

(1) Investments in entities that calculate net asset value per share

(2) Amount excludes

$22.4 million of short-term other investments which are not subject to fair value measurement.

	Liabilities at Fair Value at June 30, 2010			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Interest rate swaps	$	$ 4,468	$	$ 4,468
Agent and employee plans			5,772	5,772
	$	$ 4,468	$ 5,772	$ 10,240

	Assets at Fair Value at December 31, 2009			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
U.S. and U.S. Government agencies	$ 8,943	$ 40,847	$	$ 49,790
Corporate debt and other		344,509		344,509
Collateralized debt obligations			2,905	2,905
Residential-backed issued by agencies		105,898		105,898
Commercial-backed issued by agencies		8,710		8,710
Residential-backed		3,882		3,882
Commercial-backed		44,715	1,297	46,012
Asset-backed		15,337	465	15,802
Municipals		171,434	7,238	178,672
Trading securities			9,893	9,893
Put options (1)			657	657
Short-term and other investments (2)	344,011	6,164	937	351,112
	$ 352,954	$ 741,496	$ 23,392	$ 1,117,842

(1) Included in Other assets on the consolidated balance sheet.

(2) Amount excludes $20.7 million of short-term other investments and equity securities which are not subject to fair value measurement.

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	Liabilities at Fair Value at December 31, 2009			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Interest rate swaps	$	$ 8,766	$	$ 8,766
Agent and employee plans			16,651	16,651
	$	$ 8,766	$ 16,651	$ 25,417

The following is a description of the valuation methodologies used for certain assets and liabilities of the Company measured at fair value on a recurring basis, including the general classification of such assets pursuant to the valuation hierarchy.

Fixed Income Investments

Available for sale investments

The Company s fixed income investments include investments in U.S. treasury securities, U.S. government agencies bonds, corporate bonds, mortgage-backed and asset-backed securities, and municipal securities and bonds.

The Company estimates the fair value of its U.S. treasury securities using unadjusted quoted market prices, and accordingly, discloses these investments in Level 1 of the fair value hierarchy. The fair values of the majority of non-U.S. treasury securities held by the Company are determined based on observable market inputs provided by independent third party valuation information. The market inputs utilized in the pricing evaluation include but are not limited to, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data, and industry and economic events. The Company classifies the fair value estimates based on these observable market inputs within Level 2 of the fair value hierarchy. Investments classified within Level 2 consist of U.S. government agencies bonds, corporate bonds, mortgage-backed and asset-backed securities, and municipal bonds.

The Company also holds a small number of fixed income investments, including certain corporate bonds, asset-backed bonds and collateralized debt obligation bonds, for which it estimates the fair value using internal pricing matrices with some unobservable inputs that are significant to the valuation. Consequently, the lack of transparency in the inputs and the availability of independent third party pricing information for these investments resulted in their fair values being classified within the Level 3 of the hierarchy. As of June 30, 2010, the fair values of such collateralized debt obligations and mortgage-backed and asset-backed securities which represent approximately 0.5% of the Company s total fixed income investments are reflected within the Level 3 of the fair value hierarchy.

Beginning in 2008, the Company determined that the non-binding quoted price received from an independent third party broker for a particular collateralized debt obligation investment did not reflect a value based on an active market. During discussions with the independent third party broker, the Company learned that the price quote was established by applying a discount to the most recent price that the broker had offered the investment. However, there were no responding bids to purchase the investment at that price. As this price was not set based on an active market, the Company developed a fair value for this particular collateralized debt obligation. The Company continued to fair value this collateralized debt obligation as such during 2010.

The Company established a fair value for such collateralized debt obligation based on information about the underlying pool of assets supplied by the investment s asset manager. The Company developed a discounted cash flow valuation for the investment by applying assumptions for a variety of factors including among other things, default rates, recovery rates and a discount rate. The Company believes the assumptions for these factors were developed in a manner consistent with those that a market participant would use in valuation and were based on the information provided regarding the underlying pool of assets, various current market benchmarks, industry data for similar assets types, and particular market observations about similar assets.

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Trading securities & Put Options

The Company s fixed income trading securities consisted of auction rate securities, for which the fair value was determined based on unobservable inputs. Accordingly, the fair value of this asset was reflected within Level 3 of the fair value hierarchy.

The put options that the Company owned were directly related to agreements the Company entered into with UBS during 2008 to facilitate the repurchase of certain auction rate municipal securities. The options were carried at fair value, which was related to the fair value of the auction rate securities, and were recorded in Other assets on the consolidated condensed balance sheets. The Company accounted for such put options in accordance with ASC 320, *Investments Debt and Equity Securities,* which provided a fair value option election that permits an entity to elect fair value as the initial and subsequent measurement attribute for certain financial assets and liabilities on an instrument by instrument basis.

During 2009, the Company redeemed $4.6 million of its auction rate securities with UBS at par. At December 31, 2009, the Company held auction rate securities with a face value of $10.6 million. These remaining auction rate securities were redeemed by UBS at par on June 30, 2010.

Other invested assets

The Company s other invested assets consists of one alternative investment that owns a portfolio of collateralized debt obligation equity investments managed by a third party management group. The Company calculates the fair market value of such investments using the net asset value per share, which is determined based on unobservable inputs. Accordingly, the fair value of this asset is reflected within Level 3 of the fair value hierarchy.

The Company has committed to fund $5.0 million to such equity investment, of which the entire amount has been funded to date. There are no redemption opportunities, and the fund will terminate when the underlying collateralized debt obligation deals mature.

Short-term investments

The Company s short-term investments primarily consist of highly liquid money market funds, which are reflected within Level 1 of the fair value hierarchy.

Derivatives

The Company s derivative instruments are valued utilizing valuation models that primarily use market observable inputs and are traded in the markets where quoted market prices are not readily available, and accordingly, these instruments are reflected within the Level 2 of the fair value hierarchy.

Agent and Employee Stock Plans

The Company accounts for its agent and certain employee stock plan liabilities based on the Company s share price at the end of each reporting period. The Company s share price at the end of each reporting period is based on the prevailing fair value as determined by the Company s Board of Directors (see Note 11 of Notes to Consolidated Condensed Financial Statements). The Company largely uses unobservable inputs in deriving the fair value of its share price and the value is, therefore, reflected in Level 3 of the hierarchy.

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Changes in Level 3 Assets and Liabilities

The tables below summarize the change in balance sheet carrying values associated with Level 3 financial instruments and agent and employee stock plans for the three and six months ended June 30, 2010.

Changes in Level 3 Assets and Liabilities Measured at Fair Value For The Three Months Ended June 30, 2010

	Beginning Balance	Unrealized Gains or (Losses)	Purchases, Sales, Payments and Issuances, Net	Realized Gains or (Losses)(1)	Transfer in/(out) of Level 3, Net	Ending Balance
			(In thousands)			
Assets						
Collateralized debt obligations	$ 2,603	$ (409)	$ 8	$	$	$ 2,202
Commercial-backed	1,216	(9)	(90)			1,117
Asset-backed						
Municipals	6,676	724	(7,400)			
Trading securities	9,903	647	(10,550)			
Put options	647	(647)				
Other invested assets	1,445	83	(6)			1,522
	$ 22,490	$ 389	$ (18,038)	$	$	$ 4,841
Liabilities						
Agent and employee stock plans	$ 6,160	$ (853)	$ 465	$	$	$ 5,772

Changes in Level 3 Assets and Liabilities Measured at Fair Value For The Six Months Ended June 30, 2010

	Beginning Balance	Unrealized Gains or (Losses)	Purchases, Sales, Payments and Issuances, Net	Realized Gains or (Losses)(1)	Transfer in/(out) of Level 3, Net	Ending Balance
			(In thousands)			
Assets						
Collateralized debt obligations	$ 2,905	$ (719)	$ 16	$	$	$ 2,202
Commercial-backed	1,297	(3)	(177)			1,117
Asset-backed	465				(465)	
Municipals	7,238	762	(8,000)			
Trading securities	9,893	657	(10,550)			
Put options	657	(657)				
Other invested assets	937	632	(47)			1,522
	$ 23,392	$ 672	$ (18,758)	$	$ (465)	$ 4,841

Liabilities						
Agent and employee stock plans	$ 16,651	$ (3,466)	$ (7,413)	$	$	$ 5,772

(1) Realized losses for the period are included in Realized gains, net on the Company s consolidated condensed statement of income (loss).

During the three months ended June 30, 2010, sales and redemptions of Level 3 financial instruments were $18.0 million, of which $93,000 is classified as Commercial-backed, $7.4 million is classified as Municipals, and $10.6 million is classified as Trading securities in the table above. The Company had a net settlement gain of $5,000 during the three months ended June 30, 2010, of which $8,000 is classified as Collateralized debt obligations, $3,000 is classified as Commercial-backed and $(6,000) is classified as Other invested assets, in the table above. The Company had no purchases and no issuances of Level 3 financial instruments during the second quarter of 2010.

During the six months ended June 30, 2010, sales and redemptions of Level 3 financial instruments were $18.8 million, of which $185,000 is classified as Commercial-backed, $8.0 million is classified as Municipals, and $10.6 million is classified as Trading securities in the table above. The Company had a net settlement loss of $(23,000) during the six months ended June 30, 2010, of which $(47,000) is classified as Other invested assets, $16,000 is classified as Collateralized debt obligations and $8,000 is classified as Commercial-backed in the table above. The Company had no purchases and no issuances of Level 3 financial instruments during the first half of 2010.

During the three months ended June 30, 2010, the Company did not transfer securities between Level 1, Level 2 and Level 3. During the six months ended June 30, 2010, the Company transferred one security out of Level 3 to Level 2. Prior to 2010, the Company valued this security internally; however, during the first quarter of 2010, the security began being priced by a pricing service. Furthermore, the Company determined there were adequate observable inputs that were sufficient for pricing the security.

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Changes in Level 3 Assets and Liabilities Measured at Fair Value for the Three Months Ended June 30, 2009

	Beginning Balance	Unrealized Gains or (Losses)	Purchases, Sales, Payments and Issuances, Net	Realized Losses(1)	Transfer in/(out) of Level 3, Net	Ending Balance
	In Thousands					
Assets						
Collateralized debt obligations	$ 1,780	$ 783	$	$	$	$ 2,563
Commercial backed	1,450	62	(88)			1,424
Asset backed	350	10				360
Municipals	7,378	(77)				7,301
Trading securities	14,475	(216)				14,259
Put options	525	216				741
Other invested assets	251	(7)	(103)			141
	$ 26,209	$ 771	$ (191)	$	$	$ 26,789
Liabilities						
Agent and employee stock plans	$ 11,459	$	$ 1,725	$	$	$ 13,184

Changes in Level 3 Assets and Liabilities Measured at Fair Value for the Six Months Ended June 30, 2009

	Beginning Balance	Unrealized Gains or (Losses)	Purchases, Sales, Payments and Issuances, Net	Realized Losses(1)	Transfer in/(out) of Level 3, Net	Ending Balance
	In Thousands					
Assets						
Collateralized debt obligations	$ 2,585	$ 1,373	$	$ (1,395)	$	$ 2,563
Commercial backed	1,494	98	(168)			1,424
Asset backed	252	108				360
Municipals	6,539	762				7,301
Trading securities	11,937	2,422	(100)			14,259
Put options	3,163	(2,422)				741
Other invested assets	476	(107)	(228)			141
	$ 26,446	$ 2,234	$ (496)	$ (1,395)	$	$ 26,789
Liabilities						
	$ 18,158	$	$ (4,974)	$	$	$ 13,184

Agent and employee stock plans

(1) Realized losses for the period are included in Realized gains on the Company s consolidated condensed statement of income (loss).

During the three and six months ended June 30, 2009, the Company had no purchases and no issuances of Level 3 financial instruments. Additionally, the Company did not transfer securities between Level 1, Level 2 and Level 3.

Investments not reported at fair value

Other investments consists of investments in equity investees, which are accounted for under the equity method of accounting on the Company s consolidated condensed balance sheet at cost.

3. INVESTMENTS

The Company s investments consist of the following at June 30, 2010 and December 31, 2009:

	June 30, 2010	December 31, 2009
	(In thousands)	
Securities available for sale		
Fixed maturities	$ 758,825	$ 756,180
Equity securities		234
Trading securities		9,893
Short-term and other investments	315,674	371,534
Total investments	$ 1,074,499	$ 1,137,841

Available for sale fixed maturities are reported at fair value which was derived as follows:

	June 30, 2010				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Non-credit Loss Recognized in OCI	Fair Value
			(In thousands)		
U.S. and U.S. Government agencies	$ 39,102	$ 1,396	$	$	$ 40,498
Collateralized debt obligations	2,086	380	(264)		2,202
Residential-backed issued by agencies	83,089	4,726	(50)		87,765
Commercial-backed issued by agencies	8,272	508			8,780
Residential-backed	3,095	81	(14)		3,162
Commercial-backed	44,291	2,183			46,474
Asset-backed	9,550	389	(27)	(281)	9,631
Corporate bonds and municipals	451,797	24,089	(2,279)		473,607
Other	78,396	8,310			86,706
Total fixed maturities	$ 719,678	$ 42,062	$ (2,634)	$ (281)	$ 758,825

	December 31, 2009				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Non-credit Loss Recognized in OCI	Fair Value
			(In thousands)		
U.S. and U.S. Government agencies	$ 48,600	$ 1,229	$ (39)	$	$ 49,790
Collateralized debt obligations	2,070	990	(155)		2,905
Residential-backed issued by agencies	102,497	3,580	(179)		105,898
Commercial-backed issued by agencies	8,337	373			8,710
Residential-backed	3,934	2	(54)		3,882
Commercial-backed	45,054	998	(40)		46,012
Asset-backed	16,176	306	(399)	(281)	15,802
Corporate bonds and municipals	509,862	14,626	(6,474)		518,014
Other	6,100		(933)		5,167
Total fixed maturities	$ 742,630	$ 22,104	$ (8,273)	$ (281)	$ 756,180

The amortized cost and fair value of available for sale fixed maturities at June 30, 2010, by contractual maturity, are set forth in the table below. Fixed maturities subject to early or unscheduled prepayments have been included based upon their contractual maturity dates. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	June 30, 2010	
	Amortized Cost	Fair Value
	(In thousands)	
Maturity:		
One year or less	$ 29,277	$ 30,157
Over 1 year through 5 years	156,016	162,362
Over 5 years through 10 years	241,006	254,360
Over 10 years	145,082	156,134
	571,381	603,013
Mortgage-backed and asset-backed securities	148,297	155,812
Total fixed maturities	$ 719,678	$ 758,825

See Note 2 of Notes to Consolidated Condensed Financial Statements for additional disclosures on fair value measurements.

