COLONIAL HIGH INCOME MUNICIPAL TRUST
Form N-CSRS
August 05, 2004

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

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-5754

Colonial High Income Municipal Trust

(Exact name of registrant as specified in charter)

One Financial Center, Boston, Massachusetts 02111

(Address of principal executive offices) (Zip code)

Vincent Pietropaolo, Esq.
Columbia Management Group, Inc.
One Financial Center
Boston, MA 02111

(Name and address of agent for service)

Registrant's telephone number, including area code: 1-617-772-3698

Date of fiscal year end: 11/30/2004

Date of reporting period: 05/31/02004

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget ("OMB") control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. ss. 3507.

ITEM 1. REPORTS TO STOCKHOLDERS.

COLONIAL HIGH INCOME MUNICIPAL TRUST SEMIANNUAL REPORT

MAY 31, 2004

[PHOTO OF DOMED BUILDING]

NOT FDIC INSURED
MAY LOSE VALUE
NO BANK GUARANTEE

PRESIDENT'S MESSAGE

July 21, 2004

Dear Shareholder:

We are pleased to let you know that FleetBoston Financial Corporation and Bank of America Corporation have merged, effective April 1, 2004. As a result of the merger, Columbia Management Group and your Colonial High Income Municipal Trust became part of the Bank of America family of companies. Looking ahead, we believe this merger will be a real benefit to our shareholders. Preserving and leveraging our strengths, the combined organization intends to deliver additional research and management capabilities, as well as new products. There are no immediate changes planned for fund names, product lines, or customer service contacts.

As you might know, on March 15, 2004, FleetBoston Financial announced an agreement in principle with the staff of the Securities and Exchange Commission ("SEC") and the New York Attorney General ("NYAG") to settle charges involving market timing in Columbia Management mutual funds. (You may also know that Bank of America came to a similar settlement in principle at the same time.) The agreement requires the final approval of the SEC and the NYAG. This settlement in principle reflects our strong wish to put this regrettable situation behind us. Columbia Management has taken and will continue to take steps to strengthen policies, procedures and oversight to curb frequent trading of Columbia open-end fund shares.

Both your fund's trustees and Columbia Management are committed to serving the interests of our shareholders, and we will continue to work hard to help you achieve your financial goals.

As always, thank you for choosing Colonial High Income Municipal Trust, and for giving us the opportunity to help you build a strong financial future.

Sincerely,

/s/ Thomas C. Theobald /s/ J. Kevin Connaughton

Thomas C. Theobald
Chairman, Board of Trustees

J. Kevin Connaughton
President

J. Kevin Connaughton was named president of Colonial High Income Municipal Trust on February 27, 2004.

Economic and market conditions change frequently. There is no assurance that the trends described in this report will continue or commence.

PORTFOLIO MANAGER'S REPORT

[SIDEBAR DATA]:

PRICE PER SHARE AS OF 05/31/04 ($)

Net asset value	6.26
Market price	5.79

SIX-MONTH (CUMULATIVE) TOTAL
RETURN AS OF 05/31/04 (%)

Net asset value	-1.07
Market price	-6.79
Lipper High Yield Municipal Debt Funds Category average	0.74

All results shown assume reinvestment of distributions.

DISTRIBUTIONS DECLARED
PER COMMON SHARE 12/01/03-05/31/04 ($)

0.24

A portion of the trust's income may be subject to the alternative minimum tax. The trust may at times purchase tax-exempt securities at a discount from their original issue price. Some or all of this discount may be included in the trust's ordinary income, and any market discount is taxable when distributed.

TOP 5 SECTORS AS OF 05/31/04 (%)

Local general obligations	12.9
Hospitals	11.5
Congregate care retirement	6.3
Investor owned utilities	6.0
Multi-family	5.9

QUALITY BREAKDOWN
AS OF 05/31/04 (%)

AAA	30.9
AA	3.0
A	10.5
BBB	19.6
BB	4.5
B	0.3
CCC	0.5
C	0.1
Non-rated	30.0
Cash equivalents	0.6

Sector breakdown is calculated as a percentage of net assets (including auction preferred shares). Quality breakdown is calculated as a percentage of total investments. Ratings shown in the quality breakdown represent the highest rating assigned to a particular bond by one of the following nationally-recognized rating agencies: Standard & Poor's Corporation, Moody's Investors Service, Inc. or Fitch Ratings Ltd.

Because the trust is actively managed, there is no guarantee that the trust will continue to invest in these sectors or maintain this quality breakdown in the future.

For the six-month period ended May 31, 2004, Colonial High Income Municipal Trust returned negative 1.07%, based on investment at net asset value. The trust trailed its peer group, the Lipper High Yield Municipal Debt Funds Category, which averaged a return of 0.74%.1

The trust's investments in multi-family housing and airline bonds detracted from performance. Multi-family housing bonds declined as low interest rates allowed more renters to become homeowners, resulting in high apartment vacancy rates. Delta Air Lines and US Airways (0.1% and 0.2% of total investments, respectively)2 turned in disappointing returns. The trust's above-average stake in nursing home bonds further hampered returns.

The trust's slightly short duration hindered performance early on when stagnant job growth drove interest rates lower. Duration is a measure, expressed in years, of a bond's sensitivity to changes in interest rates. As interest rates fell, bonds with shorter durations did not appreciate as much as bonds with longer durations. We made up some, but not all, of this relative underperformance in the spring when job growth picked up and interest rates moved higher.

For the six-month period ended May 31, 2004, the trust had an even lower return of negative 6.79%, based on its market price, as the discount to net asset value increased. Fears that higher short-term interest rates would hurt the trust's dividend yield put pressure on the trust's stock price.

LEVERAGE HELPED BOOST INCOME

During the period the trust derived added income from its leverage. These are preferred shares, issued in 1999, which allowed the trust to borrow against its underlying investments. We invested the proceeds from these shares in longer maturity, higher-yielding bonds, while paying out a short-term rate that is influenced by the federal funds rate. The trust earns the difference between the rate paid to the preferred shareholders and the yield on the longer maturity securities. With the federal funds rate at 1.0% during this reporting period, the difference was significant and resulted in added income for the trust. However, going forward, if the trend is toward higher interest rates, the rate paid on the preferred shares could rise, lowering the income available for paying dividends on the common shares.

1 Lipper Inc., a widely respected data provider in the industry, calculates an average total return for mutual funds with similar investment objectives as those of the trust.

2 Holdings are disclosed as of May 31, 2004, and are subject to change.

PORTFOLIO MANAGER'S REPORT (CONTINUED)

To bolster the trust's yield, we sold some higher quality bonds and replaced them with higher-yielding issues. We also replaced 30-year bonds with 20-year bonds with nearly comparable yields but shorter durations, which should make them less volatile as interest rates rise. These shorter-maturity bonds did well.

The trust further benefited from its above-average stake in health care bonds, which were strong performers. Specific issues, such as HealthEast, a Minnesota hospital, and Eskaton Gold River Lodge, an elder care facility in northern California (0.7% and 0.4% of total investments, respectively)[2] rallied amid credit improvements. In addition, we took advantage of attractive yields in the retirement housing sector, buying bonds issued by well-run companies that were expanding their facilities. We also purchased securities issued by Charter Mac, a multi-family housing loan pool (1.0% of total investments).[2]

LOOKING AHEAD TO RISING INTEREST RATES

We plan to maintain the trust's slightly short duration on the expectation that interest rates will rise gradually as job gains fuel the economy, while high oil prices keep growth somewhat in check. In this environment, we continue to believe that high-yield bonds will outpace higher quality issues.

/s/ Maureen G. Newman

Maureen G. Newman has been the portfolio manager of Colonial High Income Municipal Trust since August 1998. Ms. Newman has managed various other municipal funds for Columbia Management Advisors, Inc. or its predecessors since May 1996.

Past performance is no guarantee of future investment results. Current performance may be higher or lower than the performance data shown.

Tax-exempt investing offers current tax-free income, but it also involves certain risks. The value of the trust shares will be affected by interest rate changes and the creditworthiness of issues held in the trust. Investing in high-yield securities offers the potential for high current income and attractive total return, but involves certain risks. Lower-rated bond risks include default of the issuer and rising interest rates. Interest income from certain tax-exempt bonds may be subject to the federal alternative minimum tax for individuals and corporations.

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INVESTMENT PORTFOLIO

May 31, 2004 (Unaudited)

MUNICIPAL BONDS - 96.5%	PAR (S)	VALUE (S)
EDUCATION - 2.9%		
CA Educational Facilities Authority, Loyola Marymount University, Series 2001, (a) 10/01/19	2,025,000	915,786
CA Public Works Board, Lease Revenue, UCLA, Series 2002 A, 5.375% 10/01/15	1,010,000	1,089,780
CA Statewide Community Development Authority, Crossroads School for Arts & Sciences, Series 1998, 6.000% 08/01/28 (b)	1,280,000	1,303,629
IL Development Finance Authority, Latin School of Chicago, Series 1998, 5.650% 08/01/28	230,000	230,860
MA Development Finance Agency, Western New England College, Series 2002, 6.125% 12/01/32	300,000	299,796
MA Industrial Finance Agency:		
Cambridge Friends School, Series 1998, 5.800% 09/01/28	1,000,000	945,260
St. John's High School, Series 1998, 5.350% 06/01/28	300,000	292,326
MI Southfield Economic Development Corp., Lawrence University, Series 1998 A, 5.400% 02/01/18	1,000,000	992,290
NC Capital Facilities Finance Authority, Meredith College, Series 2001, 5.125% 06/01/16	1,000,000	1,047,460
VT Educational & Health Buildings Finance Agency, Norwich University, Series 1998, 5.500% 07/01/21	1,500,000	1,511,490
WV University, Series 2000 A, (a) 04/01/19	1,000,000	466,780

EDUCATION TOTAL		9,095,457

HEALTH CARE - 25.2%

CONGREGATE CARE RETIREMENT - 6.3%

	PAR (S)	VALUE (S)
CA Association of Bay Area Governments Finance Authority for Nonprofit Corps., Eskaton Gold River Lodge, Series 1998:		
6.375% 11/15/15	675,000	696,485
6.375% 11/15/28	550,000	551,914
CA La Verne Certificates of Participation, Brethren Hillcrest Home, Series 2003 B,		
6.625% 02/15/25	690,000	693,588
CA Statewide Community Development Authority, Eskaton Village - Grass Valley, Series 2000,		
8.250% 11/15/31 (b)	1,000,000	1,089,520
CT Development Authority, First Mortgage, The Elim Park Baptist, Inc. Project, Series 2003,		
5.850% 12/01/33	660,000	656,139
FL Capital Projects Finance Authority, Continuing Care Retirement, Glenridge on Palmer Ranch, Series 2002 A,		
8.000% 06/01/32	750,000	737,415
FL Lee County Industrial Development Authority, Shell Point Village Project, Series 1999 A,		
5.500% 11/15/29	600,000	554,472
GA Fulton County Residential Care Facilities, Canterbury Court Project, Series 2004 A,		
6.125% 02/15/34	750,000	727,568
GA Savannah Economic Development Authority, 1st Mortgage, Marshes of Skidaway, Series 2003 A,		
7.400% 01/01/34	465,000	450,250
HI Department of Budget & Finance, Kahala Nui Project, Series 2003 A,		
8.000% 11/15/33	1,000,000	993,500
IL Health Facilities Authority Revenue:		
Lutheran Senior Ministries, Series 2001,		
7.375% 08/15/31	300,000	291,150
Washington and Jane Smith Community, Series 2003 A,		
7.000% 11/15/32	725,000	708,274
KS Manhattan, Meadowlark Hills Retirement Home, Series 1999 A,		
6.375% 05/15/20	650,000	653,237
MA Boston Industrial Development Financing Authority, Springhouse, Inc.,		