A summary of net investment income sources is set forth below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(In thousands)			
Fixed maturities	$ 9,104	$ 9,984	$ 18,601	$ 19,690
Equity securities	(10)	45		17
Short-term and other investments	825	(369)	1,476	(1,235)
Agent receivables	245	685	694	1,346
Student loan interest income	1,053	1,179	2,123	2,501
	11,217	11,524	22,894	22,319
Less investment expenses	377	489	783	968
	$ 10,840	$ 11,035	$ 22,111	$ 21,351

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Realized Gains and Losses

Realized gains and losses on sales of investments are recognized in net income on the specific identification basis and include write downs on those investments deemed to have other than temporary declines in fair values. Gains and losses on trading securities are reported in Realized gains, net on the consolidated condensed statements of income.

Fixed maturities

Proceeds from the sale and call of investments in fixed maturities were $61.0 million and $77.7 million for the three and six months ended June 30, 2010, respectively, and $13.4 million and $15.1 million for the three and six months ended June 30, 2009, respectively. Proceeds from maturities, sinking and principal reductions amounted to $8.2 million and $29.7 million for the three and six months ended June 30, 2010, respectively, and $11.9 million and $34.8 million for the three and six months ended June 30, 2009, respectively. During the three and six months ended June 30, 2010, the Company realized gross gains of $2.4 million and $2.6 million, respectively, on the sale and call of fixed maturity investments. During the three and six months ended June 30, 2009, the Company realized gross gains of $1.0 million and $1.0 million, respectively, on the sale and call of fixed maturity investments. The company realized no gross losses during the three and six months ended June 30, 2010 and 2009.

Equity securities

The Company realized a loss on equity securities of $4,000 during the three and six months ended June 30, 2010. The Company realized no gains and no losses on equity securities during the three and six months ended June 30, 2009.

Trading securities and Put options

The Company accounted for certain municipal auction rate securities as trading securities. In 2008, the Company entered into an agreement with UBS to facilitate the repurchase of certain auction rate municipal securities. At such time, the Company received put options. Any gain or loss recognized on the trading securities was offset by the same gain or loss on the put options. During 2009, the Company redeemed $4.6 million of its auction rate securities with UBS at par. At December 31, 2009, the Company held auction rate securities with a face value of $10.6 million. The remaining auction rate securities were redeemed by UBS at par on June 30, 2010.

Other than temporary impairment (OTTI)

During the three and six months ended June 30, 2010, the Company recognized no OTTI losses. During the three and six months ended June 30, 2009, the Company recognized OTTI losses of $2.7 million and $4.1 million, respectively, which were deemed to be other-than-temporary reductions. These OTTI losses were attributable to credit losses and, as such, were recorded in Net impairment losses recognized in earnings on the consolidated condensed statement of income.

Set forth below is a summary of cumulative OTTI losses on debt securities held by the Company at June 30, 2010, a portion of which have been recognized in Net impairment losses recognized in earnings on the consolidated condensed statement of income and a portion of which have been recognized in Accumulated other comprehensive income on the consolidated condensed balance sheet:

Cumulative OTTI credit losses recognized for securities still held at January 1, 2010	Additions to OTTI securities where no credit losses were recognized prior to January 1, 2010	Additions for OTTI securities where credit losses have been recognized prior to January 1, 2010	Reductions for securities sold during the period (Realized)	Reductions for increases in cash flows expected to be collected that are recognized over the remaining life of the security	Cumulative OTTI credit losses recognized for securities still held at June 30, 2010

(In thousands)

$ 12,670	$	$	$ (636)	$ (16)	$ 12,018

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Unrealized Gains and Losses
Fixed maturities
Set forth below is a summary of gross unrealized losses in its fixed maturities as of June 30, 2010 and December 31, 2009:

	June 30, 2010					
	Unrealized Loss Less Than 12 Months		Unrealized Loss 12 Months or Longer		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
U.S. and U.S. Government agencies	$	$	$	$	$	$
Collateralized debt obligations			593	264	593	264
Residential-backed issued by agencies	13,921	50			13,921	50
Commercial-backed issued by agencies						
Residential-backed			525	14	525	14
Commercial-backed						
Asset-backed			4,059	27	4,059	27
Corporate bonds and municipals	2,177	32	35,287	2,247	37,464	2,279
Other						
Total	$ 16,098	$ 82	$ 40,464	$ 2,552	$ 56,562	$ 2,634

	December 31, 2009					
	Unrealized Loss Less Than 12 Months		Unrealized Loss 12 Months or Longer		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
U.S. and U.S. Government agencies	$ 3,917	$ 39	$	$	$ 3,917	$ 39
Collateralized debt obligations			685	155	685	155
Residential-backed issued by agencies	23,585	179			23,585	179
Commercial-backed issued by agencies						
Residential-backed			3,128	54	3,128	54
Commercial-backed			7,887	40	7,887	40
Asset-backed	1,406	19	10,540	380	11,946	399
Corporate bonds and municipals	9,203	34	174,331	6,440	183,534	6,474
Other			5,167	933	5,167	933
Total	$ 38,111	$ 271	$ 201,738	$ 8,002	$ 239,849	$ 8,273

Unrealized Losses Less Than 12 Months

Of the $82,000 in unrealized losses that had existed for less than twelve months at June 30, 2010, no security had an unrealized loss in excess of 10% of the security s cost.

Of the $271,000 in unrealized losses that had existed for less than twelve months at December 31, 2009, no security had an unrealized loss in excess of 10% of the security s cost.

Unrealized Losses 12 Months or Longer

Of the $2.6 million in unrealized losses that had existed for twelve months or longer at June 30, 2010, five securities had unrealized losses in excess of 10% of the security s cost, of which one was classified as Asset-backed securities, one was classified as Collateralized debt obligations, and three were classified as Corporate bonds and municipals in the table above. The amount of unrealized loss with respect to those securities was $2.1 million at June 30, 2010, of which $281,000 relates to Asset-backed securities, $264,000 relates to Collateralized debt obligations, and $1.6 million relates to Corporate bonds and municipals in the table above.

Of the $8.0 million in unrealized losses that had existed for twelve months or longer at December 31, 2009, eight securities had unrealized losses in excess of 10% of the security s cost, of which two were classified as Asset-backed securities, one was classified as Other , four were classified as Corporate bonds and municipals, and one was classified as Collateralized debt obligations in the table above. The amount of unrealized loss with respect to those securities was $3.9 million at December 31, 2009, of which $307,000 relates to Asset-backed securities, $933,000 relates to Other , $2.5 million relates to Corporate bonds and municipals and $155,000 relates to Collateralized debt obligations in the table above.

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As a Company that holds investments in the financial services industry, HealthMarkets has been affected by conditions in U.S. financial markets and economic conditions throughout the world. The financial environment in the U.S. was volatile during 2008; however, the Company has seen improved market conditions during 2009 and 2010, which are reflected in the decrease in unrealized losses, as well as a decrease in the number of securities with unrealized losses. The Company continually monitors investments with unrealized losses that have existed for twelve months or longer and considers such factors as the current financial condition of the issuer, the performance of underlying collateral and effective yields. Additionally, the Company considers whether it has the intent to sell the security and whether it is more likely than not that the Company will be required to sell the debt security before the fair value reverts to its cost basis, which may be at maturity of the security. Based on such review, the Company believes that, as of June 30, 2010, the unrealized loss in these investments is temporary.

It is at least reasonably probable the Company s assessment of whether the unrealized losses are other than temporary may change over time, given, among other things, the dynamic nature of markets or changes in the Company s assessment of its ability or intent to hold impaired investment securities, which could result in the Company recognizing other-than-temporary impairment charges or realized losses on the sale of such investments in the future.

Equity securities

The Company had no unrealized investment gains and no unrealized losses on equity securities during the three and six months ended June 30, 2010. The Company had gross unrealized investment gains on equity securities of $1,000 and gross unrealized investment losses on equity securities of $3,000 during the three and six months ended June 30, 2009, respectively.

4. STUDENT LOANS

Through its student loan funding vehicles, CFLD-I and UFC2, the Company holds alternative (i.e., non-federally guaranteed) student loans extended to students at selected colleges and universities. The Company s insurance subsidiaries previously offered an interest-sensitive whole life insurance product with a child term rider. The child term rider included a special provision under which private student loans to help fund the insured child s higher education could be made available, subject to the terms, conditions and qualifications of the policy and the child term rider. Pursuant to the terms of the child term rider, the making of any student loan is expressly conditioned on the availability of a guarantee for the loan at the time the loan is made. During 2003, the Company discontinued offering the child term rider; however, for policies previously issued, outstanding potential commitments to fund student loans extend through 2026.

In connection with the Company s exit from the Life Insurance Division business, HealthMarkets, LLC entered into Coinsurance Agreements with Wilton Reassurance Company or its affiliates (Wilton). In accordance with the terms of the Coinsurance Agreements, Wilton will fund student loans; provided, however, that Wilton will not be required to fund any student loan that would cause the aggregate par value of all such loans funded by Wilton, following the Coinsurance Effective Date, to exceed $10.0 million. As of June 30, 2010, approximately $1.9 million of student loans have been funded, for which the Company has received reimbursements pursuant to the Coinsurance Agreements of approximately $1.8 million.

Pursuant to a Private Loan Program Loan Origination and Sale Agreement (the Loan Origination Agreement), dated July 28, 2005, among Richland State Bank, Richland Loan Processing Center, LLC (collectively, Richland), UICI and UFC2, the student loans were originated by Richland. Once issued, UFC2 would purchase the loans from Richland and provide for the administration of the loans. On April 28, 2010, Richland gave written notice of its intent to terminate the Loan Origination Agreement and the agreement terminated effective July 28, 2010. The Company is attempting to find a replacement for Richland; however, there can be no assurance whether and when a new lender will be located. In addition, as discussed above, the making of any student loan is expressly conditioned on the availability of a guarantee for the loan, and there is no longer a guarantor for the student loan program. As a result, loans under the child term rider are not available at this time.

5. GRAPEVINE

On August 3, 2006, Grapevine Finance, LLC (Grapevine) was incorporated in the State of Delaware as a wholly owned subsidiary of HealthMarkets, LLC. On August 16, 2006, MEGA distributed and assigned to HealthMarkets, LLC, as a dividend in kind, a $150.8 million note receivable from a unit of the CIGNA Corporation as consideration

for the receipt of the former Star HRG assets (the CIGNA Note) and a related guaranty agreement pursuant to which the CIGNA Corporation unconditionally guaranteed the payment when due of the CIGNA Note (the Guaranty Agreement). After receiving the assigned CIGNA Note and Guaranty Agreement from MEGA, HealthMarkets, LLC, assigned the CIGNA Note and Guaranty Agreement to Grapevine. On August 16, 2006, Grapevine issued $72.4 million of its senior secured notes (the Grapevine Notes) to an institutional purchaser (see Note 7 of Notes to Consolidated Condensed Financial Statements). The net proceeds from the Grapevine Notes of $71.9 million were distributed to HealthMarkets, LLC. On November 1, 2006, the Company s investment in Grapevine was reduced by the receipt of cash from Grapevine of $72.4 million.

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Prior to January 1, 2010, the Company accounted for its investment in Grapevine under SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (SFAS No. 140), which was codified into ASC 860. Under SFAS No. 140, the Company s investment in Grapevine was classified as a non-consolidated qualifying special-purpose entity (QSPE). As a QSPE, the Company did not consolidate the financial results of Grapevine and, instead, accounted for its residual interest in Grapevine as an investment in fixed maturity securities pursuant to EITF No. 99-20, *Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets,* which was codified into FASB ASC Topic 325 40, *Investments Other Beneficial Interests in Securitized Financial Assets* (ASC 325-40). The Company recorded its investment in Grapevine, at fair value, in Fixed maturities on the consolidated balance sheets.

On January 1, 2010, the Company adopted ASU 2009-16 (see Note 1 of Notes to Consolidated Condensed Financial Statements *Recent Accounting Pronouncements*). The Company performed an analysis to determine if Grapevine is a variable interest entity (VIE) and if so, whether or not the activities of Grapevine should be included in consolidation. During such analysis, the Company determined that HealthMarkets, LLC has the power to direct matters that most significantly impact the activities of the Grapevine, LLC and HealthMarkets, LLC has the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to Grapevine, LLC. After such analysis, the Company concluded that Grapevine is a VIE, and its activities should be included in consolidation. As such, the note receivable from CIGNA is recorded at fair value in Fixed maturities on the consolidated condensed balance sheet (see Note 3 of Notes to Consolidated Condensed Financial Statements) and the Grapevine notes are recorded in Debt on the consolidated condensed balance sheet (see Note 7 of Notes to Consolidated Condensed Financial Statements).

6. GOODWILL AND INTANGIBLES

Goodwill and other intangible assets by segment as of June 30, 2010 and December 31, 2009 are as follows:

	June 30, 2010			
	Goodwill	Other Intangible Assets	Accumulated Amortization	Net
	(In thousands)			
Commercial Health Division	$ 40,025	$ 16,620	$ (10,609)	$ 46,036
Insphere		38,663	(708)	37,955
Disposed Operations	359			359
	$ 40,384	$ 55,283	$ (11,317)	$ 84,350

	December 31, 2009			
	Goodwill	Other Intangible Assets	Accumulated Amortization	Net
	(In thousands)			
Commercial Health Division	$ 40,025	$ 55,283	$ (9,694)	$ 85,614
Disposed Operations	359			359
	$ 40,384	$ 55,283	$ (9,694)	$ 85,973

Other intangible assets include the acquisition of the right to certain renewal commissions from Special Investment Risks, Ltd (SIR). Previously, SIR sold health insurance policies that were either issued by a third-party insurance

company and coinsured by the Company, or policies that were issued directly by the Company. Effective January 1, 1997, the Company acquired the agency force of SIR, and in accordance with the terms of the asset sale agreement, SIR retained the right to receive certain commissions and renewal commissions. On May 19, 2006, the Company and SIR entered into a termination agreement, pursuant to which SIR received an aggregate of $47.5 million from the Company and all future commission payments owed to SIR under the asset sale agreement were discharged in full.

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Intangible Asset Amortization   2010 Change in Estimate

On January 1, 2010, the Company transferred a portion of the intangible asset related to SIR from the Commercial Health Division to Insphere. At the time of such transfer, the Company re-evaluated the amortization periods recorded in both the Commercial Health Division and Insphere. Based on such evaluation, the Company determined that the portion related to Insphere should continue to be amortized through 2029. The Company also determined that due to the decrease in the number of health policies issued through the Commercial Health Division, the portion of the intangible asset that remains with the Commercial Health Division will be amortized over a remaining period of 60 months. These changes resulted in an increase in Underwriting, acquisition and insurance expenses on the consolidated condensed statement of income of $387,000 and $861,000 for the three and six months ended June 30, 2010, respectively.

The Company recorded amortization expense associated with other intangible assets of $768,000 and $1.6 million for the three and six months ended June 30, 2010, respectively.

Estimated amortization expense for the next five years and thereafter related to intangible assets is as follows:

	Amortization Expense (In thousands)
2010	$ 1,336
2011	2,075
2012	1,690
2013	1,629
2014	1,794
Thereafter	31,399
	$ 39,923

7. DEBT

On April 5, 2006, HealthMarkets, LLC entered into a credit agreement, providing for a $500.0 million term loan facility and a $75.0 million revolving credit facility, which includes a $35.0 million letter of credit sub-facility. The full amount of the term loan was drawn at closing. At June 30, 2010, the Company had an aggregate of $362.5 million of indebtedness outstanding under the term loan facility, which indebtedness bore interest at the London inter-bank offered rate (LIBOR) plus a borrowing margin of 1.00%. The Company has not drawn on the $75.0 million revolving credit facility.

In addition, on April 5, 2006, HealthMarkets Capital Trust I and HealthMarkets Capital Trust II (two Delaware statutory business trusts, collectively the Trusts) issued $100.0 million of floating rate trust preferred securities (the Trust Securities) and $3.1 million of floating rate common securities. The Trusts invested the proceeds from the sale of the Trust Securities, together with the proceeds from the issuance to HealthMarkets, LLC by the Trusts of the common securities, in $100.0 million principal amount of HealthMarkets, LLC s Floating Rate Junior Subordinated Notes due June 15, 2036 (the Notes), of which $50.0 million principal amount accrue interest at a floating rate equal to three-month LIBOR plus 3.05% and $50.0 million principal amount accrue interest at a fixed rate of 8.367%.

On April 29, 2004, UICI Capital Trust I (a Delaware statutory business trust, the 2004 Trust) completed the private placement of $15.0 million aggregate issuance amount of floating rate trust preferred securities with an aggregate liquidation value of $15.0 million (the 2004 Trust Preferred Securities). The 2004 Trust invested the $15.0 million proceeds from the sale of the 2004 Trust Preferred Securities, together with the proceeds from the issuance to the Company by the 2004 Trust of its floating rate common securities in the amount of $470,000 (the Common Securities and, collectively with the 2004 Trust Preferred Securities, the 2004 Trust Securities), in an equivalent face amount of the Company s Floating Rate Junior Subordinated Notes due 2034 (the 2004 Notes). The 2004 Notes will mature on April 29, 2034. The 2004 Notes accrue interest at a floating rate equal to three-month LIBOR plus 3.50%, payable quarterly.

On August 16, 2006, Grapevine issued $72.4 million of its senior secured notes (the Grapevine Notes) to an institutional purchaser. The net proceeds from the Grapevine Notes of $71.9 million were distributed to HealthMarkets, LLC. The Grapevine Notes bear interest at an annual rate of 6.712%. The interest is to be paid semi-annually on January 15th and July 15th of each year beginning on January 15, 2007. The principal payment is due at maturity on July 15, 2021. The Grapevine Notes are collateralized by Grapevine s assets including the CIGNA Note. Grapevine services its debt primarily from cash receipts from the CIGNA Note. All cash receipts from the CIGNA Note are paid into a debt service coverage account maintained and held by an institutional trustee (the Grapevine Trustee) for the benefit of the holder of the Grapevine Notes. Pursuant to an indenture and direction notices from Grapevine, the Grapevine Trustee uses the proceeds in the debt service coverage account to (i) make interest payments on the Grapevine Notes, (ii) pay for certain Grapevine expenses and (iii) distribute cash to HealthMarkets, subject to satisfaction of certain restricted payment tests.

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The following table sets forth detail of the Company s debt and interest expense:

	Principal Amount at June 30, 2010	Maturity Date	Interest Rate(a)	Interest Expense Three Months Ended June 30, 2010	Interest Expense Three Months Ended June 30, 2009	Interest Expense Six Months Ended June 30, 2010	Interest Expense Six Months Ended June 30, 2009
2006 credit agreement:							
Term loan	$ 362,500	2012	1.249%	$ 2,519	$ 4,060	$ 6,031	$ 9,020
$75 Million revolver (non-use fee)		2011		70	115	140	143
Grapevine Note	72,350	2021	6.712%	1,213		2,412	
Trust preferred securities:							
UICI Capital Trust I	15,470	2034	3.940%	151	178	296	379
HealthMarkets Capital Trust I	51,550	2036	3.590%	437	555	863	1,191
HealthMarkets Capital Trust II	51,550	2036	8.367%	1,091	1,091	2,169	2,169
Other:							
Interest on Deferred Tax Gain			4.000%	530	788	1,055	1,566
Amortization of financing fees				1,257	1,183	2,494	2,359
Total	$ 553,420	(b)	0.000%(c)	$ 7,268	$ 7,970	$ 15,460	$ 16,827
Student Loan Credit Facility	72,450				214		866
Total	$ 625,870			$ 7,268	$ 8,184	$ 15,460	$ 17,693

(a) Represents the interest rate June 30, 2010.

(b) The Series 2001A-1 Notes and Series 2001A-2 Notes have a final stated maturity of July 1, 2036; the Series 2002A Notes have a final stated maturity of

July 1, 2037 (see *Student Loan Credit Facility* discussion below).

(c) The interest rate on each series of SPE Notes resets monthly in a Dutch auction process.

The fair value of the Company s debt, exclusive of indebtedness outstanding under the secured student loan credit facility, was $480.5 million and $394.8 million at June 30, 2010 and December 31, 2009, respectively. The fair value of such debt is estimated using discounted cash flow analyses, based on the Company s current incremental borrowing rates for similar types of borrowing arrangements. At June 30, 2010 and December 31, 2009, the carrying amount of outstanding indebtedness secured by student loans approximated the fair value, as interest rates on such indebtedness reset monthly.

Student Loan Credit Facility

At June 30, 2010 and December 31, 2009, the Company had an aggregate of $72.5 million and $77.4 million, respectively, of indebtedness outstanding under a secured student loan credit facility (the Student Loan Credit Facility), which indebtedness is represented by Student Loan Asset-Backed Notes issued by a bankruptcy-remote special purpose entity (the SPE Notes). At June 30, 2010 and December 31, 2009, indebtedness outstanding under the Student Loan Credit Facility was secured by student loans and accrued interest in the carrying amount of $65.7 million and $70.8 million, respectively, and by a pledge of cash, cash equivalents and other qualified investments of $6.9 million and $6.6 million, respectively.

The SPE Notes represent obligations solely of the SPE, and not of the Company or any other subsidiary of the Company. For financial reporting and accounting purposes, the Student Loan Credit Facility has been classified as a financing as opposed to a sale. Accordingly, in connection with the financing, the Company recorded no gain on sale of the assets transferred to the SPE.

The SPE Notes were issued by the SPE in three tranches: $50.0 million of Series 2001A-1 Notes (the Series 2001A -1 Notes) and $50.0 million of Series 2001A-2 Notes (the Series 2001A-2 Notes), both issued on April 27, 2001, and $50.0 million of Series 2002A Notes (the Series 2002A Notes) issued on April 10, 2002. The interest rate on each series of SPE Notes resets monthly in a Dutch auction process. The Series 2001A-1 Notes and Series 2001A-2 Notes have a final stated maturity of July 1, 2036; the Series 2002A Notes have a final stated maturity of July 1, 2037. Beginning July 1, 2005, the SPE Notes were also subject to mandatory redemption in whole or in part on each interest payment date from any monies received as a recovery of the principal amount of any student loan securing payment of the SPE Notes, including scheduled, delinquent and advance payments, payouts or prepayments. During the three and six months ended June 30, 2010, the Company made principal payments of approximately $2.4 million and $4.9 million, respectively, on the SPE notes. During the three and six months ended June 30, 2009, the Company made principal payments of approximately $2.8 million and $5.1 million, respectively, on the SPE notes.

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8. DERIVATIVES

HealthMarkets uses derivative instruments, specifically interest rate swaps, as part of its risk management activities to protect against the risk of changes in prevailing interest rates adversely affecting future cash flows associated with certain debt. The Company accounts for such interest rate swaps in accordance with ASC Topic 815 *Derivatives and Hedging*. These swap agreements are designed as hedging instruments and the Company formally documents qualifying hedged transactions and hedging instruments, and assesses, both at inception of the contract and on an ongoing basis, whether the hedging instruments are effective in offsetting changes in cash flows of the hedged transaction. The Company uses regression analysis to assess the hedge effectiveness in achieving the offsetting cash flows attributable to the risk being hedged. In addition, the Company utilizes the hypothetical derivative methodology for the measurement of ineffectiveness. Derivative gains and losses not effective in hedging the expected cash flows will be recognized immediately in earnings. In accordance with ASC 820, the fair values of the Company s interest rate swaps are also contained in Note 2 of Notes to Consolidated Condensed Financial Statements. In assessing the fair value, the Company takes into consideration the current interest rates and the current creditworthiness of the counterparties, as well as the current creditworthiness of the Company, as applicable.

At June 30, 2010, the Company owned one interest rate swap agreement with an aggregate notional amount of $100 million. The terms of the swap agreement is 5 years beginning on April 11, 2006. The Company had a 4 year swap with an aggregate notional amount of $100 million that matured on April 11, 2010.

The Company employs control procedures to validate the reasonableness of valuation estimates obtained from a third party. The table below represents the fair values of the Company s derivative assets and liabilities as of June 30, 2010 and December 31, 2009:

	Asset Derivatives			Liability Derivatives		
		June 30, 2010	December 31, 2009		June 30, 2010	December 31, 2009
	(In thousands)					
	Balance Sheet Location	Fair Value	Fair Value	Balance Sheet Location	Fair Value	Fair Value
Derivatives designated as hedging instruments under ASC Topic 815:						
Interest rate swaps		$	$	Other liabilities	$ 4,468	$ 8,766
Total derivatives		$	$		$ 4,468	$ 8,766

The table below represents the effect of derivative instruments in hedging relationships under ASC Topic 815 on the Company s consolidated condensed statements of income for the three and six months ended June 30, 2010 and 2009:

<u>Derivative Instruments in Hedging Relationships for the Three Months Ended June 30, 2010 and 2009</u>

Amount of Gain (Loss)	Location of Gain (Loss) from Accumulated OCI into Income	Amount of Interest Expense (Income) Reclassified from Accumulated OCI into Income (Expense)	Location of (Gain) Loss Recognized in Income on	Amount of (Gain) Loss Recognized in Income on Derivative

	Recognized in OCI on Derivative (Effective Portion) 2010	2009	(Effective Portion)	(Effective Portion) 2010	2009 (In thousands)	Derivative (Ineffective Portion)	(Ineffective Portion) 2010	2009
Interest rate swaps	$ 1,489	$ 1,839	Interest Expense	$ 1,339	$ 2,070	Investment income	$ 129	$ 178

Derivative Instruments in Hedging Relationships for the Six Months Ended June 30, 2010 and 2009

	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion) 2010	2009	Location of Gain (Loss) from Accumulated OCI into Income (Effective Portion)	Amount of Interest Expense (Income) Reclassified from Accumulated OCI into Income (Expense) (Effective Portion) 2010	2009 (In thousands)	Location of (Gain) Loss Recognized in Income on Derivative (Ineffective Portion)	Amount of (Gain) Loss Recognized in Income on Derivative (Ineffective Portion) 2010	2009
Interest rate swaps	$ 3,506	$ 3,981	Interest Expense	$ 3,715	$ 4,486	Investment income	$ 257	$ 394

During 2010 and 2009, the Company did not have any derivative instruments not designated as hedging instruments. HealthMarkets does not expect the ineffectiveness related to its hedging activity to be material to the Company s financial results in the future. There were no components of the derivative instruments that were excluded from the assessment of hedge effectiveness.

At June 30, 2010, accumulated other comprehensive income included a deferred after-tax net loss of $2.3 million related to the interest rate swaps of which $262,000 ($170,000 net of tax) is the remaining amount of loss associated with the previous terminated hedging relationship. This amount is expected to be reclassified into Investment income on the Company s consolidated statement of income (loss) in conjunction with the interest payments on the variable rate debt through April 2011.