Series 1988,		
5.875% 07/01/20	255,000	245,988
MA Development Finance Agency, Loomis Communities:		
Series 1999 A,		
5.625% 07/01/15	400,000	381,976
Series 2002 A,		
6.900% 03/01/32	100,000	101,651
MD Westminister Economic Development, Carroll Lutheran Village, Inc., Series 2004 A:		
5.875% 05/01/21	500,000	491,615
6.250% 05/01/34	250,000	247,350
NH Higher Educational & Health Facilities Authority, Rivermead at Peterborough, Series 1998:		
5.625% 07/01/18	500,000	459,195
5.750% 07/01/28	500,000	437,480
NJ Economic Development Authority, Seabrook Village, Inc., Series 2000 A,		
8.250% 11/15/30	625,000	662,738

INVESTMENT PORTFOLIO (CONTINUED)

May 31, 2004 (Unaudited)

MUNICIPAL BONDS (CONTINUED)	PAR (S)	VALUE (S)
HEALTH CARE (CONTINUED)		
CONGREGATE CARE RETIREMENT (CONTINUED)		
PA County Authority, Dunwoody Village, Series 2003 A,		
5.375% 04/01/17	600,000	613,296
PA Lancaster Industrial Development Authority, Garden Spot Village, Series 2000 A,		
7.625% 05/01/31	500,000	521,155
PA Philadelphia Authority for Industrial Development, Baptist Home of Philadelphia, Series 1998 A,		
5.500% 11/15/18	360,000	321,019
TN Metropolitan Government, Nashville & Davidson Counties, Blakeford at Green Hills, Series 1998,		
5.650% 07/01/24	600,000	534,936
TN Shelby County Health, Educational & Housing Facilities Board, Germantown Village, Series 2003 A,		
7.250% 12/01/34	900,000	871,965
TX Abilene Health Facilities Development Corp., Sears Methodist Retirement Obligated Group:		
Series 1998 A,		
5.900% 11/15/25	1,000,000	917,740

	PAR ($)	VALUE ($)
Series 2003 A,		
7.000% 11/15/33	300,000	302,553
TX Houston Health Facilities Development Corp., Buckingham Senior Living Community, Inc., Series 2004 A,		
7.125% 02/15/34	500,000	484,865
WI Health & Educational Facilities Authority:		
Attic Angel Obligated Group, Series 1998,		
5.750% 11/15/27	1,000,000	875,230
Clement Manor, Series 1998,		
5.750% 08/15/24	1,300,000	1,146,561
Three Pillars Senior Living Communities, Series 2003,		
5.750% 08/15/26	500,000	482,935
United Lutheran Program for Aging, Inc., Series 1998,		
5.700% 03/01/28	1,000,000	877,190
Congregate Care Retirement Total		19,780,950
HEALTH SERVICES - 0.7%		
MA Development Finance Agency, Boston Biomedical Research Institute, Series 1999:		
5.650% 02/01/19	200,000	188,378
5.750% 02/01/29	450,000	416,003
MA Health & Educational Facilities Authority, Civic Investments, Inc., Series 1999 A,		
9.000% 12/15/15	1,000,000	1,123,730

	PAR (S)	VALUE (S)
MN Minneapolis & St. Paul Housing & Redevelopment Authority, Healthpartners Project, Series 2003,		
6.000% 12/01/21	500,000	515,330
Health Services Total		2,243,441
HOSPITALS - 11.5%		
AR Conway Health Facilities Board, Conway Regional Medical Center:		
Series 1999 A,		
6.400% 08/01/29	425,000	440,304
Series 1999 B,		
6.400% 08/01/29	1,000,000	1,034,820
AZ Yavapai County Industrial Development Authority, Yavapai Regional Medical Center, Series 2003 A,		
6.000% 08/01/33	275,000	275,742
CA Health Facilities Financing Authority, Cedars-Sinai Medical Center, Series 1999 A,		
6.125% 12/01/30	750,000	791,272
CA Rancho Mirage Joint Powers Financing Authority, Eisenhower		

Medical Center, Series 2004,		
5.625% 07/01/29	1,000,000	992,630
CO Health Facilities Authority:		
National Jewish Medical & Research Center:		
Series 1998,		
5.375% 01/01/23	330,000	307,058
Series 1998 B,		
5.375% 01/01/29	750,000	674,130
Parkview Medical Center, Inc.,		
Series 2001,		
6.600% 09/01/25	300,000	310,395
FL Orange County Health Facilities		
Authority, Orlando Regional Healthcare,		
Series 2002,		
5.750% 12/01/32	200,000	202,682
FL South Lake County Hospital District,		
South Lake Hospital, Inc., Series 2003,		
6.375% 10/01/34	500,000	498,815
FL Tampa, H. Lee Moffitt Cancer		
Center, Series 1999 A,		
5.750% 07/01/29	2,000,000	2,024,240
FL West Orange Healthcare District,		
Series 2001 A,		
5.650% 02/01/22	525,000	525,598
IL Health Facilities Authority:		
Swedish American Hospital, Series 2000,		
6.875% 11/15/30	500,000	543,865
Thorek Hospital & Medical Center,		
Series 1998,		
5.250% 08/15/18	600,000	564,420
IL Southwestern Illinois Development		
Authority, Anderson Hospital,		
Series 1999,		
5.500% 08/15/20	225,000	218,176

See notes to investment portfolio.

INVESTMENT PORTFOLIO (CONTINUED)

May 31, 2004 (Unaudited)

MUNICIPAL BONDS (CONTINUED)	PAR (S)	VALUE (S)
HEALTH CARE (CONTINUED)		
HOSPITALS (CONTINUED)		
IN Health Facility Authority, Community		
Foundation, Northwest Indiana, Inc.,		
Series 2004 A,		
6.000% 03/01/34	575,000	548,096
LA Public Facilities Authority,		
Touro Infirmary, Series 1999,		
5.625% 08/15/29	350,000	344,180
MA Health & Educational		
Facilities Authority:		
Jordan Hospital, Series 2003 E,		
6.750% 10/01/33	500,000	508,665

	PAR (S)	VALUE (S)
Milford-Whitinsville Regional Hospital, Series 2002 D,		
6.350% 07/15/32	1,000,000	1,002,510
MD Health & Higher Education Facilities Authority, Adventist Healthcare, Series 2003 A:		
5.000% 01/01/16	400,000	391,040
5.750% 01/01/25	600,000	594,252
MI Dickinson County Healthcare System, Series 1999,		
5.700% 11/01/18	750,000	719,370
MI Flint Hospital Building Authority, Hurley Medical Center, Series 1998 A,		
5.375% 07/01/20	450,000	412,852
MN St. Paul Housing & Redevelopment Authority, HealthEast Project, Series 1997 A,		
5.700% 11/01/15	1,000,000	956,180
MN Washington County Housing & Redevelopment Authority, HealthEast, Inc., Series 1998,		
5.250% 11/15/12	1,300,000	1,253,681
NC Medical Care Commission, Stanly Memorial Hospital, Series 1999,		
6.375% 10/01/29	1,915,000	2,025,821
NH Higher Educational Facilities Authority:		
Catholic Medical Center, Series 2002,		
6.125% 07/01/32	400,000	400,120
Littleton Hospital Association, Inc., Series 1998 A:		
5.900% 05/01/28	780,000	672,617
6.000% 05/01/28	625,000	546,113
NJ Health Care Facilities Financing Authority Revenue, Capital Health Systems Obligated Group, Series, 2003 A,		
5.000% 07/01/23	650,000	661,005
NV Henderson Healthcare Facility Revenue, Catholic Healthcare West, Series 1998,		
5.375% 07/01/26	500,000	461,420
NY State Dormitory Authority Revenue:		
North Shore - Long Island Jewish Medical Center, Series 2003,		
5.500% 05/01/33	300,000	299,553
South Nassau Communities Hospital, Series 2003,		
5.500% 07/01/23	550,000	555,847
OH Belmont County, East Ohio Regional Hospital, Series 1998,		
5.700% 01/01/13	900,000	798,642
OH Highland County Joint Township Hospital District, Series 1999,		
6.750% 12/01/29	950,000	878,285
OH Lakewood Hospital Improvement		

Revenue, Lakewood Hospital Association, Series 2003,		
5.500% 02/15/14	600,000	633,468
OH Miami County, Upper Valley Medical Center, Inc., Series 1996 A,		
6.375% 05/15/26	1,000,000	1,019,010
OH Sandusky County, County Memorial Hospital, Series 1998,		
5.150% 01/01/10	250,000	251,193
PA Allegheny County Hospital Development, Ohio Valley General Hospital, Series 1998 A,		
5.450% 01/01/28	1,000,000	898,500
PA Pottsville Hospital Authority, Pottsville Hospital & Warne Clinic, Series 1998,		
5.500% 07/01/18	1,000,000	911,990
SC Jobs-Economic Development Authority, Bon Secours Health Care Systems, Inc., Series 2002 A,		
5.500% 11/15/23	1,750,000	1,693,143
SC Lexington County Health Services District, Inc., Hospital Improvement, Series 2003,		
5.500% 11/01/23	750,000	753,248
TX Comal County Health Facilities Development, McKenna Memorial, Series 2002 A,		
6.250% 02/01/32	500,000	500,940
TX Richardson Hospital Authority, Baylor Richardson Medical Center, Series 1998,		
5.625% 12/01/28	1,000,000	935,170
TX Tyler Health Facilities Development Corp., Mother Frances Hospital, Series 2001,		
6.000% 07/01/31	1,000,000	1,006,930
VA Prince William County Industrial Development Authority Revenue, Potomac Hospital Corp., Series 2003,		
5.200% 10/01/30	650,000	618,651

See notes to investment portfolio.

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INVESTMENT PORTFOLIO (CONTINUED)

May 31, 2004 (Unaudited)

MUNICIPAL BONDS (CONTINUED)	PAR (S)	VALUE (S)
HEALTH CARE (CONTINUED)		
HOSPITALS (CONTINUED)		
VT Educational & Health Buildings Finance Agency, Brattleboro Memorial Hospital, Series 1998,		

5.375% 03/01/28	1,075,000	975,272
WA Health Care Facilities Authority, Kadlec Medical Center, Series 2001,		
5.875% 12/01/21	600,000	636,924
WI Health & Educational Facilities Authority:		
Aurora Health Care, Inc., Series 2003,		
6.400% 04/15/33	525,000	540,782
Fort HealthCare, Inc. Project, Series 2004,		
5.750% 05/01/29	1,000,000	976,670
Wheaton Franciscan Services, Series 2002,		
5.750% 08/15/30	600,000	615,648
	Hospitals Total	36,401,935
INTERMEDIATE CARE FACILITIES - 1.0%		
IL Health Facilities Financing Authority, Hoosier Care, Inc., Series 1999 A,		
7.125% 06/01/34	1,200,000	974,184
IN Health Facilities Financing Authority, Hoosier Care, Inc., Series 1999 A,		
7.125% 06/01/34	150,000	121,773
PA Economic Development Financing Authority, Northwestern Human Services, Inc., Series 1998 A,		
5.250% 06/01/14	2,510,000	1,997,835
	Intermediate Care Facilities Total	3,093,792
NURSING HOMES - 5.7%		
AK Juneau, St. Ann's Care Center, Series 1999,		
6.875% 12/01/25	1,250,000	1,257,175
CO Health Facilities Authority:		
American Housing Foundation I, Inc. Project, Series 2003,		
8.500% 12/01/31	470,000	443,215
Pioneer Healthcare, Series 1989,		
10.500% 05/01/19	1,790,000	1,519,137
Volunteers of America:		
Series 1998 A:		
5.450% 07/01/08	300,000	291,867
5.750% 07/01/20	865,000	763,224
Series 1999 A,		
6.000% 07/01/29	350,000	305,035

	PAR (S)	VALUE (S)
IA Finance Authority, Care Initiatives Project:		
Series 1996,		
9.250% 07/01/25	985,000	1,147,436
Series 1998 B:		

5.750% 07/01/18	550,000	494,488
5.750% 07/01/28	1,475,000	1,231,197
IN Gary Industrial Economic Development, West Side Health Care Center, Series 1987 A,		
11.500% 10/01/17 (c)	1,330,000	665,000
IN Michigan City Health Facilities, Metro Health Foundation, Inc. Project, Series 1993,		
11.000% 11/01/22 (d)	3,085,000	401,050
MA Development Finance Agency: Alliance Health Care Facilities, Series 1999,		
7.100% 07/01/32	1,300,000	1,223,079
American Health Woodlawn Manor, Inc.: Series 2000 A,		
7.750% 12/01/27	1,533,135	1,282,835
Series 2000 B,		
10.250% 06/01/27 (c)	475,907	327,338
MN Sartell, Foundation for Healthcare, Series 1999 A,		
6.625% 09/01/29	1,145,000	1,082,380
PA Chester County Industrial Development Authority, RHA Nursing Home, Series 2002,		
8.500% 05/01/32	1,595,000	1,519,126
PA Washington County Industrial Development Authority, AHF Project, Series 2003,		
6.500% 01/01/29	1,211,000	1,127,041
TN Metropolitan Government, Nashville & Davidson Counties Health & Education Facilities, AHF Project, Series 2003,		
6.500% 01/01/29	1,141,000	1,061,894
TX Kirbyville Health Facilities Development Corp., Heartway III Project, Series 1997 A,		
10.000% 03/20/18 (c)	668,626	234,019
WA Kitsap County Housing Authority, Martha & Mary Nursing Home, Series 1996,		
7.100% 02/20/36	1,000,000	1,165,400
WI Health & Educational Facilities Authority, Metro Health Foundation, Inc., Series 1993,		
11.000% 11/01/22 (d)	2,775,000	360,750
	Nursing Homes Total	17,902,686
	HEALTH CARE TOTAL	79,422,804

See notes to investment portfolio.

INVESTMENT PORTFOLIO (CONTINUED)

May 31, 2004 (Unaudited)

MUNICIPAL BONDS (CONTINUED)	PAR (S)	VALUE (S)
HOUSING - 8.6%		
ASSISTED LIVING/SENIOR - 2.7%		
DE Kent County, Heritage at Dover, Series 1999, AMT, 7.625% 01/01/30	1,690,000	1,395,517
GA Columbus Housing Authority, The Gardens at Calvary, Series 1999, 7.000% 11/15/19	495,000	417,404
IL Development Finance Authority, Care Institute, Inc., Series 1995, 8.250% 06/01/25	1,245,000	1,183,895
MN Roseville, Care Institute, Inc., Series 1993, 7.750% 11/01/23 (c)	1,740,000	1,131,000
NC Medical Care Commission, DePaul Community Facilities Project, Series 1999, 7.625% 11/01/29	1,470,000	1,497,357
NY Huntington Housing Authority, Gurwin Jewish Senior Center, Series 1999:		
5.875% 05/01/19	700,000	653,023
6.000% 05/01/29	775,000	704,235
TX Bell County Health Facilities Development Corp., Care Institute, Inc., Series 1994, 9.000% 11/01/24	1,700,000	1,532,686
Assisted Living/Senior Total		8,515,117
MULTI-FAMILY - 5.9%		
AZ Maricopa County Industrial Development Authority, National Health Facilities, Series 1998 A, 5.100% 01/01/33	4,500,000	4,434,480
DE Wilmington, Electra Arms Senior Association Project, Series 1998, AMT, 6.250% 06/01/28	940,000	740,006
FL Broward County Housing Finance Authority, Chaves Lake Apartment Project, Series 2000, AMT, 7.500% 07/01/40	750,000	735,225
FL Clay County Housing Finance Authority, Madison Commons Apartments, Series 2000 A, AMT, 7.450% 07/01/40	740,000	729,892
MN Lakeville, Southfork Apartments Project:		
Series 1989 A, 9.875% 02/01/20	2,570,000	2,575,191
Series 1989 B, (a) 02/01/20	903,000	446,804
MN Robbinsdale Economic Development Authority, Broadway Court, Series 1999 A, 6.875% 01/01/26	500,000	448,265

	PAR (S)	VALUE (S)
MN Washington County Housing & Redevelopment Authority, Cottages of Aspen, Series 1992, AMT, 9.250% 06/01/22	990,000	1,012,117

	PAR (S)	VALUE (S)
MN White Bear Lake, Birch Lake Townhome Project:		
Series 1989 A, AMT, 10.250% 07/15/19	2,200,000	2,201,540
Series 1989 B, AMT, (a) 07/15/19	691,000	336,109
NY Nyack Housing Assistance Corp., Nyack Plaza Apartments, Series 1979, 7.375% 06/01/21	267,139	258,887
Resolution Trust Corp., Pass-Through Certificates, Series 1993 A, 8.500% 12/01/16 (e)	546,075	523,445
TX Affordable Housing Corp., NHT/GTEX Project, Series 2001 C, 10.000% 10/01/31 (c)	870,000	217,500
TX Department of Housing & Community Affairs, Pebble Brooks Apartments, Series 1998, AMT, 5.500% 12/01/18	1,000,000	1,031,400
TN Franklin Industrial Development Board, Landings Apartment Project, Series 1996 B, 8.750% 04/01/27	845,000	864,866
TX El Paso County Housing Finance Corp., American Village Communities:		
Series 2000 C, 8.000% 12/01/32	385,000	389,481
Series 2000 D, 10.000% 12/01/32	415,000	421,611
VA Alexandria Redevelopment & Housing Authority, Courthouse Commons Apartments, Series 1990 A, AMT, 10.000% 01/01/21	1,500,000	1,287,195
	Multi-Family Total	18,654,014
	HOUSING TOTAL	27,169,131

	PAR (S)	VALUE (S)
INDUSTRIAL - 4.3%		
FOOD PRODUCTS - 1.2%		
GA Cartersville Development Authority, Anheuser Busch Project, Series 1989 A, AMT, 5.950% 02/01/32	1,000,000	1,024,570
IN Hammond, American Maize Products Co., Series 1994, AMT, 8.000% 12/01/24	510,000	535,576
LA Southern Louisiana Port Commission, Cargill, Inc. Project, Series 1997,		

5.850% 04/01/17	1,000,000	1,047,820
MI Strategic Fund, Michigan Sugar Co., Sebewaing Project, Series 1998 A,		
6.250% 11/01/15	1,250,000	1,167,413
Food Products Total		3,775,379

See notes to investment portfolio.

INVESTMENT PORTFOLIO (CONTINUED)

May 31, 2004 (Unaudited)

MUNICIPAL BONDS (CONTINUED)	PAR (S)	VALUE (S)
INDUSTRIAL (CONTINUED)		
FOREST PRODUCTS - 1.5%		
AL Camden Industrial Development Board, Weyerhaeuser Co., Series 2003 B, AMT,		
6.375% 12/01/24	550,000	573,270
AL Courtland Industrial Development Board Environmental Improvement Revenue, International Paper Co., Series 2003 B, AMT,		
6.250% 08/01/25	1,000,000	1,015,230
AL Phenix City Industrial Development Board Environmental Improvement Revenue, Meadwestvaco Corp., Series 2002 A, AMT,		
6.350% 05/15/35	550,000	567,292
GA Rockdale County Development Authority, Solid Waste Disposal, Visy Paper, Inc., Series 1993, AMT,		
7.500% 01/01/26	1,800,000	1,844,406
MI Delta County Economic Development Corp., Environmental Import, Mead Westvaco-Escanaba, Series 2002 B, AMT,		
6.450% 04/15/23	450,000	464,238
VA Bedford County Industrial Development Authority, Nekoosa Packaging Corp., Series 1998, AMT,		
5.600% 12/01/25	400,000	357,192
Forest Products Total		4,821,628
MANUFACTURING - 0.6%		
IL Will-Kankakee Regional Development Authority, Flanders Corp. Precisionaire Project, Series 1997, AMT,		
6.500% 12/15/17	820,000	799,918
TX Trinity River Authority, Texas		

	PAR (S)	VALUE (S)
Instruments Project,		
Series 1996, AMT,		
6.200% 03/01/20	1,000,000	1,038,750
Manufacturing Total		1,838,668
METALS & MINING - 0.3%		
NV Department of Business & Industry,		
Wheeling-Pittsburgh Steel Corp.,		
Series 1999 A, AMT,		
8.000% 09/01/14 (e)	948,387	722,519
VA Greensville County Industrial Development		
Authority, Wheeling-Pittsburgh Steel Corp.,		
Series 1999 A, AMT,		
7.000% 04/01/14	500,000	386,555
Metals & Mining Total		1,109,074
OIL & GAS - 0.7%		
TX Gulf Coast Industrial Development		
Authority, Solid Waste Disposal,		
Citgo Petroleum, Series 1998, AMT,		
8.000% 04/01/28	500,000	521,685

	PAR (S)	VALUE (S)
VI Government Refinery Facilities,		
Hovensa Coker Project,		
Series 2002, AMT,		
6.500% 07/01/21 (b)	375,000	396,304
VI Public Finance Authority, Refinery		
Facilities Revenue, Hovensa Refinery:		
Series 2003, AMT,		
6.125% 07/01/22	525,000	540,498
Series 2004, AMT,		
5.875% 07/01/22	600,000	607,248
Oil & Gas Total		2,065,735
INDUSTRIAL TOTAL		13,610,484
OTHER - 7.3%		
OTHER - 0.4%		
NY Convention Center Operating Corp.,		
Yale Building Project, Series 2003,		
(a) 06/01/08	1,700,000	1,411,527
Other Total		1,411,527
POOL/BOND BANK - 0.3%		
MI Municipal Bond Authority, Local		
Government Loan Project, Series 2001 A,		
5.375% 11/01/17	750,000	803,715
Pool/Bond Bank Total		803,715

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REFUNDED/ESCROWED (F) - 5.4%
CO Denver City & County Airport,
   Series 1992 C, AMT,
     6.125% 11/15/25                5,120,000    5,417,403
CT Development Authority,
   Sewer Sludge Disposal Facilities,
   Series 1996, AMT,
     8.250% 12/01/06                  480,000      525,322
DC District of Columbia,
   Series 1999 A,
     5.375% 06/01/18                  695,000      771,492
GA Forsyth County Hospital Authority,
   Georgia Baptist Healthcare System,
   Series 1998,
     6.000% 10/01/08                  760,000      818,193
ID Health Facilities Authority,
   IHC Hospitals, Inc., Series 1992,
     6.650% 02/15/21                1,750,000    2,147,407
IL University of Illinois, Series 2001 A,
     5.500% 08/15/17                  685,000      766,953
NC Lincoln County, Lincoln County
   Hospital, Series 1991,
     9.000% 05/01/07                  190,000      212,525
NY New York City,
   Series 1997 A,
     7.000% 08/01/07                   40,000       44,702
PA Delaware County, Health Facilities,
   Series 1996:
     6.000% 12/15/16                1,400,000    1,541,316
     6.000% 12/15/26                1,000,000    1,094,420
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See notes to investment portfolio.