9. NET INCOME PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(In thousands, except per share amounts)			
Income from continuing operations	$ 10,404	$ 3,193	$ 11,172	$ 11,216
Income from discontinued operations	13	16	27	51
Net income available to common shareholders	$ 10,417	$ 3,209	$ 11,199	$ 11,267
Weighted average shares outstanding, basic	29,723	29,558	29,645	29,657
Dilutive effect of stock options and other shares	726	558	719	584
Weighted average shares outstanding, dilutive	30,449	30,116	30,364	30,241
Basic earnings per share:				
From continuing operations	$ 0.35	$ 0.11	$ 0.38	$ 0.38
From discontinued operations	0.00	0.00	0.00	0.00
Net income per share, basic	$ 0.35	$ 0.11	$ 0.38	$ 0.38
Diluted earnings per share:				
From continuing operations	$ 0.34	$ 0.11	$ 0.37	$ 0.37
From discontinued operations	0.00	0.00	0.00	0.00
Net income per share, basic	$ 0.34	$ 0.11	$ 0.37	$ 0.37

10. COMMITMENTS AND CONTINGENCIES

Leases

With respect to certain abandoned leased facilities which the Company no longer utilizes, at June 30, 2010 and December 31, 2009, the Company had a liability of $1.8 million and $2.3 million, respectively, which is included in Other liabilities on the consolidated condensed balance sheet. Lease payments net of sublease proceeds will be applied against the liability through February 2013, which is the remaining term of the leases. Such liability is based on the future commitment, net of expected sublease income.

Litigation and Regulatory Matters

The Company is a party to various material proceedings, which are described in the Company s Annual Report on Form 10-K filed for the year ended December 31, 2009 under the caption *Item 3. Legal Proceedings.* Except as discussed below, during the three month period covered by this Quarterly Report on Form 10-Q, the Company has not been named in any new material legal proceeding, and there have been no material developments in the previously reported legal proceedings.

Litigation Matters

As previously disclosed, Mid-West was named as a defendant in an action filed on January 15, 2004 (*Howard Myers v. Alliance for Affordable Services, Mid-West et al.*) in the District Court of El Paso County, Colorado, Case No. 04-CV-192. Plaintiff alleged fraud, breach of contract, negligence, negligent misrepresentation, bad faith, and breach of the Colorado Unfair Claims Practices Act. Plaintiff seeks unspecified compensatory, punitive, special and

consequential damages, costs, interest and attorneys fees. Mid-West removed the case to the United States District Court for the District of Colorado. On August 26, 2008, the Court granted Mid-West s motion for summary judgment and dismissed all claims. Plaintiff appealed the dismissal of this matter to the United States Tenth Circuit Court of Appeals which, on April 7, 2010, affirmed the dismissal.

As previously disclosed, Mid-West was named as a defendant in an action filed on January 9, 2009 (*Matthew Austen v. Mid-West National Life Insurance Company of Tennessee; Elizabeth Solomon*) in the Superior Court of Orange County, California, Case No. 30-2009 00117080. Plaintiff alleges bad faith, breach of contract, negligent misrepresentation, and intentional misrepresentation and seeks unspecified economic, punitive, exemplary, and mental damages, costs, interest, and attorneys fees. On June 1, 2009, the case was transferred on Mid-West s motion for change of venue to Los Angeles County Superior Court (*Matthew Austen v. Mid-West National Life Insurance Company of Tennessee; Elizabeth Solomon*), Case No. LC086172. On February 24, 2010, the Court granted the defendants motion to dismiss this matter with prejudice and on April 1, 2010, the Court entered judgment for the defendants. Plaintiff appealed this ruling on April 30, 2010.

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As previously disclosed, on December 18, 2008, HealthMarkets and MEGA were named as defendants in a putative class action (*Jerry T. Hopkins, individually and on behalf all those others similarly situated v. HealthMarkets, Inc. et al.)* pending in the Superior Court of Los Angeles County, California, Case No. BC404133. Plaintiff alleges invasion of privacy in violation of California Penal Code § 630, et seq., negligence and the violation of common law privacy arising from allegations that the defendants monitored and/or recorded the telephone conversations of California residents without providing them with notice or obtaining their consent. Plaintiff seeks an order certifying the suit as a California class action and seeks compensatory and punitive damages. On December 3, 2009, plaintiff Jerry Hopkins was dismissed as the class plaintiff and Jerry Buszek was substituted in his place. On March 10, 2010, defendants motion for summary judgment was denied. Discovery in this matter is ongoing and a hearing regarding class certification is expected to occur in the third quarter of 2010.

As previously disclosed, HealthMarkets, HealthMarkets Lead Marketing Group, Mid-West and Mid-West agent Stephen Casey were named as defendants in an action filed on December 4, 2006 (*Howard Woffinden, individually, and as Successor in interest to Mary Charlotte Woffinden, deceased v. HealthMarkets, Mid-West, et al.)* pending in the Superior Court for the County of Los Angeles, California, Case No. LT061371. Plaintiffs have alleged several causes of action, including breach of fiduciary duty, negligent failure to obtain insurance, intentional misrepresentation, fraud by concealment, promissory fraud, civil conspiracy, professional negligence, intentional infliction of emotional distress, and violation of the California Consumer Legal Remedies statute, California Civil Code Section 1750, et seq. Plaintiff seeks injunctive relief, and general and punitive monetary damages in an unspecified amount. On October 5, 2007, the Court granted a motion to quash service of summons for defendants HealthMarkets and HealthMarkets Lead Marketing Group, removing them from the case. The Court granted Mid-West s motion for summary judgment and dismissed the case against Mid-West on August 12, 2008. On October 15, 2008, the Court granted judgment in favor of defendant Casey. On April 15, 2010, the California Court of Appeals reversed the trial court s rulings with respect to defendants Mid-West and Casey on all claims other than those for intentional infliction of emotional distress, reinstating plaintiff s remaining claims against Mid-West and Casey. On June 30, 2010, the Company s petition for review was denied by the California Supreme Court and this action has been remanded.

MEGA was named as defendant in an action filed on April 13, 2009 (*Richard Doble and Rochelle Doble v. MEGA*) pending in the United States District Court, Northern District of California, Case No. CV 09-1611-CRB. Plaintiffs have alleged several causes of action, including breach of contract and breach of the implied covenant of good faith and fair dealing. Plaintiffs seek unspecified general and compensatory damages, punitive damages, damages for emotional distress and attorneys fees. Discovery in this matter is ongoing and a jury trial is scheduled to begin in September 2010.

MEGA was named as a defendant in an action filed on August 5, 2008 (*Robert Perry v. MEGA et al.*), pending in the Superior Court of Maricopa County, Arizona, Case No. CV2008-018505. Plaintiff has alleged several causes of action, including breach of contract, bad faith, false advertising, consumer fraud, professional negligence and negligent misrepresentation. Plaintiff seeks unspecified actual, general, and punitive damages and attorneys fees and costs. Discovery in this matter is ongoing and it is anticipated that this matter will be set for trial in the third or fourth quarter of 2010.

As previously disclosed, HealthMarkets is a party to three separate collective actions filed under the Federal Fair Labor Standards Act (FLSA) (*Sherrie Blair et al., v. Cornerstone America et al.,* filed on May 26, 2005 in the United States District Court for the Northern District of Texas, Fort Worth Division, Civil Action No. 4:04-CV-333-Y; *Norm Campbell et al., v. Cornerstone America et al.,* filed on May 26, 2005 in the United States District Court for the Northern District of Texas, Fort Worth Division, Civil Action No. 4:05-CV-334-Y; and *Joseph Hopkins et al., v. Cornerstone America et al.,* filed on May 26, 2005 in the United States District Court for the Northern District of Texas, Fort Worth Division, Civil Action No. 4:05-CV-332-Y). On December 9, 2005, the Court consolidated all of the actions and made the *Hopkins* suit the lead case. In each of the cases, plaintiffs, for themselves and on behalf of others similarly situated, seek to recover unpaid overtime wages alleged to be due under section 16(b) of the FLSA. The complaints allege that the named plaintiffs (consisting of former district sales leaders and regional sales leaders in the Cornerstone America independent agent hierarchy) were employees within the meaning of the FLSA and are

therefore entitled, among other relief, to recover unpaid overtime wages under the terms of the FLSA. The parties filed motions for summary judgment on August 1, 2006. On March 30, 2007, the Court denied HealthMarkets and Mid-West s motion and granted the plaintiffs motion. In October 2008, the United States Fifth Circuit Court of Appeals affirmed the trial court s ruling in favor of plaintiffs on the issue of their status as employees under the FLSA and remanded the case to the trial court for further proceedings. On March 23, 2009, the United States Supreme Court denied HealthMarkets and Mid-West s petition for writ of certiorari. A court-approved notice to prospective participants in the collective action was mailed in April 2008, providing prospective participants with the ability to file opt-in elections. On December 21, 2009, the parties agreed to settle this matter, which settlement became effective in April 2010.

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The Company believes that resolution of the above proceedings, after consideration of applicable reserves and/or potentially available insurance coverage benefits, did not (to the extent resolved) or will not (to the extent not already resolved) have a material adverse effect on the Company s consolidated financial condition and results of operations.
The Company and its subsidiaries are parties to various other pending and threatened legal proceedings, claims, demands, disputes and other matters arising in the ordinary course of business, including some asserting significant liabilities arising from claims, demands, disputes and other matters with respect to insurance policies, relationships with agents, relationships with former or current employees and other matters. From time to time, some such matters, where appropriate, may be the subject of internal investigation by management, the Board of Directors, or a committee of the Board of Directors.
Given the expense and inherent risks and uncertainties of litigation, we regularly evaluate litigation matters pending against us, including those described in Note 18 of Notes to the Company s Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2009, to determine if settlement of such matters would be in the best interests of the Company and its stockholders. The costs associated with any such settlement could be substantial and, in certain cases, could result in an earnings charge in any particular quarter in which we enter into a settlement agreement. Although we have recorded litigation reserves which represent our best estimate on probable losses, our recorded reserves might prove to be inadequate to cover an adverse result or settlement for extraordinary matters. Therefore, costs associated with the various litigation matters to which we are subject and any earnings charge recorded in connection with a settlement agreement could have a material adverse effect on our consolidated results of operations in a period, depending on the results of our operations for the particular period.

Regulatory Matters

Since October 2004, the Company has been engaged in discussions with the Office of the Insurance Commissioner of Washington State (the Washington DOI) in an effort to resolve issues with respect to the use of a policy form that was initially approved by the Office in 1997. As previously disclosed, on March 8, 2005, the Washington DOI issued a cease and desist order prohibiting MEGA from selling a previously approved health insurance product to consumers in the State of Washington. The Company voluntarily terminated the sale of similar products by Mid-West pending resolution of this matter with the Washington DOI. The Company s association group business in Washington that is individually underwritten is considered to be large group business for purposes of the state minimum loss ratio standard. The minimum loss ratio standard is currently 80%. As a result of these matters, the Company has determined that it might not be in a position to operate on a profitable basis in Washington State. In March 2010, the Company and the Washington DOI reached a preliminary agreement in principle that the Company would non-renew its health benefit plan policies and withdraw from the health benefit plan market place in the next several months, subject to further discussions between the parties regarding the implications of national health care reform. MEGA and Mid-West currently have over 9,000 certificate holders in the State of Washington. Following such further discussions between the parties, in May 2010, the Company proposed to maintain the status quo for the Company s in force block of business pending finalization of applicable regulations necessary to assess the impact of national health care reform. Discussion with the Washington DOI regarding the Company s proposal is ongoing.
The Company s insurance subsidiaries are subject to various other pending market conduct or other regulatory examinations, inquiries or proceedings arising in the ordinary course of business. As previously disclosed, these matters include the multi-state market conduct examination of the Company s principal insurance subsidiaries for the examination period January 1, 2000 through December 31, 2005, which was resolved on May 29, 2008 through execution of a regulatory settlement agreement with the states of Washington and Alaska and four other monitoring states. The settlement agreement provides, among other things, for a re-examination by the monitoring states. If the re-examination is unfavorable, the Company s principal insurance subsidiaries are subject to additional penalties of up to $10 million. Reference is made to the discussion of these and other matters contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2009 under the caption Item 3 Legal Proceedings and in Note 18 of Notes to Consolidated Financial Statements included in such report. State insurance regulatory agencies have authority to levy significant fines and penalties and require remedial action resulting from findings made during the course of such matters. Market conduct or other regulatory examinations, inquiries or proceedings could result in,

among other things, changes in business practices that require the Company to incur substantial costs. Such results, individually or in combination, could injure our reputation, cause negative publicity, adversely affect our debt and financial strength ratings, place us at a competitive disadvantage in marketing or administering our products or impair our ability to sell insurance policies or retain customers, thereby adversely affecting our business, and potentially materially adversely affecting the results of operations in a period, depending on the results of operations for the particular period. Determination by regulatory authorities that we have engaged in improper conduct could also adversely affect our defense of various lawsuits.

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In March 2010, the Patient Protection and Affordable Care Act and a reconciliation measure, the Health Care and Education Reconciliation Act of 2010 (collectively, the Health Care Reform Legislation) were signed into law. The Health Care Reform Legislation will result in broad-based material changes to the United States health care system. The Health Care Reform Legislation is expected to significantly impact the Company s financial conditions and results of operations, including but not limited to the minimum medical loss ratio requirements applicable to its insurance subsidiaries as well to third-party insurance carriers doing business with Insphere. Provisions of the Health Care Reform Legislation become effective at various dates over the next several years and a number of additional steps are required to implement these requirements, including, without limitation, further guidance and clarification in the form of implementing regulations. Due to the complexity of the Health Care Reform Legislation, the pending status of implementing regulations and lack of interpretive guidance, and gradual implementation, the full impact of Health Care Reform Legislation on the Company s business is not yet fully known. However, the Company expects to dedicate material resources and to incur material expenses to implement Health Care Reform Legislation and expects that certain elements of the Health Care Reform Legislation will have a material adverse effect on its financial condition and results of operations. For additional information, see Part I, Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations, National Health Care Reform discussion, and Part II, Item 1A. Risk Factors.

11. STOCKHOLDERS EQUITY

The Company s Board of Directors determines the prevailing fair market value of the HealthMarkets Class A-1 and A-2 common stock in good faith, considering factors it deems appropriate. Since the de-listing of the Company s stock in 2006, the Company has generally retained several independent investment firms to value its common stock on an annual basis, or more frequently if circumstances warrant. When setting the fair market value of the Company s common stock, the Board considers among other factors it deems appropriate, each independent investment firm s valuation for reasonableness in light of known and expected circumstances.

At June 30, 2010, the fair market value of the Company s Class A-1 and Class A-2 common stock, as determined by the Board of Directors, was $7.34.