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INVESTMENT PORTFOLIO (CONTINUED)

May 31, 2004 (Unaudited)

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MUNICIPAL BONDS (CONTINUED)            PAR (S)    VALUE (S)
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OTHER (CONTINUED)
REFUNDED/ESCROWED (F) (CONTINUED)
TN Shelby County, Health, Education &
   Housing Facilities Board, Open Arms
   Development Center:
   Series 1992 A,
     9.750% 08/01/19                  830,000    1,018,559
   Series 1992 C,
     9.750% 08/01/19                  810,000      991,408
TX Board of Regents, University of Texas,
   Series 2001 B,
     5.375% 08/15/18                  650,000      720,902
WV Hospital Finance Authority, Charleston
   Medical Center, Series 2000 A,
     6.750% 09/01/30                  805,000      960,132
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Refunded/Escrowed Total		17,030,734
TOBACCO - 1.2%		
CA Golden State Tobacco Securitization Authority, Asset Backed:		
Series 2003 A-1, 6.250% 06/01/33	1,800,000	1,619,028
Series 2003 B, 5.500% 06/01/43	750,000	726,615
NJ Tobacco Settlement Financing Corp., Series 2003, 6.750% 06/01/39	1,500,000	1,328,055
WA Tobacco Settlement Authority, Series 2002, 6.625% 06/01/32	250,000	218,023
Tobacco Total		3,891,721
OTHER TOTAL		23,137,697
OTHER REVENUE - 2.3%		
HOTELS - 0.3%		
PA Philadelphia Authority for Industrial Development, Doubletree Project, Series 1997 A, 6.500% 10/01/27	1,000,000	1,005,760
Hotels Total		1,005,760
RECREATION - 1.4%		
CA Agua Caliente, Band of Cahuilla Indians Revenue, Series 2003, 5.600% 07/01/13	1,000,000	991,250
CT Gaming Authority, Mohegan Tribe, Series 2001, 6.250% 01/01/31 (e)	275,000	284,713
CT Mashantucket Western Pequot Tribe, Series 1999 B, (a) 09/01/16 (e)	1,000,000	498,050
FL Capital Trust Agency, Seminole Tribe Convention Center, Series 2002 A, 10.000% 10/01/33 (e)	1,350,000	1,623,969
NM Red River Sports Facility, Red River Ski Area Project, Series 1998, 6.450% 06/01/07	800,000	805,384
Recreation Total		4,203,366

	PAR (S)	VALUE (S)
RETAIL - 0.6%		
NJ Economic Development Authority, Glimcher Properties LP Project, Series 1998, AMT, 6.000% 11/01/28	1,250,000	1,258,700

OH Lake County, North Madison Properties, Series 1993, 8.819% 09/01/11	675,000	662,337
	Retail Total	1,921,037
	OTHER REVENUE TOTAL	7,130,163
RESOURCE RECOVERY - 1.3%		
DISPOSAL - 0.4%		
MA Industrial Finance Agency, Peabody Monofill Associates, Inc., Series 1995, 9.000% 09/01/05	435,000	445,797
UT Carbon County, Laidlaw Environmental:		
Series 1995 A, AMT, 7.500% 02/01/10	250,000	253,615
Series 1997 A, AMT, 7.450% 07/01/17	500,000	505,425
	Disposal Total	1,204,837
RESOURCE RECOVERY - 0.9%		
MA Development Finance Agency, Ogden Haverhill Project, Series 1999 A, AMT, 6.700% 12/01/14	250,000	260,887
MA Industrial Finance Agency, Ogden Haverhill Project, Series 1998 A, AMT, 5.500% 12/01/13	500,000	489,700
PA Delaware County Industrial Development Authority, BFI Project, Series 1997 A, 6.200% 07/01/19	2,000,000	2,048,520
	Resource Recovery Total	2,799,107
	RESOURCE RECOVERY TOTAL	4,003,944
TAX-BACKED - 25.3%		
LOCAL APPROPRIATED - 0.5%		
CA Compton Certificates of Participation, Civic Center & Capital Improvements, Series 1997 A, 5.500% 09/01/15	1,000,000	1,019,080
SC Dorchester County School District No. 2, Installment Purchase Revenue, Series 2004, 5.250% 12/01/29	650,000	626,132
	Local Appropriated Total	1,645,212
LOCAL GENERAL OBLIGATIONS - 12.9%		
CA East Side Union High School District, Series 2003 B, 5.100% 02/01/20	1,000,000	1,060,870
CA Fresno Unified School District, Series 2002 A,		

6.000% 02/01/18	2,000,000	2,319,340

See notes to investment portfolio.

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INVESTMENT PORTFOLIO (CONTINUED)

May 31, 2004 (Unaudited)

MUNICIPAL BONDS (CONTINUED)	PAR (S)	VALUE (S)
TAX-BACKED (CONTINUED)		
LOCAL GENERAL OBLIGATIONS (CONTINUED)		
CA Los Angeles Unified School District,		
Series 2002,		
5.750% 07/01/16	700,000	794,899
CA Montebello Unified School District,		
Series 2001:		
(a) 08/01/21	1,435,000	575,622
(a) 08/01/23	1,505,000	531,747
CA San Juan Unified School District,		
Series 2001,		
(a) 08/01/19	2,210,000	1,008,091
IL Chicago Board of Education,		
Series 1997 A,		
5.250% 12/01/30 (g)	14,470,000	14,559,280
IL Cook County, Series 1997 A,		
5.625% 11/15/22	4,200,000	4,496,226
NY New York City:		
Series 1997 A,		
7.000% 08/01/07	960,000	1,053,302
Series 1997 H,		
6.000% 08/01/17	1,400,000	1,506,344
TX Dallas County Flood Control,		
District No. 1,		
Series 2002,		
7.250% 04/01/32	1,000,000	1,012,300
TX Irving Independent School District,		
Series 1997,		
(a) 02/15/18	1,000,000	497,250
TX San Antonio Independent School District,		
Series 1997,		
5.000% 08/15/27	9,000,000	8,815,320
WA Clark County School District No. 37,		
Series 2001 C,		
(a) 12/01/18	5,000,000	2,387,650
Local General Obligations Total		40,618,241
SPECIAL NON-PROPERTY TAX - 3.6%		
CA San Diego Redevelopment Agency,		
Series 2001,		
(a) 09/01/22	1,910,000	710,520
FL Northern Palm Beach County		
Improvement District, Series 1999,		
6.000% 08/01/29	750,000	808,222

IL Metropolitan Pier & Exposition Authority, McCormick Place Expansion Project, Series 1993 A,		
(a) 06/15/16	10,000,000	5,541,900
OH Hamilton County, Series 2000 B,		
(a) 12/01/21	5,000,000	2,035,300
PR Commonwealth Highway & Transportation Authority, Series 2003 AA:		
5.500% 07/01/18	500,000	559,520
5.500% 07/01/20	1,500,000	1,668,555
Special Non-Property Tax Total		11,324,017

	PAR (S)	VALUE (S)
SPECIAL PROPERTY TAX - 4.1%		
CA Carson, Series 1992,		
7.375% 09/02/22	35,000	35,383
CA Huntington Beach Community Facilities District, Grand Coast Resort, Series 2001-1,		
6.450% 09/01/31	750,000	764,010
CA Oakdale Public Financing Authority, Tax Allocation Revenue, Central City Redevelopment Project, Series 2004,		
5.375% 06/01/33	1,375,000	1,297,092
CA Orange County Community Facilities District, Ladera Ranch, Series 1999 A,		
6.700% 08/15/29	500,000	523,135
CA Orange County Improvement Bond Act 1915, Phase IV, No. 01-1-B, Series 2003		
5.750% 09/02/33	500,000	498,545
CA Placer Unified High School District, Series 2000 A,		
(a) 08/01/19	1,700,000	776,611
CA Redwood City Community Facilities District, No. 1, Redwood, Series 2003 B,		
5.950% 09/01/28	600,000	607,164
CA Riverside County Public Financing Authority, Redevelopment Projects, Series 1997 A,		
5.500% 10/01/22	650,000	652,931
CA Temecula Valley Unified School District, No. 02-1, Series 2003,		
6.125% 09/01/33	400,000	399,952
FL Celebration Community Development District, Special Assessment, Series 2003 A,		
6.400% 05/01/34	1,000,000	1,013,480
FL Colonial Country Club Community Development, Capital Improvement Series 2003,		

6.400% 05/01/33	740,000	755,533
FL Double Branch Community Development District, Special Assessment, Series 2002 A,		
6.700% 05/01/34	700,000	733,341
FL Heritage Palms Community Development District, Series 1999,		
6.250% 11/01/04	465,000	466,827
FL Islands at Doral Southwest Community Development District, Series 2003,		
6.375% 05/01/35	380,000	388,128

See notes to investment portfolio.

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INVESTMENT PORTFOLIO (CONTINUED)

May 31, 2004 (Unaudited)

MUNICIPAL BONDS (CONTINUED)	PAR (S)	VALUE (S)
TAX-BACKED (CONTINUED)		
SPECIAL PROPERTY TAX (CONTINUED)		
FL Lexington Oaks Community Development District:		
Series 1998 A,		
6.125% 05/01/19	345,000	348,126
Series 1998 B,		
5.500% 05/01/05	35,000	35,112
Series 2000 A,		
7.200% 05/01/30	285,000	297,754
Series 2002 A,		
6.700% 05/01/33	250,000	258,335
FL Orlando, Conroy Road Interchange Project, Series 1998 A:		
5.500% 05/01/10	180,000	182,900
5.800% 05/01/26	300,000	299,676
FL Stoneybrook Community Development District:		
Series 1998 A,		
6.100% 05/01/19	315,000	317,980
Series 1998 B,		
5.700% 05/01/08	40,000	40,220
FL Westchester Community Development District No. 1 Special Assessment, Series 2003,		
6.125% 05/01/35	425,000	422,446
MI Pontiac Finance Authority, Development Area No. 3, Series 2002,		
6.375% 06/01/31	550,000	544,071
MI Taylor Tax Increment Finance Authority, Series 2001,		
5.375% 05/01/17	1,220,000	1,302,301
Special Property Tax Total		12,961,053

STATE APPROPRIATED - 1.3%		
CA State Public Works Board Lease Revenue, Coalinga State Hospital, Series 2004 A,		
5.500% 06/01/19	1,000,000	1,048,630
NY State Urban Development Corp., University Facilities Grants, Series 1995,		
5.875% 01/01/21	1,000,000	1,125,640
PR Commonwealth of Puerto Rico Public Finance Corp., Series 2002 E,		
6.000% 08/01/26	1,800,000	1,998,180
State Appropriated Total		4,172,450
STATE GENERAL OBLIGATIONS - 2.9%		
CA, Series 2003,		
5.250% 02/01/23	380,000	380,418
DC District of Columbia, Series 1999 A,		
5.375% 06/01/18	1,700,000	1,797,070
TX, Series 1999 ABC,		
5.500% 08/01/35	4,200,000	4,333,644
WA, Series 1999 B,		
5.000% 01/01/24	2,500,000	2,505,975
State General Obligations Total		9,017,107
TAX-BACKED TOTAL		79,738,080

	PAR (S)	VALUE (S)
TRANSPORTATION - 6.1%		
AIR TRANSPORTATION - 2.7%		
CA Los Angeles Regional Airport, LAXFuel Corp., Series 2001, AMT,		
5.250% 01/01/23	750,000	743,812
CO Denver City & County Airport, United Airlines, Inc., Series 1992 A, AMT,		
6.875% 10/01/32 (d)	1,645,000	1,246,137
FL Capital Trust Agency Revenue, Air Cargo - Orlando Project, Series 2003, AMT,		
6.750% 01/01/32	500,000	462,365
KY Kenton County Airport Board, Delta Air Lines, Inc., Series 1992 A, AMT,		
7.500% 02/01/12	500,000	425,220
MN Minneapolis & St. Paul Metropolitan Airport Commission, Northwest Airlines, Inc.		
Series 2001 A, AMT,		
7.000% 04/01/25	500,000	441,485
Series 2001 B, AMT,		
6.500% 04/01/25	250,000	239,055

NC Charlotte Special Facilities Revenue, Douglas International Airport, US Airways, Inc.:		
Series 1998, AMT, 5.600% 07/01/27	250,000	133,750
Series 2000, AMT, 7.750% 02/01/28	750,000	536,048
NJ Economic Development Authority, Continental Airlines, Inc. Project,		
Series 1999, AMT, 6.250% 09/15/29	250,000	188,328
Series 2003, 9.000% 06/01/33	750,000	775,650
TX Alliance Airport Authority:		
American Airlines Project, Series 1990, AMT, 7.500% 12/01/29	1,600,000	1,050,368
Federal Express Corp. Project, Series 1996, AMT, 6.375% 04/01/21	1,000,000	1,040,820
TX Houston Industrial Development Corp., Air Cargo, Perot Development, Series 2002, AMT, 6.000% 03/01/23	731,283	728,556
WA Seattle, Northwest Airlines, Inc., Series 2000, AMT, 7.250% 04/01/30	500,000	444,605
Air Transportation Total		8,456,199

See notes to investment portfolio.

INVESTMENT PORTFOLIO (CONTINUED)

May 31, 2004 (Unaudited)

MUNICIPAL BONDS (CONTINUED)	PAR (S)	VALUE (S)
TRANSPORTATION (CONTINUED)		
AIRPORTS - 0.9%		
CO Denver City & County Airport, Series 1997 E, 5.250% 11/15/23	1,700,000	1,741,786
MA Port Authority, Series 1998 D, 5.000% 07/01/28	1,000,000	988,910
Airports Total		2,730,696
TOLL FACILITIES - 2.2%		
CO Northwest Parkway Public Highway Authority, Series 2001 D, 7.125% 06/15/41	1,250,000	1,295,262
CO Public Highway Authority, Arapahoe County, E-470, Series 2000 B:		

(a) 09/01/18	3,000,000	1,453,170
(a) 09/01/35	8,750,000	854,787
NY Triborough Bridge & Tunnel Authority, Series 2002,		
5.500% 11/15/20	1,125,000	1,250,651
VA Richmond Metropolitan Authority, Series 1998,		
5.250% 07/15/22	2,000,000	2,135,640
Toll Facilities Total		6,989,510
TRANSPORTATION - 0.3%		
NV Department of Business & Industry, Las Vegas Monorail Project, Series 2000,		
7.375% 01/01/40	1,000,000	978,310
Transportation Total		978,310
TRANSPORTATION TOTAL		19,154,715
UTILITIES - 13.2%		
INDEPENDENT POWER PRODUCERS - 2.6%		
MI Midland County Economic Development Corp., Series 2000, AMT,		
6.875% 07/23/09	1,250,000	1,289,687
NY Port Authority of New York & New Jersey, KIAC Partners, Series 1996 IV, AMT,		
6.750% 10/01/11	2,000,000	2,057,540
PA Carbon City Industrial Development Panther Creek Partners Project, Series 2000, AMT,		
6.650% 05/01/10	275,000	294,344
PA Economic Development Finance Authority:		
Colver Project, Series 1994 D, AMT,		
7.125% 12/01/15	1,500,000	1,547,550
Northampton Generating, Series 1994 A, AMT,		
6.500% 01/01/13	1,000,000	1,009,980

	PAR (S)	VALUE (S)
PR Commonwealth of Puerto Rico Industrial, Educational, Medical & Environmental Cogeneration Facilities, AES Project, Series 2000, AMT,		
6.625% 06/01/26	645,000	668,343
VA Pittsylvania County Industrial Development Authority, Multi-trade of Pittsylvania, Series 1994 A, AMT:		
7.450% 01/01/09	1,000,000	939,170
7.550% 01/01/19	500,000	450,335
Independent Power Producers Total		8,256,949

INVESTOR OWNED - 6.0%		
AZ Maricopa County Pollution Control, El Paso Electric Co., Series 2002 A, 6.250% 05/01/37	1,000,000	1,035,490
AZ Pima County Industrial Development Authority, Tucson Electric Power Co., Series 1997 A, AMT, 6.100% 09/01/25	750,000	704,700
CA Chula Vista Industrial Development Revenue, San Diego Gas & Electric Co., Series 1996 B, AMT, 5.500% 12/01/21 (h)	625,000	633,775
CT Development Authority, Connecticut Light & Power Co., Series 1993 B, AMT, 5.950% 09/01/28	200,000	207,600
FL Polk County Industrial Development Authority, Tampa Electric Co. Project, Series 1996, AMT, 5.850% 12/01/30	1,200,000	1,168,344
IL Bryant, Pollution Control Revenue, Central Illinois Light Co., Series 1993, 5.900% 08/01/23	2,650,000	2,653,021
IN Petersburg Pollution Control Revenue, Indianapolis Power & Light Project, Series 1995, 6.625% 12/01/24	1,000,000	1,022,390
LA Calcasieu Parish Industrial Development Board, Entergy Gulf States, Inc., Series 1999, 5.450% 07/01/10	500,000	510,955
LA West Feliciana Parish, Entergy Gulf States, Inc., Series 1999 B, 6.600% 09/01/28	500,000	511,165
MS State Business Finance Corp., Systems Energy Resources Project, Series 1998, 5.875% 04/01/22	2,000,000	2,006,000
MT Forsyth Pollution Control, Portland General, Series 1998 A, 5.200% 05/01/33	300,000	311,739
NV Clark County Industrial Development Revenue, Nevada Power Co., Series 1995 B, AMT, 5.900% 10/01/30	750,000	648,638

See notes to investment portfolio.

INVESTMENT PORTFOLIO (CONTINUED)

May 31, 2004 (Unaudited)

MUNICIPAL BONDS (CONTINUED)	PAR (S)	VALUE (S)

UTILITIES (CONTINUED)		
INVESTOR OWNED (CONTINUED)		
OH Air Quality Development Authority, Pollution Control, Cleveland Electric, Series 2002 A,		
6.000% 12/01/13	900,000	921,645
TX Brazos River Authority Pollution Control, TXU Electric Co.:		
Series 2001 C, AMT,		
5.750% 05/01/36	350,000	366,608
Series 2003 C, AMT,		
6.750% 10/01/38	900,000	944,361
VA Chesterfield County Industrial Development Authority, Pollution Control Revenue, Virginia Electric & Power Co., Series 1987 B,		
5.875% 06/01/17	250,000	265,808
WV Pleasant County, Western Pennsylvania Power Co., Series 1999 E, AMT,		
5.500% 04/01/29	4,750,000	4,830,228
Investor Owned Total		18,742,467
JOINT POWER AUTHORITY - 0.3%		
NC Eastern Municipal Power Agency:		
Series 1999 D:		
5.500% 01/01/16	285,000	297,876
6.700% 01/01/19	500,000	550,585
Joint Power Authority Total		848,461
MUNICIPAL ELECTRIC - 2.9%		
CA Department of Water Resources, Power Supply Revenue Bonds, Series 2002 A,		
5.500% 05/01/14	2,000,000	2,202,260
NY Long Island Power Authority, Series 1998 B,		
5.000% 04/01/10	1,000,000	1,081,600
PR Electric Power Authority, Series 1998 II,		
5.125% 07/01/26	2,000,000	2,027,180
WA Chelan County Public Utilities District No. 1, Columbia River Rock Hydroelectric, Series 1997,		
(a) 06/01/14	5,000,000	3,119,400
WA Seattle Light &Power, Series 2001,		
5.500% 03/01/17	750,000	801,795
Municipal Electric Total		9,232,235
WATER & SEWER - 1.4%		
MA Water Resource Authority, Series 1997 D,		
5.000% 08/01/24	3,000,000	3,012,450
MO Water & Sewer, Lee's Summit, Series 2002,		
5.250% 07/01/15	500,000	531,575
MS V Lakes Utility District, Series 1994,		
8.250% 07/15/24	500,000	477,470

	PAR (S)	VALUE (S)
NH Industrial Development Authority, Pennichuck Water Works, Inc., Series 1988, AMT		
7.500% 07/01/18	470,000	517,216
Water & Sewer Total		4,538,711
UTILITIES TOTAL		41,618,823
TOTAL MUNICIPAL BONDS (Cost of $311,404,699)		304,081,298

MUNICIPAL PREFERRED STOCKS - 1.7%	SHARES	
HOUSING - 1.7%		
MULTI-FAMILY - 1.7%		
Charter Mac Equity Issue Trust:		
6.300% 04/30/19 (e)	1,000,000	1,007,720
AMT, 6.625% 06/30/49 (e)	2,000,000	2,177,100
MuniMae Equity Issue Trust,		
AMT, 7.750% 06/30/50 (e)	2,000,000	2,251,720
TOTAL MUNICIPAL PREFERRED STOCKS (Cost of $5,000,000)		5,436,540

SHORT-TERM OBLIGATIONS - 0.6%	PAR ($)	
VARIABLE RATE DEMAND NOTES (I) - 0.6%		
IA Woodbury County Educational Facility Revenue, Siouxland Medical Educational Foundation, Inc., Series 1996,		
1.140% 11/01/16	100,000	100,000
IL Health Care Facilities Authority, OSF Healthcare System, Series 2002,		
1.100% 11/15/27	300,000	300,000
IL Quad Cities Regional Economic Development Authority Revenue, Two Rivers YMCA Project, Series 2002,		
1.140% 12/01/31	200,000	200,000
MO Development Finance Board Infrastructure Facilities Revenue, St. Louis Convention Center, Series 2000 C,		
1.140% 12/01/20	100,000	100,000
NY State, Series 1993 A-10,		
1.020% 08/01/16	700,000	700,000
WY Uinta County Pollution Control Revenue, Chevron U.S.A. Inc. Project, Series 1992,		
1.080% 12/01/22	500,000	500,000

TOTAL SHORT-TERM OBLIGATIONS (Cost of $1,900,000)	1,900,000
TOTAL INVESTMENTS - 98.8% (Cost of $318,304,699)(j)	311,417,838
OTHER ASSETS & LIABILITIES, NET - 1.2%	3,629,312
NET ASSETS* - 100.0%	315,047,150

See notes to investment portfolio.