12. SEGMENT INFORMATION

The Company operates four business segments: the Insurance segment, Insphere, Corporate, and Disposed Operations. The Insurance segment includes the Company s Commercial Health Division. Insphere includes net commission revenue and costs associated with the creation and development of Insphere. Corporate includes investment income not allocated to the Insurance segment, realized gains or losses, interest expense on corporate debt, the Company s student loan business, general expenses relating to corporate operations and operations that do not constitute reportable operating segments. Disposed Operations includes the remaining run out of the Medicare Division and the Other Insurance Division as well as the residual operations from the disposition of other businesses prior to 2009.

Allocations of investment income and certain general expenses are based on a number of assumptions and estimates, and the business segments reported operating results would change if different allocation methods were applied. Certain assets are not individually identifiable by segment and, accordingly, have been allocated by formulas. Segment revenues include premiums and other policy charges and considerations, net investment income, fees and other income. Management does not allocate income taxes to segments. Transactions between reportable segments are accounted for under respective agreements, which provide for such transactions generally at cost.

Revenue from continuing operations, income from continuing operations before income taxes, and assets by operating segment are set forth in the tables below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	**2009**	**2010**	**2009**
	(In thousands)			
Revenue from continuing operations:				
Insurance Commercial Health Division:	$ 205,458	$ 271,753	$ 428,604	$ 556,588
Insphere:	8,842		13,013	

Corporate:	6,697	2,504	12,411	3,996
Intersegment Eliminations:	(1,974)	36	(4,089)	
Total revenues excluding disposed operations	219,023	274,293	449,939	560,584
Disposed Operations:	541	2,255	1,188	6,006
Total revenue from continuing operations	$ 219,564	$ 276,548	$ 451,127	$ 566,590

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(In thousands)			
Income from continuing operations before federal income taxes:				
Insurance Commercial Health Division:	$ 57,184	$ 31,162	$ 98,409	$ 64,450
Insphere:	(23,660)		(46,521)	
Corporate:	(14,932)	(18,861)	(32,238)	(36,419)
Total operating income excluding disposed operations	18,592	12,301	19,650	28,031
Disposed Operations	201	(6,301)	859	(10,003)
Total income from continuing operations before federal income taxes	$ 18,793	$ 6,000	$ 20,509	$ 18,028

Assets by operating segment at June 30, 2010 and December 31, 2009 are set forth in the table below:

	June 30, 2010	December 31, 2009
	(In thousands)	
Assets:		
Insurance Commercial Health Division:	$ 610,682	$ 731,594
Insphere:	64,266	14,507
Corporate:	716,817	734,040
Total assets excluding assets of Disposed Operations	1,391,765	1,480,141
Disposed Operations	380,944	391,357
Total assets	$ 1,772,709	$ 1,871,498

Disposed Operations assets at June 30, 2010 and December 31, 2009 primarily represent reinsurance recoverable for the former Life Insurance Division of $354.5 million and $353.7 million, respectively, associated with the Coinsurance Agreements entered into with Wilton.

13. AGENT AND EMPLOYEE STOCK-BASED COMPENSATION PLANS

Stock Plan Awards

In June 2010, the Company granted 1,020,000 non-qualified stock option awards and 430,000 restricted stock awards under the 2006 Second Amended and Restated HealthMarkets 2006 Management Options Plan. Each of the awards vests in 20% increments over five years. The stock options have an exercise price equal to the fair market value per share at the date of grant. In connection with the granting of the stock option awards, certain individuals were required to forfeit all stock options previously granted to such individuals. In total, 308,850 previously granted stock options were forfeited, of which 59,991 stock options consisted of performance options with no established performance goals. No expense has been recognized in the three months ended June 30, 2010 in connection with these newly issued awards.

InVest Stock Ownership Plan

In connection with the reorganization of the Company s agent sales force into an independent career-agent distribution company, and the launch of Insphere, effective January 1, 2010, the series of stock accumulation plans established for

the benefit of the independent contractor insurance agents and contractor sales representatives (the Predecessor Plans) were superseded and replaced by the HealthMarkets, Inc. InVest Stock Ownership Plan (ISOP). Eligible insurance agents and designated eligible employees may participate in the ISOP. Accounts under the Predecessor Plans were transferred to the ISOP. Several features of the ISOP differ in certain material respects from the Predecessor Plans, including, but not limited to, plan participation by designated eligible employees and the elimination of the reallocation of forfeited matching account credits after June 30, 2010.

For financial reporting purposes, the Company accounts for the Company-match feature of the ISOP for nonemployee agents by recognizing compensation expense over the vesting period in an amount equal to the fair market value of vested shares at the date of their vesting and distribution to the agent-participant. The Company accounts for the Company-match feature of the ISOP for employees by recognizing compensation expense over the vesting period in an amount equal to the fair market value of each award at the date of grant, or, in the case of outstanding awards transferred from the Predecessor Plans, the fair market value at the date of employment. Expense on awards granted after January 1, 2010, is recognized on a straight-line basis based on the Company s policy adopted in 2006 for new plans effective after January 1, 2006. Expense on awards transferred from Predecessor Plans will continue to be recognized on a graded basis. Employee awards are equity-classified and changes in values and expense are offset to the Company s paid in capital. Nonemployee awards are liability-classified and changes are reflected in the liabilities on the balance sheet.

The liability, or cumulative paid-in capital, for matching credits is based on (i) the number of unvested credits, (ii) the prevailing fair market value of the Company s common stock as determined by the Company s Board of Directors and (iii) an estimate of the percentage of the vesting period that has elapsed.

The accounting treatment of matching credits for nonemployee agent-participants result in unpredictable stock-based compensation charges, dependent upon fluctuations in the fair market value of the Company s common stock, as determined by the Company s Board of Directors. In periods of decline in the fair market value of HealthMarkets common stock, the Company will recognize less stock-based compensation expense than in periods of appreciation. In addition, in circumstances where increases in the fair market value of the Company s common stock are followed by declines, negative stock-based compensation expense may result as the cumulative liability for unvested stock-based compensation expense is adjusted.

The Company recognized $8,000 and $493,000 of income for the three and six months ended June 30, 2010, respectively, in connection with the ISOP. The liability for the nonemployee ISOP was decreased and paid in capital was increased $489,000 and $1.1 million for the three and six months ended June 30, 2010, respectively.

14. TRANSACTIONS WITH RELATED PARTIES

As of June 30, 2010, affiliates of The Blackstone Group, Goldman Sachs Capital Partners and DLJ Merchant Banking Partners (the Private Equity Investors) held 53.5%, 21.9%, and 11.0%, respectively, of the Company s outstanding equity securities. Certain members of the Board of Directors of the Company are affiliated with the Private Equity Investors.

Transactions with the Private Equity Investors

Transaction and Monitoring Fee Agreements

Each of the Private Equity Investors provides to the Company ongoing monitoring, advisory and consulting services, for which the Company pays each of The Blackstone Group, Goldman Sachs Capital Partners and DLJ Merchant Banking Partners an annual monitoring fee. The annual monitoring fees are, in each case, subject to an upward adjustment in each year based on the ratio of the Company s consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) in such year to consolidated EBITDA in the prior year, provided that the aggregate monitoring fees paid to all advisors pursuant to the Transaction and Monitoring Fee Agreements in any year shall not exceed the greater of $15.0 million or 3% of consolidated EBITDA in such year. Of the aggregate annual monitoring fees of $15.0 million for 2010, the Company paid $12.5 million in January 2010 to each of The Blackstone Group, Goldman Sachs Capital Partners and DLJ Merchant Banking Partners in an amount equal to $7.7 million, $3.2 million and $1.6 million, respectively, with the remaining balance of $2.5 million paid on April 30, 2010 in an amount equal to $1.5 million, $635,000 and $317,000, respectively. The Company has expensed $7.5 million through June 30, 2010.

Investment in Certain Funds Affiliated with the Private Equity Investors

On April 20, 2007, the Company s Board of Directors approved a $10.0 million investment by Mid-West in Goldman Sachs Real Estate Partners, L.P., a commercial real estate fund managed by an affiliate of Goldman Sachs Capital Partners. The Company has committed such investment to be funded over a series of capital calls. During 2009, the amount of the Company s original commitment was reduced by $2.0 million, to $8.0 million. During the second quarter of 2010, the amount of the Company s commitments was reduced by an additional $1.6 million, to $6.4 million. During the three and six months ended June 30, 2010, the Company funded capital calls totaling $1.2 million. As of June 30, 2010, the Company had made contributions totaling $4.8 million, and had a remaining commitment to Goldman Sachs Real Estate Partners, L.P. of $1.6 million.

On April 20, 2007, the Company s Board of Directors approved a $10.0 million investment by MEGA in Blackstone Strategic Alliance Fund L.P., a hedge fund of funds managed by an affiliate of The Blackstone Group. The Company has committed such investment to be funded over a series of capital calls. During the three and six months ended June 30, 2010, the Company funded capital calls totaling $958,000. As of June 30, 2010, the Company had made contributions totaling $7.7 million and applied credits totaling $369,000, and had a remaining commitment to The Blackstone Strategic Alliance Fund L.P. of $1.9 million.

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Other

From time to time, the Company may obtain goods or services from parties in which the Private Equity Investors hold an equity interest. For example, in 2010 and 2009, the Company held several events at a hotel in which an affiliate of The Blackstone Group holds an equity interest. During the three and six months ended June 30, 2010, in connection with these events, the Company paid the hotel approximately $200,000 and $2.0 million, respectively. During the three and six months ended June 30, 2009, in connection with these events, the Company paid the hotel approximately $1.2 million and $2.6 million, respectively. Employees of the Company traveling on business may also, from time to time, receive goods or services from entities in which the Private Equity Investors hold an equity interest.

15. ACQUISITION

On April 13, 2010, the Company completed the acquisition of Beneficial Investment Services, Inc. (BIS), a broker-dealer and registered investment adviser, and changed BIS name to Insphere Securities, Inc. (ISI). The total cash consideration related to this acquisition was approximately $1.6 million. ISI is a wholly owned subsidiary of Insphere.

On June 25, 2010, the Company determined that it would wind down the current business of ISI and related life agency sales offices located in Utah, Nevada and Arizona. After consideration of the expected costs of developing the recently acquired ISI business and the belief that the products and services available through ISI could be offered more efficiently to customers through contractual arrangements with third parties at an appropriate time in the future, the Company determined that a wind down of this business was necessary, and in the best interests of the Company. The Company intends to maintain operations at ISI as necessary for an orderly transition of customer accounts and completion of applicable business and regulatory requirements. The Company intends to have this action substantially completed by September 30, 2010.

The Company estimates that the total pre-tax expense expected to be incurred in connection with this action will be approximately $2.8 million, consisting of approximately $700,000 in employee termination costs, approximately $400,000 related to the write-down of fixed assets and intangible assets, and approximately $1.7 million related to facility and operations termination costs. During the three months ended June 30, 2010, the Company incurred $674,000 of expense related to the wind down.

ITEM 2 MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Statements Regarding Forward-Looking Statements

In this report, unless the context otherwise requires, the terms Company, HealthMarkets, we, us, or our r HealthMarkets, Inc. and its subsidiaries. This report and other documents or oral presentations prepared or delivered by and on behalf of the Company contain or may contain *forward-looking statements* within the meaning of the safe harbor provisions of the United States Private Securities Litigation Reform Act of 1995. Forward-looking statements are statements based upon management s expectations at the time such statements are made. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Forward-looking statements are subject to risks and uncertainties that could cause the Company s actual results to differ materially from those contemplated in the statements. Readers are cautioned not to place undue reliance on the forward-looking statements. All statements, other than statements of historical information provided or incorporated by reference herein, may be deemed to be forward-looking statements. Without limiting the foregoing, when used in written documents or oral presentations, the terms *anticipate, believe, estimate, expect, objective, plan, possible, potential, project, will* and similar expressions are intended to identify forwar statements. In addition to the assumptions and other factors referred to specifically in connection with such statements, factors that could impact the Company s business and financial prospects include, but are not limited to, those discussed in our Annual Report on Form 10-K for the year ended December 31, 2009 under the caption *Item 1 Business, Item 1A. Risk Factors* and *Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations* and those discussed from time to time in the Company s various filings with the Securities and Exchange Commission or in other publicly disseminated written documents.

Introduction

HealthMarkets, Inc. is a holding company, the principal asset of which is its investment in its wholly owned subsidiary, HealthMarkets, LLC. HealthMarkets, LLC s principal assets are its investments in its separate operating subsidiaries, including its regulated insurance subsidiaries. HealthMarkets conducts its insurance underwriting businesses through its indirect wholly owned insurance company subsidiaries, The MEGA Life and Health Insurance Company (MEGA), Mid-West National Life Insurance Company of Tennessee (Mid-West) and The Chesapeake Life Insurance Company (Chesapeake), and conducts its insurance distribution business through its indirect insurance agency subsidiary, Insphere Insurance Solutions, Inc. (Insphere)

Through our Commercial Health Division, we offer a broad range of health insurance products for individuals, families, the self-employed and small businesses. Our plans are designed to accommodate individual needs and include basic hospital-medical expense plans, plans with preferred provider organization features, catastrophic hospital expense plans, as well as other supplemental types of coverage. We market these products to the self-employed and individual markets through independent agents contracted with Insphere. Certain recent developments with respect to the sale of our health insurance plans are described below in the discussion of Health Insurance Product Sales.

During 2009, the Company formed Insphere, a Delaware corporation and a wholly owned subsidiary of HealthMarkets, LLC. Insphere is a distribution company that specializes in meeting the life, health, long-term care and retirement insurance needs of small businesses and middle-income individuals and families through its portfolio of products from nationally recognized insurance carriers. Insphere is an authorized agency in all 50 states and the District of Columbia. As of August 2010, Insphere had approximately 2,800 independent agents, of which approximately 1,700 on average write health insurance applications each month, and offices in over 40 states. Insphere distributes products underwritten by the Company s insurance company subsidiaries, as well as non-affiliated insurance companies. Insphere has completed non-affiliated marketing agreements with a number of life, health, long-term care and retirement insurance carriers, including, but not limited to, Aetna and UnitedHealthcare s Golden Rule Insurance Company for individual health insurance products, John Hancock for long-term care products, ING for term life, universal life and fixed annuity products and Minnesota Life Insurance Company for life and fixed annuity products. Insphere also has a marketing arrangement with an intermediary under which Insphere s agents obtain access to certain disability income insurance products.

Reclassification

Certain amounts in the 2009 financial statements have been reclassified to conform to the 2010 financial statement presentation.

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Results of Operations

The table below sets forth certain summary information about the Company s operating results for the three and six months ended June 30, 2010 and 2009:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(Dollars in thousands)			
REVENUE				
Health premiums	$ 188,914	$ 250,503	$ 394,687	$ 513,643
Life premiums and other considerations	498	624	1,149	1,342
	189,412	251,127	395,836	514,985
Investment income	10,840	11,035	22,111	21,351
Other income	16,890	15,536	30,539	32,777
Other-than-temporary impairment losses		(2,683)		(4,078)
Realized gains, net	2,422	1,533	2,641	1,555
	219,564	276,548	451,127	566,590
BENEFITS AND EXPENSES				
Benefits, claims, and settlement expenses	99,952	142,080	221,748	309,679
Underwriting, acquisition, and insurance expenses	38,526	98,376	91,525	179,276
Other expenses	55,025	21,908	101,885	41,914
Interest expense	7,268	8,184	15,460	17,693
	200,771	270,548	430,618	548,562
Income from continuing operations before income taxes	18,793	6,000	20,509	18,028
Federal income taxes	8,389	2,807	9,337	6,812
Income from continuing operations	10,404	3,193	11,172	11,216
Income from discontinued operations, net	13	16	27	51
Net income	$ 10,417	$ 3,209	$ 11,199	$ 11,267

National Health Care Reform

In March 2010, the Patient Protection and Affordable Care Act and a reconciliation measure, the Health Care and Education Reconciliation Act of 2010 (collectively, the Health Care Reform Legislation) were signed into law. The Health Care Reform Legislation will result in broad-based material changes to the United States health care system. The Health Care Reform Legislation is expected to significantly impact our financial conditions and results of operations, including but not limited to the minimum medical loss ratio requirements applicable to our insurance subsidiaries as well to third-party insurance carriers doing business with Insphere. Provisions of the Health Care Reform Legislation become effective at various dates over the next several years and a number of additional steps are required to implement these requirements, including, without limitation, further guidance and clarification in the form of implementing regulations. Due to the complexity of the Health Care Reform Legislation, the pending status of implementing regulations and lack of interpretive guidance, and gradual implementation, the full impact of Health Care Reform Legislation on our business is not yet fully known. However, we expect to dedicate material resources and to incur material expenses to implement Health Care Reform Legislation.

While not all-inclusive, we are evaluating the following material provisions of the Health Care Reform Legislation to determine the impact that these provisions will have on our financial conditions and results of operations:

Establishment of a minimum medical loss ratio of 80% for the individual and small group markets beginning in 2011, with rebates to customers required for medical loss ratio amounts under the minimum.

Expansion of dependent coverage to include adult children up to age 26.

Elimination of most annual and all lifetime caps on the dollar value of benefits.

Elimination of pre-existing condition exclusions.

Requirements that limit the ability of health insurance providers to vary premium based on assessment of underlying risk.

Establishment of specific benefit design requirements, rating and pricing limits, additional mandated benefits and guaranteed issue requirements.

Creation of health insurance exchanges with standardized plans and guaranteed issue of coverage for the individual and small group markets, which plans may be an attractive option for our existing customers and cause them to cancel their coverage with us.

Prohibitions on certain policy rescissions.

Significant annual taxes and/or assessments on health insurance providers which may not be deductible for income tax purposes.

Limitation on the deductibility of executive compensation under Section 162(m) of the Internal Revenue Code for health insurance providers.

A number of these requirements could have a material adverse effect on our financial condition and results of operations. In addition, a number of state legislatures have enacted or are contemplating significant health insurance reforms, either in response to the Health Care Reform Legislation or independently (to the extent not addressed by federal legislation). The Health Care Reform Legislation, as well as state health insurance reforms, could increase our costs, require us to revise the way in which we conduct business, result in the elimination of certain products or business lines, lead to the lower revenues and expose us to an increased risk of liability. Any delay or failure to conform our business to the requirements of the Health Care Reform Legislation and state health insurance reforms could disrupt our operations, lead to regulatory issues, damage our relationship with existing customers and our reputation generally, adversely affect our ability to attract new customers and result in other adverse consequences.

With respect to the minimum loss ratio requirements effective beginning in 2011, we expect that a mandated minimum loss ratio of 80% for the individual and small group markets will have a material adverse impact on our financial condition and results of operations. Historically, the Company has experienced significantly lower medical loss ratios, has not been able to price premiums for its individual health insurance policies at this level and may not be able to operate profitably at an 80% minimum medical loss ratio. The 80% minimum medical loss ratio is subject to adjustment by the Department of Health and Human Services (HHS) if HHS determines that the requirement is disruptive to the market. In addition, rules addressing certain material aspects of this requirement have not yet been established, including defining which expenses should be classified as medical and which should be classified as non-medical for purposes of the calculation, as well as which taxes, fees and assessment may be excluded from premium calculations. Subject to the outcome of final rulemaking, a minimum medical loss ratio at or near the 80% level could, at an appropriate time in the future, compel us to discontinue the underwriting and marketing of individual health insurance (see discussion of Health Insurance Product Sales below) and/or to non-renew coverage of our existing individual health customers in one or more states pursuant to applicable state and federal requirements. This requirement may have a material adverse effect on the level of base commissions and override commissions that Insphere receives from third party insurance carriers. We believe that an 80% minimum medical loss ratio is significantly higher than the loss ratios historically experienced by the third party health insurance carriers doing business with Insphere. As a result, these carriers may reduce commissions, overrides and other administrative expenses in order to comply with the minimum loss ratio requirements. At this time, we are not able to project with certainty the extent to which the minimum medical loss ratio requirement will impact our revenues and results of operations, but the impact is expected to be material.

Health Insurance Product Sales

The Company s review of the requirements of the Health Care Reform Legislation described above, and its potential impact on the Company s health insurance product offerings, is ongoing. In addition, the Company continuously evaluates the sale by Insphere of third party products underwritten by non-affiliated insurance carriers. In the states where such third party products are available, they have, to a great extent, replaced the sale of the Company s own health insurance products. In the first six months of 2010, Insphere s sale of health insurance products underwritten by United Healthcare s Golden Rule Insurance Company and Aetna, in the aggregate, exceeded the sale of the Company s products by nearly a five-to-one margin. As a result, in the second quarter of 2010, the Company determined that it would discontinue the sale of the Company s traditional scheduled benefit health insurance products and significantly reduce the number of states in which the Company will market all of its health insurance products in the future. After September 23, 2010, the effective date for many aspects of the Health Care Reform Legislation, the Company intends to discontinue marketing its health insurance products in all but a limited number of states in which Insphere does not currently have access to third-party health insurance products. The Company expects to continue marketing and to place an increasing emphasis on its supplemental product portfolio, which is generally not subject to the Health Care Reform Legislation. This decision is not expected to affect the Company's in-force block of health insurance business. However, the Company intends to make all adjustments to such in-force business as may be required by the Health Care Reform Legislation or legislation that may be adopted in certain states (such as California and Maine) that could potentially require, in such states, benefit modifications in the Company's in-force block of health insurance business.

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Ratings

The Company s principal insurance subsidiaries historically have been assigned financial strength ratings from A.M. Best Company (A.M. Best), Fitch Ratings (Fitch) and Standard & Poor s (S&P). These rating agencies have al assigned a credit or issuer default rating to HealthMarkets, Inc. In the second quarter of 2010, the Company requested that Fitch withdraw the insurer financial strength ratings of MEGA, Mid-West and Chesapeake and the issuer default rating of the Company, and requested that S&P withdraw the counterparty credit and financial strength ratings of MEGA, Mid- West and Chesapeake and the counterparty credit rating of HealthMarkets, Inc. Fitch and S&P subsequently withdrew these ratings in accordance with the Company s request. The Company s request, which occurred after ratings downgrades by Fitch and S&P, reflects the growing emphasis which the Company places on the sale of third-party health insurance products underwritten by non-affiliated insurance carriers and the belief that ratings from three separate ratings agencies are not necessary to support the sale of health insurance products underwritten by the Company s principal insurance subsidiaries. The ratings of the Company and its principal insurance subsidiaries by A.M. Best have been maintained. In the second quarter of 2010, A.M. Best affirmed the financial strength ratings of MEGA, Mid-West and Chesapeake, and the issuer credit rating of HealthMarkets, as set forth below:

Mega	Financial Strength Rating	B++ (Good)
Mid-West	Financial Strength Rating	B++ (Good)
Chesapeake	Financial Strength Rating	B++ (Good)
HealthMarkets, Inc.	Issuer Credit Rating	bb (Speculative)

The A.M. Best ratings above carry a negative outlook.

In evaluating a company, independent rating agencies review such factors as the company s capital adequacy, profitability, leverage and liquidity, book of business, quality and estimated market value of assets, adequacy of policy liabilities, experience and competency of management and operating profile. A.M. Best s financial strength ratings currently range from A++ (Superior) to F (In Liquidation). A.M. Best s ratings are based upon factors releva policyholders, agents, insurance brokers and intermediaries and are not directed to the protection of investors. A.M. Best s issuer credit rating is a current opinion of an obligor s ability to meet its senior obligations. A.M. Best s issuer credit ratings range from aaa (Exceptional) to rs (Regulatory Supervision/Liquidation).

Business Segments

The Company operates four business segments, the Insurance segment, Insphere, Corporate, and Disposed Operations. The Insurance segment includes the Company s Commercial Health Division. Insphere includes net commission revenue and costs associated with the creation and development of Insphere. Corporate includes investment income not allocated to the Insurance segment, realized gains or losses, interest expense on corporate debt, the Company s student loan business, general expenses relating to corporate operations and operations that do not constitute reportable operating segments. Disposed Operations includes the remaining run out of the former Medicare Division and the former Other Insurance Division as well as the residual operations from the disposition of other businesses prior to 2009.

Allocations of investment income and certain general expenses are based on a number of assumptions and estimates, and the business segments reported operating results would change if different allocation methods were applied. Certain assets are not individually identifiable by segment and, accordingly, have been allocated by formulas. Segment revenues include premiums and other policy charges and considerations, net investment income, fees and other income. Management does not allocate income taxes to segments. Transactions between reportable segments are accounted for under respective agreements, which provide for such transactions generally at cost.

Revenue from continuing operations, income from continuing operations before income taxes, and assets by operating segment are set forth in the tables below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	**2009**	**2010**	**2009**

	(In thousands)			
Revenue from continuing operations:				
Insurance Commercial Health Division:	$ 205,458	$ 271,753	$ 428,604	$ 556,588
Insphere:	8,842		13,013	
Corporate:	6,697	2,504	12,411	3,996
Intersegment Eliminations:	(1,974)	36	(4,089)	
Total revenues excluding disposed operations	219,023	274,293	449,939	560,584
Disposed Operations:	541	2,255	1,188	6,006
Total revenue from continuing operations	$ 219,564	$ 276,548	$ 451,127	$ 566,590

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(In thousands)			
Income from continuing operations before federal income taxes:				
Insurance Commercial Health Division:	$ 57,184	$ 31,162	$ 98,409	$ 64,450
Insphere:	(23,660)		(46,521)	
Corporate:	(14,932)	(18,861)	(32,238)	(36,419)
Total operating income excluding disposed operations	18,592	12,301	19,650	28,031
Disposed Operations	201	(6,301)	859	(10,003)
Total income from continuing operations before federal income taxes	$ 18,793	$ 6,000	$ 20,509	$ 18,028

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Commercial Health Division

Set forth below is certain summary financial and operating data for the Company s Commercial Health Division for the three and six months ended June 30, 2010 and 2009:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(Dollars in thousands)			
Revenue				
Earned premium revenue	$ 189,313	$ 249,692	$ 395,551	$ 510,531
Investment income	5,323	6,279	11,173	12,836
Other income	10,822	15,782	21,880	33,221
Total revenue	205,458	271,753	428,604	556,588
Benefits and Expenses				
Benefit expenses	100,654	135,460	222,974	297,785
Underwriting and policy acquisition expenses	44,304	96,129	98,632	175,988
Other expenses	3,316	9,002	8,589	18,365
Total expenses	148,274	240,591	330,195	492,138
Operating income	$ 57,184	$ 31,162	$ 98,409	$ 64,450
Other operating data:				
Loss ratio	53.2%	54.3%	56.4%	58.3%
Expense ratio	23.4%	38.5%	24.9%	34.5%
Combined ratio	76.6%	92.8%	81.3%	92.8%
Submitted annualized volume	$ 15,648	$ 72,521	$ 38,490	$ 171,627

Loss Ratio. The loss ratio is defined as benefits expense as a percentage of earned premium revenue.

Expense Ratio. The expense ratio is defined as underwriting, acquisition and insurance expenses as a percentage of earned premium revenue.

Submitted Annualized

Volume. Submitted annualized premium volume in any period is the aggregate annualized premium amount associated with health insurance applications submitted by the Company s agents in such period for underwriting by the Company s insurance subsidiaries.

Three Months Ended June 30, 2010 versus 2009

The Commercial Health Division (formerly the Self-Employed Agency Division) reported earned premium revenue of $189.3 million during the three months ended June 30, 2010 compared to $249.7 million in the corresponding period of 2009, a decrease of $60.4 million or 24%, which is due to a decrease in policies in force. Total policies in force decreased during 2010 as compared to 2009. The decrease in policies in force reflects an attrition rate that exceeds the pace of new sales, and is evident in the reduction in submitted annualized premium volume for business written by the Company s insurance subsidiaries, from $72.5 million in 2009 to $15.6 million in 2010, due primarily to the distribution of products underwritten by non-affiliated carriers.

The Commercial Health Division reported operating income of $57.2 million in 2010 compared to operating income of $31.2 million in 2009, an increase of $26.0 million or 83%. Operating income as a percentage of earned premium revenue (*i.e.,* operating margin) for 2010 was 30.2% compared to the operating margin of 12.5% in 2009, which is generally attributable to a loss ratio reflecting better claims experience for our products and a decrease in underwriting, acquisition and insurance expenses.