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INVESTMENT PORTFOLIO (CONTINUED)

May 31, 2004 (Unaudited)

NOTES TO INVESTMENT PORTFOLIO:

* Net assets represent both Common Shares and Auction Preferred Shares.
(a) Zero coupon bond.
(b) Denotes a restricted security, which is subject to restrictions on resale under federal securities laws. At May 31, 2004, these securities amounted to $2,789,453, which represents 0.9% of net assets.

SECURITY	ACQUISITION DATE	ACQUISITION COST
CA Statewide Community Development Authority:		
Crossroads School for Arts & Sciences, Series 1998, 6.000% 08/01/28	08/31/98	$1,280,000
Eskaton Village - Grass Valley, Series 2000, 8.250% 11/15/31	09/08/00	1,000,000
VI Government Refinery Facilities, Hovensa Coker Project, Series 2002, 6.500% 07/01/21	11/15/02	375,000
		$2,655,000

(c) The issuer is in default of certain debt covenants. Income is not being fully accrued. As of May 31, 2004, the value of these securities amounted to $2,574,857, which represents 0.8% of net assets.
(d) The issuer has filed for bankruptcy protection under Chapter 11, and is in default of certain debt covenants. Income is not being accrued. As of May 31, 2004, the value of these securities amounted to $2,007,937, which represents 0.6% of net assets.
(e) Security exempt from registration pursuant to Rule 144A under the Securities

Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers. At May 31, 2004, these securities amounted to $9,089,236, which represents 2.9% of net assets.

(f) The Trust has been informed that each issuer has placed direct obligations of the U.S. Government in an irrevocable trust, solely for the payment of principal and interest.

(g) A portion of the security with a market value of $3,028,572 pledged as collateral for open futures contracts.

(h) Security purchased is on a delayed delivery basis.

(i) Variable rate demand notes. These securities are payable upon demand and are secured by letters of credit or other credit support agreements from banks. The interest rates change periodically and the interest rates shown reflect the rates as of May 31, 2004.

(j) Cost for federal income tax purposes is $317,976,371.

At May 31, 2004, the Trust held the following open short futures contracts:

TYPE	VALUE	AGGREGATE FACE VALUE	EXPIRATION DATE	UNREALIZED APPRECIATION (DEPRECIATION)
10 Year U.S. Treasury Note	$27,249,000	$28,576,933	Jun-2004	$1,327,933
U.S. Long Bond	34,722,187	34,699,747	Sept-2004	(22,440)
				$1,305,493

ACRONYM	NAME
AMT	Alternative Minimum Tax

See notes to financial statements.

STATEMENT OF ASSETS AND LIABILITIES

May 31, 2004 (Unaudited)

ASSETS:

Investments, at cost	$318,304,699
Investments, at value	$311,417,838
Cash	24,537
Receivable for:	
Investments sold	44,746
Interest	5,344,360
Futures variation margin	317,184
Deferred Trustees' compensation plan	13,603
Other assets	39,447
Total Assets	317,201,715

LIABILITIES:

Payable for:

Investments purchased on a delayed

delivery basis	625,000
Distributions-- common shares	1,245,040
Distributions-- preferred shares	19,776
Preferred shares remarketing commissions	4,526
Investment advisory fee	199,218
Pricing and bookkeeping fees	18,949
Custody fee	1,375
Audit fee	27,078
Deferred Trustees' fees	13,603
Total Liabilities	2,154,565
Auction Preferred Shares (4,800 shares issued and outstanding at $25,000 per share)	$120,000,000

COMPOSITION OF NET ASSETS APPLICABLE TO COMMON SHARES:

Paid-in capital -- common shares	$263,244,152
Undistributed net investment income	895,595
Accumulated net realized loss	(63,511,229)
Net unrealized appreciation (depreciation) on:	
Investments	(6,886,861)
Futures contracts	1,305,493
Net assets at value applicable to 31,134,627 common shares of beneficial interest outstanding	$195,047,150
Net asset value per common share	$ 6.26

STATEMENT OF OPERATIONS

For the Six Months Ended May 31, 2004 (Unaudited)

INVESTMENT INCOME:

Interest	$ 9,468,517
Dividends	1,424
Total Investment Income	9,469,941

EXPENSES:

Investment advisory fee	1,209,500
Transfer agent fee	30,557
Pricing and bookkeeping fees	80,286
Trustees' fees	5,942
Preferred shares remarketing commissions	150,583
Custody fee	9,596
Other expenses	85,369

Total Expenses	1,571,833
Custody earnings credit	(259)
Net Expenses	1,571,574
Net Investment Income	7,898,367
NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FUTURES CONTRACTS:	
Net realized loss on:	
Investments	(704,826)
Futures contracts	(2,167,971)
Net realized loss	(2,872,797)
Net change in unrealized appreciation/ depreciation on:	
Investments	(7,749,182)
Futures contracts	1,210,143
Net change in unrealized appreciation/ depreciation	(6,539,039)
Net Loss	(9,411,836)
Net Decrease in Net Assets from Operations	(1,513,469)
LESS DISTRIBUTIONS DECLARED TO PREFERRED SHAREHOLDERS:	
From net investment income	(590,277)
Net Decrease in Net Assets from Operations Applicable to Common Shares	$ (2,103,746)

See notes to financial statements.

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STATEMENT OF CHANGES IN NET ASSETS

	(UN SIX M
INCREASE (DECREASE) IN NET ASSETS:	
OPERATIONS:	
Net investment income	$

Net realized loss on investments and futures contracts	(
Net change in unrealized appreciation/depreciation on investments and futures contracts	(

Net Increase (Decrease) from Operations	(

LESS DISTRIBUTIONS DECLARED TO PREFERRED SHAREHOLDERS:	
From net investment income	

Net Increase (Decrease) in Net Assets from Operations Applicable to Common Shares	(

LESS DISTRIBUTIONS DECLARED TO COMMON SHAREHOLDERS:	
From net investment income	(

SHARE TRANSACTIONS:	
Distributions reinvested	

Total Increase (Decrease) in Net Assets Applicable to Common Shares	(
NET ASSETS APPLICABLE TO COMMON SHARES:	
Beginning of period	20

End of period (including undistributed net investment income of $895,595 and $1,057,736, respectively)	$19
	===
NUMBER OF TRUST SHARES:	
Common Shares:	
Issued for distributions reinvested	
Outstanding at:	
Beginning of period	3

End of period	3

Preferred Shares:	
Outstanding at end of period	

See notes to financial statements.

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NOTES TO FINANCIAL STATEMENTS

May 31, 2004 (Unaudited)

NOTE 1. ORGANIZATION

Colonial High Income Municipal Trust (the "Trust") is a Massachusetts business trust registered under the Investment Company Act of 1940 (the "Act"), as amended, as a diversified, closed-end management investment company.

INVESTMENT GOAL

The Trust seeks to provide high current income, generally exempt from federal income taxes. The Trust's secondary goal is to seek total return.

TRUST SHARES

The Trust may issue an unlimited number of common shares. On August 26, 1999, the Trust issued 4,800 Auction Preferred Shares ("APS").

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The following is a summary of significant accounting policies consistently followed by the Trust in the preparation of its financial statements.

SECURITY VALUATION

Debt securities generally are valued by a pricing service approved by the Trust's Board of Trustees, based upon market transactions for normal, institutional-size trading units of similar securities. The services may use various pricing techniques which take into account appropriate factors such as yield, quality, coupon rate, maturity, type of issue, trading characteristics and other data, as well as broker quotes. Debt securities for which quotations are readily available are valued at an over-the-counter or exchange bid quotation. Certain debt securities, which tend to be more thinly traded and of lesser quality, are priced based on fundamental analysis of the financial condition of the issuer and the estimated value of any collateral. Valuations developed through pricing techniques may vary from the actual amounts realized upon sale of the securities, and the potential variation may be greater for those securities valued using fundamental analysis.

Short-term debt obligations maturing within 60 days are valued at amortized cost, which approximates market value.

Futures contracts are valued at the settlement price established each day by the board of trade or exchange on which they are traded.

Investments for which market quotations are not readily available, or quotations which management believes are not appropriate, are valued at fair value as determined in good faith under consistently applied procedures established by and under the general supervision of the Board of Trustees.

SECURITY TRANSACTIONS

Security transactions are accounted for on the trade date. Cost is determined and gains (losses) are based upon the specific identification method for both financial statement and federal income tax purposes.

FUTURES CONTRACTS

The Trust may invest in municipal and U.S. Treasury futures contracts. The Trust may invest in these instruments to hedge against the effects of changes in the value of portfolio securities due to anticipated changes in interest rates and/or market conditions, for duration management, or when the transactions are economically appropriate to the reduction of risk inherent in the management of the Trust and not for trading purposes. The use of futures contracts involves certain risks, which include: (1) imperfect correlation between the price movement of the instruments and the underlying securities, (2) inability to close out positions due to differing trading hours, or the temporary absence of a liquid market, for either the instrument or the underlying securities, or (3) an inaccurate prediction by Columbia Management Advisors, Inc. of the future direction of interest rates. Any of these risks may involve amounts exceeding the variation margin recorded on the Trust's Statement of Assets and Liabilities at any given time.

Upon entering into a futures contract, the Trust deposits cash or securities with the broker in an amount sufficient to meet the initial margin requirement. Subsequent payments are made or received by the Trust equal to the daily change in the contract value and are recorded as variation margin payable or receivable and offset in unrealized gains or losses. The Trust also identifies portfolio securities as segregated with the custodian in a separate account in an amount equal to the futures contract. The Trust recognizes a realized gain or loss when the contract is closed or expires.

OPTIONS

The Trust may write call and put options on futures it owns or in which it may invest. Writing put options tends to increase the Trust's exposure to the underlying instrument. Writing call options tends to decrease the

Trust's exposure to the underlying instrument. When the Trust writes a call or put option, an amount equal to the premium received is recorded as a liability and subsequently marked-to-market to reflect the current value of the option written. Premiums received from writing options which expire are treated as realized gains. Premiums received from writing options which are exercised or closed are added to the proceeds or offset against the amounts paid on the underlying future transaction to determine the realized gain or loss. The Trust as a writer of an option has no control over whether the underlying future may be sold (call) or purchased (put) and as a result bears the market risk of an unfavorable change in the price of the future underlying the written option. There is the risk the Trust may not be able to enter into a closing transaction because of an illiquid market.

The Trust may also purchase put and call options. Purchasing call options tends to increase the Trust's exposure to the underlying instrument. Purchasing put options tends to decrease the Trust's exposure to the underlying instrument. The Trust pays a premium, which is included in the Trust's Statement of Assets and Liabilities as an investment and subsequently marked-to-market to reflect the current value of the option. The risk associated with purchasing put and call options is limited to the premium paid. Premiums paid for purchasing options which expire are treated as realized losses. Premiums paid for purchasing options which are exercised or closed are added to the amounts paid or offset against the proceeds on the underlying future transaction to determine the realized gain or loss. The Trust's custodian will set aside cash or liquid portfolio securities equal to the amount of the written options contract commitment in a separate account.