Underwriting, acquisition and insurance expenses decreased by $51.8 million, or 54% to $44.3 million in 2010 from $96.1 million in 2009. This decrease reflects the variable nature of commission expenses and premium taxes included in these amounts which generally vary in proportion to earned premium revenue. Beginning in the fourth quarter of 2008, we initiated certain cost reduction programs which are being reflected as a decrease in the expense ratio. Furthermore, due to the commencement of the sale of the third-party health insurance products underwritten by non-affiliated insurance carriers, the average policy duration of the existing HealthMarkets carriers business has increased, which has caused a decrease in the overall effective commission rate. Generally, first year commission rates paid to agents are higher than renewal year commission rates.

Other income and other expenses both decreased in the current period compared to the prior year period. Other income largely consists of fee and other income received for sales of association memberships by our independent agent sales force for which other expenses are incurred for bonuses and other compensation provided to the agents. Sales of association memberships by our independent agent sales force tend to move in tandem with sales of health insurance policies; consequently, this decrease in other income and other expense is consistent with the decline in earned premium.

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Six Months Ended June 30, 2010 versus 2009

The Commercial Health Division reported earned premium revenue of $395.6 million during the six months ended June 30, 2010 compared to $510.5 million in the corresponding period of 2009, a decrease of $114.9 million or 23%, which is due to a decrease in policies in force. Total policies in force decreased during 2010 as compared to 2009. The decrease in policies in force reflects an attrition rate that exceeds the pace of new sales, and is evident in the reduction in submitted annualized premium volume for business written by the Company s insurance subsidiaries, from $171.6 million in 2009 to $38.5 million in 2010, due primarily to the distribution of products underwritten by non-affiliated carriers.

The Commercial Health Division reported operating income of $98.4 million in 2010 compared to operating income of $64.5 million in 2009, an increase of $33.9 million or 53%. Operating margin for 2010 was 24.9% compared to the operating margin of 12.6% in 2009, which is generally attributable to a loss ratio reflecting better claims experience for our products and a decrease in underwriting, acquisition and insurance expenses.

Underwriting, acquisition and insurance expenses decreased by $77.4 million or 44% to $98.6 million in 2010 from $176.0 million in 2009. This decrease reflects the variable nature of commission expenses and premium taxes included in these amounts which generally vary in proportion to earned premium revenue. We initiated certain cost reduction programs beginning in the fourth quarter of 2008, which are being reflected as a decrease in the expense ratio. Furthermore, due to the commencement of the sale of the third-party health insurance products underwritten by non-affiliated insurance carriers, the average policy duration of the existing HealthMarkets carriers business has increased, which has caused a decrease in the overall effective commission rate. Generally, first year commission rates paid to agents are higher than renewal year commission rates.

Other income and other expenses both decreased in the current period compared to the prior year period. Other income largely consists of fee and other income received for sales of association memberships by our independent agent sales force for which other expenses are incurred for bonuses and other compensation provided to the agents. Sales of association memberships by our independent agent sales force tend to move in tandem with sales of health insurance policies; consequently, this decrease in other income and other expense is consistent with the decline in earned premium.

Insphere

During the second quarter of 2009, we formed Insphere, an authorized insurance agency in 50 states and the District of Columbia specializing in small business and middle-income market life, health, long-term care and retirement insurance. Insphere distributes products underwritten by our insurance subsidiaries, as well as non-affiliated insurance companies.

Set forth below is certain summary financial and operating data for Insphere for the three and six months ended June 30, 2010. There was no activity in the first six months of 2009:

	Three Months Ended June 30, 2010	Six Months Ended June 30, 2010
	(In thousands)	
Revenue		
Commission revenue	$ 7,957	$ 11,632
Investment income	87	108
Other income	798	1,273
Total revenue	8,842	13,013
Expenses		
Commission expenses	4,808	6,610
Agent incentives	6,478	12,823

Other expenses		21,216		40,101
Total expenses		32,502		59,534
Operating loss	$	(23,660)	$	(46,521)

Three and Six Months Ended June 30, 2010

Insphere generates revenue primarily from base commissions and override commissions received from insurance carriers whose policies are purchased through Insphere s independent agents. The commissions are typically based on a percentage of the premiums paid by insureds to the carrier. In some instances, Insphere also receives bonus payments for achieving certain sales volume thresholds. Insphere typically receives commission payments on a monthly basis for as long as a policy remains active. As a result, much of our revenue for a given financial reporting period relates to policies sold prior to the beginning of the period and is recurring in nature. Commission rates are dependent on a number of factors, including the type of insurance product and the particular insurance company underwriting the policy. During the three and six months ended June 30, 2010, the Company earned commission revenue of approximately $8.0 million and $11.6 million, respectively, of which $1.0 million and $1.5 million were generated from the sale of insurance products underwritten by the Company s insurance subsidiaries.

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For the three and six months ended June 30, 2010, Insphere reported other expenses of $21.2 million and $40.1 million, respectively. Other expenses associated with Insphere are related to employee compensation, lead costs, costs associated with our new field offices and other expenses related to the continued development of Insphere.

Corporate

Corporate includes investment income not otherwise allocated to the Insurance segment, realized gains and losses on sales, interest expense on corporate debt, the Company s student loan business, general expense relating to corporate operations and operations that do not constitute reportable operating segments.

Set forth below is a summary of the components of operating income (loss) at Corporate for the three and six months ended June 30, 2010 and 2009:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(In thousands)			
Operating income (loss):				
Investment income on equity	$ 3,532	$ 2,398	$ 7,517	$ 3,734
Net investment impairment losses recognized in earnings		(2,683)		(4,078)
Realized gains, net	2,422	1,533	2,641	1,555
Interest expense on corporate debt	(7,268)	(7,969)	(15,460)	(16,827)
Student loan operations	(5)	(35)	(121)	21
General corporate expenses and other	(13,613)	(12,105)	(26,815)	(20,824)
Operating loss	$ (14,932)	$ (18,861)	$ (32,238)	$ (36,419)

Three Months Ended June 30, 2010 versus 2009

Corporate reported an operating loss in 2010 of $14.9 million compared to $18.9 million in 2009 for an overall decrease in operating expenses of $3.9 million. The decrease in operating expenses is primarily due to the following items:

Investment income on equity increased by $1.1 million due to additional investment income earned on the Company s equity method investments and the additional investment income of $1.2 million recognized in 2010 from the consolidation of Grapevine Finance, LLC (Grapevine) into its results of operations.

Net investment impairment losses recognized in earnings decreased by $2.7 million as we recognized no impairments during the three months ended June 30, 2010 compared to impairment losses on other-than-temporary impairments of $2.7 million recognized on one security during the three months ended June 30, 2009. The 2009 impairment charges resulted from other than temporary reductions in the fair value of these investments compared to our cost basis (see Note 3 of Notes to Consolidated Condensed Financial Statements for additional information).

Interest expense on corporate debt decreased by $701,000 from $8.0 million during the three months ended June 30, 2009 to $7.3 million during the three months ended June 30, 2010. This decrease is due to a lower interest rate environment in 2010 compared to 2009. However, partially offsetting this decrease was the additional interest expense incurred of $1.2 million during the three months ended June 30, 2010 associated with the debt related to Grapevine (see Note 5 of Notes to Consolidated Condensed Financial Statements for additional information).

General corporate expenses and other increased by $1.5 million from prior year. The increase in the expenses are primarily due an increase in stock compensation related to additional awards and $625,000 related to the upward adjustment of the annual monitoring fee.

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Six Months Ended June 30, 2010 versus 2009

Corporate reported an operating loss in 2010 of $32.2 million compared to $36.4 million in 2009 for an overall decrease in operating expenses of $4.2 million. The decrease in operating expenses is primarily due to the following items:

Investment income on equity increased by $3.8 million due to additional investment income earned on the Company s equity method investments and the additional investment income of $2.5 million recognized in 2010 from the consolidation of Grapevine into its results of operations.

Net investment impairment losses recognized in earnings decreased by $4.1 million as we recognized no impairments during the six months ended June 30, 2010 compared to impairment losses on other-than-temporary impairments of $2.7 million recognized on one security during the six months ended June 30, 2009. The 2009 impairment charges resulted from other than temporary reductions in the fair value of these investments compared to our cost basis (see Note 3 of Notes to Consolidated Condensed Financial Statements for additional information).

Interest expense on corporate debt decreased by $1.3 million from $16.8 million during the six months ended June 30, 2009 to $15.5 million during the six months ended June 30, 2010. This decrease is due to a lower interest rate environment in 2010 compared to 2009. However, partially offsetting this decrease was the additional interest expense incurred of $2.4 million during 2010 associated with the debt related to Grapevine.

General corporate expenses and other increased by $6.0 million from prior year. The increase in the expenses are mainly due to an increase in employee termination cost of $1.4 million as the Company continues to align the workforce to current business levels, an increase in stock compensation of $1.8 million and $1.3 million related to the upward adjustment of the annual monitoring fee.

Disposed Operations

Our Disposed Operations segment includes our former Medicare Division and our former Other Insurance Division, as well as the disposition of other businesses prior to 2009.

The table below sets forth income (loss) for our Disposed Operations for the three and six months ended June 30, 2010 and 2009:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(In thousands)			
Income (loss) from Disposed Operations before federal income taxes:				
Medicare Insurance Division	$ 40	$ (6,976)	$ 561	$ (10,327)
Other Insurance Division	125	1,718	335	2,414
Life Insurance Division	35	(1,043)	(46)	(2,267)
Other disposed operations	1		9	177
Total Disposed Operations	$ 201	$ (6,301)	$ 859	$ (10,003)

Liquidity and Capital Resources

Consolidated Operations

Historically, the Company s primary sources of cash on a consolidated basis have been premium revenue from policies issued, investment income, and fees and other income. The primary uses of cash have been payments for benefits, claims and commissions under those policies, servicing of the Company s debt obligations, and operating expenses.

The Company has entered into several financing agreements designed to strengthen both its capital base and liquidity, the most significant of which are described below. The following table also sets forth additional information with respect to the Company s debt:

	Maturity Date	Interest Rate at June 30, 2010	June 30, 2010	December 31, 2009
			(In thousands)	
2006 credit agreement:				
Term loan	2012	1.249%(a)	$ 362,500	$ 362,500
$75 million revolver				
Grapevine Note	2021	6.712%	72,350	
Trust preferred securities:				
UICI Capital Trust I	2034	3.940%(a)	15,470	15,470
HealthMarkets Capital Trust I	2036	3.590%(a)	51,550	51,550
HealthMarkets Capital Trust II	2036	8.367%(a)	51,550	51,550
Total			$ 553,420	$ 481,070
Student Loan Credit Facility	(b)	0%(c)	72,450	77,350
Total			$ 625,870	$ 558,420

(a) See Note 7 of Notes to Consolidated Condensed Financial Statements.

(b) The Series 2001A-1 Notes and Series 2001A-2 Notes have a final stated maturity of July 1, 2036; the Series 2002A Notes have a final stated maturity of July 1, 2037. See Note 7 of Notes to Consolidated Condensed Financial Statements.

(c) The interest rate on each series of notes resets monthly in a Dutch auction process. See Note 7 of Notes to Consolidated Condensed Financial Statements for additional information on the Student Loan Credit Facility.

In April 2006, the Company borrowed $500.0 million under a term loan credit facility and issued $100.0 million of Floating Rate Junior Subordinated Notes (see Note 7 of Notes to Consolidated Condensed Financial Statements).

We regularly monitor our liquidity position, including cash levels, credit line, principal investment commitments, interest and principal payments on debt, capital expenditures and matters relating to liquidity and to compliance with regulatory requirements. We maintain a line of credit in excess of anticipated liquidity requirements. As of June 30, 2010, HealthMarkets had a $75.0 million unused line of credit, of which $65.9 million was available to the Company. The unavailable balance of $9.1 million relates to letters of credit outstanding with the Company s insurance operations.

Holding Company

HealthMarkets, Inc. is a holding company, the principal asset of which is its investment in its wholly owned subsidiary, HealthMarkets, LLC (collectively referred to as the holding company). The holding company s ability to fund its cash requirements is largely dependent upon its ability to access cash, by means of dividends or other means, from its separate operating subsidiaries, including its regulated insurance subsidiaries and Insphere.

Domestic insurance companies require prior approval by insurance regulatory authorities for the payment of dividends that exceed certain limitations based on statutory surplus and net income. During 2010, based on the 2009 statutory net income and statutory capital and surplus levels, the Company s domestic insurance companies are eligible to pay, without prior approval of the regulatory authorities, aggregate dividends in the ordinary course of business to HealthMarkets, LLC of approximately $97.9 million. During the first half of 2010, one of the Company s domestic insurance companies paid ordinary dividends totaling $49.5 million leaving a remaining amount for ordinary dividends of $48.4 million available on December 31, 2010.

As it has done in the past, the Company will continue to assess the results of operations of the regulated domestic insurance companies to determine the prudent dividend capability of the subsidiaries. This is consistent with our practice of maintaining risk-based capital ratios at each of our domestic insurance subsidiaries significantly in excess of minimum requirements.

HealthMarkets, LLC provides working capital to its wholly-owned subsidiary, Insphere, pursuant to a $50 million Loan Agreement dated August 24, 2009. The Loan Agreement was amended on April 30, 2010, to increase the amount from $50 million to $100 million. As of June 30, 2010 and December 31, 2009, Insphere had an outstanding balance owed to HealthMarkets, LLC of $49.6 million and $19.6 million, respectively.

At June 30, 2010, HealthMarkets, Inc and HealthMarket, LLC, in the aggregate, held cash and cash equivalents in the amount of $133.0 million.

Contractual Obligations and Off Balance Sheet Arrangements

A summary of HealthMarkets contractual obligations is included in the 2009 Form 10-K. There have been no material changes in the Company s contractual obligations or off balance sheet commitments since December 31, 2009.

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Critical Accounting Policies and Estimates

The Company s discussion and analysis of its financial condition and results of operations are based on its consolidated condensed financial statements, which have been prepared in accordance with United States generally accepted accounting principles. The preparation of these consolidated condensed financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, the Company evaluates its estimates, including those related to the valuation of assets and liabilities requiring fair value estimates, including investments and allowance for bad debts, the amount of health and life insurance claims and liabilities, the realization of deferred acquisition costs, the carrying value of goodwill and intangible assets, the amortization period of intangible assets, stock-based compensation plan forfeitures, the realization of deferred taxes, reserves for contingencies, including reserves for losses in connection with unresolved legal matters and other matters that affect the reported amounts and disclosure of contingencies in the financial statements. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Reference is made to the discussion of these critical accounting policies and estimates contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2009 under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations *Critical Accounting Policies and Estimates*.

Amortization of Intangible Assets 2010 Change in Estimate

Other intangible assets include the acquisition of the right to certain renewal commissions from Special Investment Risks, Ltd (SIR). Previously, SIR sold health insurance policies that were either issued by a third-party insurance company and coinsured by the Company, or policies that were issued directly by the Company. Effective January 1, 1997, the Company acquired the agency force of SIR, and in accordance with the terms of the asset sale agreement, SIR retained the right to receive certain commissions and renewal commissions. On May 19, 2006, the Company and SIR entered into a termination agreement, pursuant to which SIR received an aggregate of $47.5 million from the Company and all future commission payments owed to SIR under the asset sale agreement were discharged in full.

On January 1, 2010, the Company transferred a portion of the intangible asset related to SIR from the Commercial Health Division to Insphere. At the time of such transfer, the Company re-evaluated the amortization periods recorded in both the Commercial Health Division and Insphere. Based on such evaluation, the Company determined that the portion related to Insphere should continue to be amortized through 2029. The Company also determined that due to the decrease in the number of health policies issued through the Commercial Health Division, the portion of the intangible asset that remains with the Commercial Health Division will be amortized over a remaining period of 60 months. These changes resulted in an increase in Underwriting, insurance and acquisition expense on the consolidated condensed statement of income of $387,000 and $861,000 for the three and six months ended June 30, 2010. The Company recorded amortization expense associated with other intangible assets of $768,000 and $1.6 million for the three and six months ended June 30, 2010, respectively.

Student Loans

In connection with the Company s exit from the Life Insurance Division business, HealthMarkets, LLC entered into a definitive Stock Purchase Agreement (as amended, the Stock Purchase Agreement) pursuant to which Wilton Reassurance Company or its affiliates (Wilton) agreed to purchase the Company s student loan funding vehicles, CFLD-I, Inc. (CFLD-I) and UICI Funding Corp. 2 (UFC2), and the related student association. The Stock Purchase Agreement was terminated in 2009 and the closing of this transaction did not occur. In accordance with the terms of the Coinsurance Agreements, Wilton will fund student loans; provided, however, that Wilton will not be required to fund any student loan that would cause the aggregate par value of all such loans funded by Wilton, following the Coinsurance Effective Date, to exceed $10.0 million. As of June 30, 2010, approximately $1.9 million of student loans have been funded, for which the Company has received reimbursements pursuant to the Coinsurance Agreements of approximately $1.8 million.

Regulatory and Legislative Matters

The business of insurance is primarily regulated by the states and is also affected by a range of legislative developments at the state and federal levels. Recently adopted legislation and regulations may have a significant impact on the Company s business and future results of operations. Reference is made to the discussion under the caption Business Regulatory and Legislative Matters in the Company s Annual Report on Form 10-K for the year ended December 31, 2009. See Note 10 of Notes to Consolidated Condensed Financial Statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company has not experienced significant changes related to its market risk exposures during the quarter ended June 30, 2010. Reference is made to the information contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2009 in Item 7A *Quantitative and Qualitative Disclosures about Market Risk.*

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed in reports that it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. In addition, the disclosure controls and procedures ensure that information required to be disclosed is accumulated and communicated to management, including the principal executive officer and principal financial officer, allowing timely decisions regarding required disclosure. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Exchange Act. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report.

Change in Internal Control over Financial Reporting

There has been no change in the Company s internal control over financial reporting during the Company s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is a party to various material legal proceedings, which are described in Note 10 of Notes to Consolidated Condensed Financial Statements included herein and/or in the Company s Annual Report on Form 10-K filed for the year ended December 31, 2009 under the caption *Item 3. Legal Proceedings.* The Company and its subsidiaries are parties to various other pending legal proceedings arising in the ordinary course of business, including some asserting significant damages arising from claims under insurance policies, disputes with agents and other matters. Based in part upon the opinion of counsel as to the ultimate disposition of such lawsuits and claims, management believes that the liability, if any, resulting from the disposition of such proceedings will not be material to the Company s consolidated financial condition or results of operations. Except as discussed in Note 10 of the Notes to Consolidated Condensed Financial Statements included herein, during the three month period covered by this Quarterly Report on Form 10-Q, the Company has not been named in any new material legal proceeding, and there have been no material developments in the previously reported legal proceedings.

ITEM 1A. RISK FACTORS

Reference is made to the risk factors discussed in the Company s Annual Report on Form 10-K for the year ended December 31, 2009 in Part I, Item 1A. Risk Factors, which could materially affect the Company s business, financial condition or future results. The risks described in the Company s Annual Report on Form 10-K are not the only risks the Company faces. Additional risks and uncertainties not currently known to the Company or that the Company currently deems to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

The Company has not experienced material changes to the risk factors disclosed in its Annual Report on Form 10-K, except that we have modified the risk factor relating to national health care reform, as set forth below, due to enactment of national health care reform legislation.

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Recently enacted national health care reform legislation could have a material adverse effect on our financial condition and results of operations, both for our Commercial Health Division and Insphere Insurance Solutions, Inc.

In March 2010, the Patient Protection and Affordable Care Act and a reconciliation measure, the Health Care and Education Reconciliation Act of 2010 (collectively, the Health Care Reform Legislation) were signed into law. The Health Care Reform Legislation will result in broad-based material changes to the United States health care system. The Health Care Reform Legislation is expected to significantly impact our financial conditions and results of operations, including but not limited to the minimum medical loss ratio requirements applicable to our insurance subsidiaries as well to third-party insurance carriers doing business with Insphere. Provisions of the Health Care Reform Legislation become effective at various dates over the next several years and a number of additional steps are required to implement these requirements, including, without limitation, further guidance and clarification in the form of implementing regulations. Due to the complexity of the Health Care Reform Legislation, the pending status of implementing regulations and lack of interpretive guidance, and gradual implementation, the full impact of Health Care Reform Legislation on our business is not yet fully known. However, we expect to dedicate material resources and to incur material expenses to implement Health Care Reform Legislation and expect that certain elements of the Health Care Reform Legislation will have a material adverse effect on our financial condition and results of operations.

We are evaluating a number of material provisions of the Health Care Reform Legislation to determine the impact that these provisions will have on our financial conditions and results of operations, including, but not limited to, the following: establishment of a minimum medical loss ratio of 80% for the individual and small group markets beginning in 2011, with rebates to customers required for medical loss ratio amounts under the minimum; expansion of dependent coverage to include adult children up to age 26; elimination of most annual and all lifetime caps on the dollar value of benefits; elimination of pre-existing condition exclusions; requirements that limit the ability of health insurance providers to vary premium based on assessment of underlying risk; establishment of specific benefit design requirements, rating and pricing limits, additional mandated benefits and guaranteed issue requirements; creation of health insurance exchanges with standardized plans and guarantee issue of coverage for the individual and small group markets, which plans may be an attractive option for our existing customers and cause them to cancel their coverage with us; prohibitions on certain policy rescissions; significant annual taxes and/or assessments on health insurance providers which may not be deductible for income tax purposes; and limitation on the deductibility of executive compensation under Section 162(m) of the Internal Revenue Code for health insurance providers. A number of these requirements could have a material adverse effect on our financial condition and results of operations. In addition, a number of state legislatures have enacted or are contemplating significant health insurance reforms, either in response to the Health Care Reform Legislation or independently (to the extent not addressed by federal legislation). The Health Care Reform Legislation, as well as state health insurance reforms, could increase our costs, require us to revise the way in which we conduct business, result in the elimination of certain products or business lines, lead to the lower revenues and expose us to an increased risk of liability. Any delay or failure to conform our business to the requirements of the Health Care Reform Legislation and state health insurance reforms could disrupt our operations, lead to regulatory issues, damage our relationship with existing customers and our reputation generally, adversely affect our ability to attract new customers and result in other adverse consequences.

With respect to the minimum loss ratio requirements effective beginning in 2011, we expect that a mandated minimum loss ratio of 80% for the individual and small group markets will have a material adverse impact on our financial condition and results of operations. Historically, the Company has experienced significantly lower medical loss ratios, has not been able to price premiums for its individual health insurance policies at this level and may not be able to operate profitably at an 80% minimum medical loss ratio. The 80% minimum medical loss ratio is subject to adjustment by HHS if HHS determines that the requirement is disruptive to the market. In addition, rules addressing certain material aspects of this requirement have not yet been established, including defining which expenses should be classified as medical and which should be classified as non-medical for purposes of the calculation, as well as which taxes, fees and assessment may be excluded from premium calculations. Subject to the outcome of final rulemaking, a minimum medical loss ratio at or near the 80% level could, at an appropriate time in the future, compel

us to discontinue the underwriting and marketing of individual health insurance and/or to non-renew coverage of our existing individual health customers in one or more states pursuant to applicable state and federal requirements. This requirement may have a material adverse effect on the level of base commissions and override commissions that Insphere receives from third party insurance carriers. We believe that an 80% minimum medical loss ratio is significantly higher than the loss ratios historically experienced by the third party health insurance carriers doing business with Insphere. As a result, these carriers may reduce commissions, overrides and other administrative expenses in order to comply with the minimum loss ratio requirements. At this time, we are not able to project with certainty the extent to which the minimum medical loss ratio requirement will impact our revenues and results of operations, but the impact is expected to be material.

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The Company s review of the requirements of the Health Care Reform Legislation described above, and its potential impact on the Company s health insurance product offerings, is ongoing. In addition, the Company continuously evaluates the sale by Insphere of third party products underwritten by non-affiliated insurance carriers. In the states where such third party products are available, they have, to a great extent, replaced the sale of the Company s own health insurance products. In the first six months of 2010, Insphere s sale of health insurance products underwritten by United Healthcare s Golden Rule Insurance Company and Aetna, in the aggregate, exceeded the sale of the Company s products by nearly a five-to-one margin. As a result, in the second quarter of 2010, the Company determined that it would discontinue the sale of the Company s traditional scheduled benefit health insurance products and significantly reduce the number of states in which the Company will market all of its health insurance products in the future. After September 23, 2010, the effective date for many aspects of the Health Care Reform Legislation, the Company intends to discontinue marketing its health insurance products in all but a limited number of states in which Insphere does not currently have access to third-party health insurance products. The Company expects to continue marketing and to place an increasing emphasis on its supplemental product portfolio, which is generally not subject to the Health Care Reform Legislation. This decision is not expected to affect the Company’s in-force block of health insurance business. However, the Company intends to make all adjustments to such in-force business as may be required by the Health Care Reform Legislation or legislation that may be adopted in certain states (such as California and Maine) that could potentially require, in such states, benefit modifications in the Company’s in-force block of health insurance business.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table sets forth the Company s purchases of HealthMarkets, Inc. Class A-1 common stock during each of the months in the three months ended June 30, 2010:

Period	Total Number of Shares Purchased[(1)]		Average Price Paid per Share ($)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under The Plan or Program
4/1/10 to 4/30/10					
5/1/10 to 5/31/10	26,352	$	7.00		
6/1/10 to 6/30/10	59		7.00		
Totals	26,411	$	7.00		

(1) The number of shares purchased other than through a publicly announced plan or program includes 26,411 shares purchased from former or current employees of the Company.

The following table sets forth the Company s purchases of HealthMarkets, Inc. Class A-2 common stock during each of the months in the three months ended June 30, 2010:

Period	Total Number of Shares Purchased[(1)]	Average Price Paid per Share ($)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under The Plan or Program
4/1/10 to 4/30/10	330,747	$ 15.81		
5/1/10 to 5/31/10	30,083	7.00		
6/1/10 to 6/30/10	66,485	7.00		
Totals	427,315	$ 13.82		

(1) The number of shares purchased other than through a publicly announced plan or program includes 427,315 shares purchased from former or current participants of the stock accumulation plan established for the benefit of the Company s insurance agents.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

(a) Exhibits.

Exhibit No.	Description
10.1	Nonqualified Stock Option Agreement, made as of June 29, 2010, by and between HealthMarkets, Inc. and Jack V. Heller, filed as Exhibit 10.1 to the Current Report on Form 8-K dated July 2, 2010, File No. 001-14953 and incorporated by reference herein.
10.2	Restricted Share Agreement, made as of June 29, 2010, by and between HealthMarkets, Inc. and Jack V. Heller, filed as Exhibit 10.2 to the Current Report on Form 8-K dated July 2, 2010, File No. 001-14953 and incorporated by reference herein.
10.3	Summary of Material Terms and Conditions, Executive Retention Program, for Jack V. Heller.
31.1	Rule 13a-14(a)/15d-14(a) Certification, executed by Phillip J. Hildebrand, President and Chief Executive Officer of HealthMarkets, Inc.
31.2	Rule 13a-14(a)/15d-14(a) Certification, executed by Steven P. Erwin, Executive Vice President and Chief Financial Officer of HealthMarkets, Inc.
32	Certifications required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350), executed by Phillip J. Hildebrand, President and Chief Executive Officer of HealthMarkets, Inc. and Steven P. Erwin, Executive Vice President and Chief Financial Officer of HealthMarkets, Inc.

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SIGNATURES

Pursuant to the requirements 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.

	HEALTHMARKETS, INC (Registrant)
Date: August 12, 2010	/s/ Phillip J. Hildebrand Phillip J. Hildebrand President and Chief Executive Officer
Date: August 12, 2010	/s/ Steven P. Erwin Steven P. Erwin Executive Vice President and Chief Financial Officer

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