RESTRICTED SECURITIES

Restricted securities are securities that may only be resold upon registration under federal securities laws or in transactions exempt from registration. In some cases, the issuer of restricted securities has agreed to register such securities for resale at the issuer's expense either upon demand by the Trust or in connection with another registered offering of the securities. Many restricted securities may be resold in the secondary market in transactions exempt from registration. Such restricted securities may be determined to be liquid under criteria established by the Board of Trustees. The Trust will not incur any registration costs upon such resale.

DELAYED DELIVERY SECURITIES

The Trust may trade securities on other than normal settlement terms, including securities purchased or sold on a "when-issued" basis. This may increase the risk if the other party to the transaction fails to deliver and causes the Trust to subsequently invest at less advantageous prices. The Trust identifies cash or liquid portfolio securities as segregated with the custodian in an amount equal to the delayed delivery commitment.

INCOME RECOGNITION

Interest income is recorded on the accrual basis. Premium and discount are amortized and accreted, respectively, on all debt securities. Corporate actions and dividend income are recorded on the ex-date.

FEDERAL INCOME TAX STATUS

The Trust intends to qualify each year as a "regulated investment company" under Subchapter M of the Internal Revenue Code, as amended, and will distribute substantially all of its taxable or tax-exempt income, if any, for its tax year, and as such will not be subject to federal income taxes. In addition, the Trust intends to distribute in each calendar year substantially all of its net investment income, capital gains and certain other amounts, if any, such that the Trust should not be subject to federal excise tax. Therefore no federal income or excise tax provision is recorded.

DISTRIBUTIONS TO SHAREHOLDERS

Distributions to common shareholders are recorded on ex-date. Distributions to Auction Preferred shareholders are recorded daily and payable at the end of each dividend period. Each dividend payment period for the APS is generally seven days. The applicable dividend rate for the APS on May 31, 2004 was 1.05% for Series T and 1.06% for Series W. For the six months ended May 31, 2004, the Trust declared dividends to Auction Preferred shareholders amounting to $590,277, representing an average APS dividend rate of 0.98%.

NOTE 3. FEDERAL TAX INFORMATION

The tax character of distributions paid during the year ended November 30, 2003 was as follows:

Distributions paid from:	
Tax-Exempt Income	$16,377,912
Ordinary Income*	23,800
Long-Term Capital Gains	--

* For tax purposes short-term capital gains distributions, if any, are considered ordinary income distributions.

Unrealized appreciation and depreciation at May 31, 2004, based on cost of investments for federal income tax purposes was:

Unrealized appreciation	$ 14,212,099
Unrealized depreciation	(20,770,632)
Net unrealized depreciation	$ (6,558,533)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2004 (Unaudited)

The following capital loss carryforwards, determined as of November 30, 2003, may be available to reduce taxable income arising from future net realized gains on investments, if any, to the extent permitted by the Internal Revenue Code:

YEAR OF EXPIRATION	CAPITAL LOSS CARRYFORWARD
2004	$ 2,815,387
2005	5,926,653
2007	3,941,668
2008	14,340,573
2009	4,198,716
2010	12,980,738
2011	4,761,736
	$48,965,471

Capital loss carryforwards of $5,267,623 were utilized and/or expired during the year ended November 30, 2003 for the Trust.

Expired capital loss carryforwards are recorded as a reduction of paid-in capital.

NOTE 4. FEES AND COMPENSATION PAID TO AFFILIATES

Columbia Management Advisors, Inc. ("Columbia") is the investment advisor to the Trust. Prior to April 1, 2004, Columbia was an indirect, wholly owned subsidiary of FleetBoston Financial Corporation ("FleetBoston"). Effective April 1, 2004, FleetBoston, including the Trust's investment advisor, was acquired by Bank of America Corporation ("BOA"). The acquisition did not change the way the Trust is managed, the investment personnel assigned to manage the Trust or the fees paid by the Trust.

INVESTMENT ADVISORY FEE

Columbia provides administrative and other services to the Trust in addition to investment advisory services. Columbia receives a monthly investment advisory fee at the annual rate of 0.75% of the Trust's average weekly net assets, including assets applicable to the APS.

PRICING AND BOOKKEEPING FEES

Columbia is responsible for providing pricing and bookkeeping services to the Trust under a pricing and bookkeeping agreement. Under a separate agreement (the "Outsourcing Agreement"), Columbia has delegated those functions to State Street Corporation ("State Street"). As a result, Columbia pays the total fees received to State Street under the Outsourcing Agreement.

Under its pricing and bookkeeping agreement with the Trust, Columbia receives from the Trust an annual flat fee of $10,000 paid monthly, and in any month that the Trust's average weekly net assets, including assets applicable to APS, exceed $50 million, an additional monthly fee. The additional fee rate is calculated by taking into account the fees payable to State Street under the Outsourcing Agreement. This rate is applied to the average weekly net assets, including assets applicable to APS, of the Trust for that month. The Trust also pays additional fees for pricing services based on the number of securities held by the Trust. For the six months ended May 31, 2004, the Trust's annualized effective pricing and bookkeeping fee rate was 0.050%.

CUSTODY CREDITS
The Trust has an agreement with its custodian bank under which custody fees may be reduced by balance credits. The Trust could have invested a portion of the assets utilized in connection with the expense offset arrangement in an income-producing asset if it had not entered into such an agreement.

FEES PAID TO OFFICERS AND TRUSTEES
The Trust pays no compensation to its officers, all of whom are employees of Columbia or its affiliates.

The Trust's Trustees may participate in a deferred compensation plan which may be terminated at any time. Obligations of the plan will be paid solely out of the Trust's assets.

OTHER
Columbia provides certain services to the Trust related to Sarbanes-Oxley compliance. For the six months ended May 31, 2004, the Trust paid $802 to Columbia for such services. This amount is included in "Other expenses" on the Statement of Operations.

NOTE 5. PORTFOLIO INFORMATION

For the six months ended May 31, 2004, the cost of purchases and proceeds from sales of securities, excluding short-term obligations, were $20,915,235 and $21,905,126, respectively.

NOTE 6. PREFERRED SHARES

The Trust currently has outstanding 4,800 APS (2,400 shares each of Series T and Series W). The APS are redeemable at the option of the Trust on any dividend payment date at the redemption price of $25,000 per share, plus an amount equal to any dividends accumulated on a daily basis unpaid through the redemption date (whether or not such dividends have been declared).

Under the Act, the Trust is required to maintain asset coverage of at least 200% with respect to the APS as of the last business day of each month in which any APS are outstanding. Additionally, the Trust is required to

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

May 31, 2004 (Unaudited)

meet more stringent asset coverage requirements under the terms of the APS Agreement and in accordance with the guidelines prescribed by the APS' rating agencies. Should these requirements not be met, or should dividends accrued on the APS not be paid, the Trust may be restricted in its ability to declare dividends to common shareholders or may be required to redeem certain APS. At May 31, 2004, there were no such restrictions on the Trust.

NOTE 7. DISCLOSURE OF SIGNIFICANT RISKS
AND CONTINGENCIES

GEOGRAPHIC CONCENTRATION
The Trust has greater than 5% of its total investments at May 31, 2004 invested in debt obligations issued by the states of California, Colorado, Florida, Illinois and Texas and their respective political subdivisions, agencies and public authorities. The Trust is more susceptible to economic and political factors adversely affecting issuers of the specific state's municipal securities

than are municipal bond funds that are not concentrated to the same extent in these issuers.

HIGH-YIELD SECURITIES

Investing in high-yield securities may involve greater credit risk and considerations not typically associated with investing in U.S. Government bonds and other higher quality fixed income securities. These securities are non-investment grade securities, often referred to as "junk bonds." Economic downturns may disrupt the high yield market and impair the ability of issuers to repay principal and interest. Also, an increase in interest rates would likely have an adverse impact on the value of such obligations. Moreover, high-yield securities may be less liquid to the extent there is no established secondary market.

INDUSTRY FOCUS

The Trust may focus its investments in certain industries, subjecting it to greater risk than a trust that is more diversified.

LEGAL PROCEEDINGS

Columbia and Columbia Funds Distributor, Inc. ("CFDI"), and certain of their affiliates (collectively, "the Columbia Group") have received information requests and subpoenas from various regulatory and law enforcement authorities in connection with their investigations of late trading and market timing in mutual funds, as well as other industry wide issues. The Columbia Group has not uncovered any instances where Columbia or CFDI were knowingly involved in late trading of mutual fund shares.

On February 24, 2004, the Securities and Exchange Commission ("SEC") filed a civil complaint in the United States District Court for the District of Massachusetts against Columbia and CFDI, alleging that they had violated certain provisions of the federal securities laws in connection with trading activity in mutual fund shares. Also on February 24, 2004, the New York Attorney General ("NYAG") filed a civil complaint in New York Supreme Court, County of New York against Columbia and CFDI alleging that Columbia and CFDI had violated certain New York anti-fraud statutes. If either Columbia or CFDI is unsuccessful in its defense of these proceedings, it could be barred from serving as an investment advisor or distributor for any investment company registered under the Investment Company Act of 1940, as amended (a "registered investment company"). Such results could prevent Columbia, CFDI or any company that is an affiliated person of Columbia and CFDI from serving as an investment advisor or distributor for any registered investment company, including your fund. Your fund has been informed by Columbia and CFDI that, if these results occur, they will seek exemptive relief from the SEC to permit them to continue to serve as your fund's investment advisor and distributor. There is no assurance that such exemptive relief will be granted. On March 15, 2004, Columbia and CFDI entered into agreements in principle with the SEC Division of Enforcement and NYAG in settlement of the charges. Under the agreements, Columbia and CFDI agreed, among other things, to the following conditions: payment of $70 million in disgorgement; payment of $70 million in civil penalties; an order requiring Columbia and CFDI to cease and desist from violations of the antifraud provisions and other provisions of the federal securities laws; governance changes designed to maintain the independence of the mutual fund boards of trustees and ensure compliance with securities laws and their fiduciary duties; and retention of an independent consultant to review Columbia's and CFDI's compliance policies and procedures. The agreement requires the final approval of the SEC. In a separate agreement with the NYAG, the Columbia Group has agreed to reduce mutual fund fees by $80 million over a five-year period.

May 31, 2004 (Unaudited)

As a result of these matters or any adverse publicity or other developments resulting from them, there may be increased redemptions or reduced sales of fund shares, which could increase transaction costs or operating expenses, or have other adverse consequences for the funds.

In connection with the events described in detail above, various parties have filed suit against certain trusts, their Boards and/or FleetBoston (and affiliated entities). These suits and certain regulatory investigations are ongoing. Accordingly, an estimate of the financial impact of this litigation on any trust, if any, cannot currently be made.

FINANCIAL HIGHLIGHTS

Selected data for a share outstanding throughout each period is as follows (common shares unless otherwise stated):

	(UNAUDITED) SIX MONTHS ENDED MAY 31, 2004	YEAR ENDED NOVEMB 2003	2002	200
NET ASSET VALUE, BEGINNING OF PERIOD	$ 6.57	$ 6.52	$ 6.93	$
INCOME FROM INVESTMENT OPERATIONS:				
Net investment income	0.26(b)	0.54(b)	0.57(b)(c)	
Net realized and unrealized gain (loss) on investments and futures contracts	(0.31)	0.04	(0.42)(c)	(
Total from Investment Operations	(0.05)	0.58	0.15	
LESS DISTRIBUTIONS DECLARED TO PREFERRED SHAREHOLDERS:				
From net investment income	(0.02)	(0.04)	(0.06)	(
Total from Investment Operations Applicable to Common Shareholders	(0.07)	0.54	0.09	
LESS DISTRIBUTIONS DECLARED TO COMMON SHAREHOLDERS:				
From net investment income	(0.24)	(0.49)	(0.50)	(
LESS SHARE TRANSACTIONS:				
Commissions and offering costs--preferred shares	--	--	--	
NET ASSET VALUE, END OF PERIOD	$ 6.26	$ 6.57	$ 6.52	$
Market price per share--common shares	$ 5.79	$ 6.45	$ 6.26	$
Total return--based on market value--common shares (e)	(6.79)%(f)	11.17%	5.81%	1
RATIOS TO AVERAGE NET ASSETS/ SUPPLEMENTAL DATA:				

Expenses (g)(h)	1.55%(i)	1.54%	1.49%	
Net investment income before preferred stock dividend (g)(h)	7.81%(i)	8.30%	8.36%(c)	
Net investment income after preferred stock dividend (g)(h)	7.23%(i)	7.72%	7.53%(c)	
Portfolio turnover rate	7%(f)	14%	15%	
Net assets, end of period (000's)--common shares	$ 195,047	$ 204,506	$ 202,765	$ 215

(a) The Trust changed its fiscal year end from December 31 to November 30.
(b) Per share data was calculated using average shares outstanding during the period.
(c) Effective December 1, 2001, the Trust adopted the provisions of the AICPA Audit and Accounting Guide for Investment Companies and began accreting market discount on all debt securities. The effect of this change, for the year ended November 30, 2002 was to increase the ratio of net investment income to average net assets from 8.31% to 8.36% and increase the ratio of net investment income (adjusted for dividend payments to preferred shareholders) from 7.48% to 7.53%. The impact to net investment income and net realized and unrealized loss per share was less than $0.01. Per share data and ratios for periods prior to November 30, 2002 have not been restated to reflect this change in presentation.
(d) The per share net investment income amount does not reflect the period's reclassification of differences between book and tax basis net investment income.
(e) Total return at market value assuming all distributions reinvested at prices calculated in accordance with the Dividend Reinvestment Plan.
(f) Not annualized.
(g) The benefits derived from custody credits and directed brokerage arrangements, if applicable, had an impact of less than 0.01%.
(h) Ratios reflect average net assets available to common shares only.
(i) Annualized.

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FINANCIAL HIGHLIGHTS (CONTINUED)

Selected data for a share outstanding throughout each period is as follows (common shares unless otherwise stated):

	YEAR ENDED DECEMBER			
	1998	1997	1996	1995
NET ASSET VALUE, BEGINNING OF PERIOD	$ 8.56	$ 8.34	$ 8.55	$ 7.
INCOME FROM INVESTMENT OPERATIONS:				
Net investment income	0.52	0.55	0.56	0.
Net realized and unrealized gain (loss) on investments and futures contracts	(0.07)	0.22	(0.19)	0.
Total from Investment Operations Applicable to Common Shareholders	0.45	0.77	0.37	1.
LESS DISTRIBUTIONS DECLARED TO COMMON SHAREHOLDERS:				
From net investment income	(0.52)	(0.55)	(0.58)	(0.

NET ASSET VALUE, END OF PERIOD	$ 8.49	$ 8.56	$ 8.34	$ 8.
Market price per share--common shares	$ 8.31	$ 8.63	$ 8.25	$ 7.
Total return--based on market value-- common shares (a)	2.47%	11.60%	20.09%	15.
RATIOS TO AVERAGE NET ASSETS/SUPPLEMENTAL DATA:				
Expenses (b)	0.93%	0.96%	1.00%	1.
Net investment income (b)	6.02%	6.54%	6.74%	7.
Portfolio turnover rate	29%	17%	15%	
Net assets, end of period (000's)--common shares	$ 263,705	$ 265,190	$ 257,768	$ 264,4

(a) Total return at market value assuming all distributions reinvested at prices calculated in accordance with the Dividend Reinvestment Plan.
(b) The benefits derived from custody credits and directed brokerage arrangements, if applicable, had an impact of less than 0.01%.

ASSET COVERAGE REQUIREMENTS

	TOTAL AMOUNT OUTSTANDING	ASSET COVERAGE PER SHARE	INVOLUNT LIQUIDAT PREFEREN PER SHA
05/31/04*	$120,000,000	$65,635	$25,004
11/30/03	120,000,000	67,605	25,003
11/30/02	120,000,000	67,243	25,002
11/30/01	120,000,000	69,864	25,004
11/30/00	120,000,000	69,786	25,009
11/30/99 **	120,000,000	73,466	25,021

* Unaudited.
** On August 26, 1999, the Trust began offering Auction Preferred Shares.

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SHAREHOLDER MEETING RESULTS

RESULTS OF THE ANNUAL MEETING OF SHAREHOLDERS
On May 26, 2004, the Annual Meeting of Shareholders of the Trust was held to conduct a vote for or against the approval of the following Items listed on the Trust's Proxy Statement for said Meeting. On March 10, 2004, the record date for the Meeting, the Trust had 31,125,991 common shares outstanding. The votes cast were as follows:

PROPOSAL 1. ELECTION OF TRUSTEES:	FOR	WITHHELD
William E. Mayer	26,276,559	893,371
Charles R. Nelson	26,420,791	749,139
Patrick J. Simpson	26,421,890	748,040
Thomas C. Theobald	26,409,108	760,822
Richard L. Woolworth	26,419,440	750,490

On March 10, 2004, the record date for the Meeting, the Trust had 4,800 preferred shares outstanding. The votes cast were as follows:

PROPOSAL 2. ELECTION OF TRUSTEES:	FOR	WITHHELD
Douglas A. Hacker	4,780	0
William E. Mayer	4,780	0
John J. Neuhauser	4,780	0
Patrick J. Simpson	4,780	0
Thomas E. Stitzel	4,780	0
Thomas C. Theobald	4,780	0
Richard L. Woolworth	4,780	0

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DIVIDEND REINVESTMENT PLAN

COLONIAL HIGH INCOME MUNICIPAL TRUST

Shareholders may elect to have all distributions of dividends and capital gains automatically reinvested by EquiServe Trust Company, N.A. (the "Plan Agent"), as agent under the Trust's Dividend Reinvestment Plan (the "Plan"). Pursuant to the Plan, the provisions of which are described below, shareholders not making such an election will receive all such amounts in cash paid by check mailed directly to the shareholder by the Plan Agent, as the dividend paying agent.

If the Trustees of the Trust declare a dividend or determine to make a capital gain distribution payable either in shares of the Trust or in cash, as shareholders may have elected, non-participants in the Plan will receive cash and participants in the Plan will receive the equivalent in shares of the Trust. If the market price of the shares on the payment date for the dividend or distribution is equal to or exceeds their net asset value, participants will be issued shares of the Trust at the higher of net asset value of 95% of the market price. If the net asset value exceeds the market price of Trust shares at such time, or if the Trust declares a dividend or other distribution payable only in cash, the Plan Agent will, as agent for Plan participants, buy Trust shares in the open market, on the New York Stock Exchange or elsewhere, for the participants' accounts. If, before the Plan Agent has completed its purchases, the market price exceeds the net asset value of the Trust's shares, the average per share purchase price paid by the Plan Agent may exceed the net asset value of the Trust's shares, resulting in the acquisition of fewer shares than if the dividend or distribution had been paid in shares issued by the Trust. In circumstances in which the net asset value of Trust shares is more than 5% below their market price, participants in the Plan will be issued shares through the Plan at a price exceeding net asset value.

Participants in the Plan may withdraw from the Plan upon written notice to the Plan Agent. When a participant withdraws from the Plan or upon termination of the Plan as provided below, certificates for whole shares credited to the participant's account under the Plan will be issued and a cash payment will be made for any fraction of a share credited to such account. A shareholder's notice of election to participate in or withdraw from the Plan must be received by the Plan Agent before the record date for a dividend in order to be given effect with respect to that dividend.

In the case of shareholders such as banks, brokers or nominees holding shares for others who are the beneficial owners of those shares, the Plan Agent will administer the Plan on the basis of the number of shares certified from time to time by the shareholder of record as representing the total amount registered in such shareholder's name and held for the account of beneficial owners who are to participate in the Plan.

There is no charge to Plan participants for reinvesting dividends or distributions. The Plan Agent's fees for the handling of the reinvestment of dividends and distributions will be paid by the Trust. There will be no brokerage charges with respect to shares issued directly by the Trust as a result of dividends or distributions payable either in stock or in cash. However, each participant will pay a pro rata share of brokerage commissions incurred with respect to the Plan Agent's open market purchases in connection with the reinvestment of dividends or distributions.

The automatic reinvestment of dividends and distributions will not relieve participants of any income tax that may be payable on such dividends or distributions.

The Plan may be amended or terminated on 30 days' written notice to Plan participants. All correspondence concerning the Plan should be directed to EquiServe by mail at P.O. Box 43010, Providence, RI 02940-3010, or by phone at 1-800-730-6001.

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TRANSFER AGENT

IMPORTANT INFORMATION ABOUT THIS REPORT

The Transfer Agent for Colonial High Income Municipal Trust is:

EquiServe
P.O. Box 43010
Providence, RI 02940-3010

The trust mails one shareholder report to each shareholder address. Shareholders can order additional reports by calling 800-730-6001. In addition, representatives at that number can provide shareholders information about the trust.

Financial advisors who want additional information about the trust may speak to a representative at 800-426-3750.

A description of the policies and procedures that the trust uses to determine how to vote proxies relating to its portfolio securities is available (i) without charge, upon request, by calling 800-730-6001 and (ii) on the Securities and Exchange Commission's website at http://www.sec.gov.

This report has been prepared for shareholders of Colonial High Income Municipal Trust.

COLONIAL HIGH INCOME MUNICIPAL TRUST SEMIANNUAL REPORT

120-03/057S-0504 (07/04) 04/1534

ITEM 2. CODE OF ETHICS.

Not applicable at this time.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

Not applicable at this time.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Not applicable at this time.

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.

Not applicable at this time.

ITEM 6. SCHEDULE OF INVESTMENTS

Not applicable at this time.

ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

Not applicable at this time.

ITEM 8. PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT COMPANY AND AFFILIATED PURCHASERS.

Not applicable at this time.

ITEM 9. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

There have not been any material changes to the procedures by which shareholders may recommend nominees to the registrant's Board of Trustees/Directors since those procedures were last disclosed in response to Item 7(d)(2)(ii)(G) of Schedule 14A.

ITEM 10. CONTROLS AND PROCEDURES.

(a) The registrant's principal executive officer and principal financial officer, based on his evaluation of the registrant's disclosure controls and procedures as of a date within 90 days of the filing of this report, has concluded that such controls and procedures are adequately designed to ensure that information required to be disclosed by the registrant in Form N-CSR is accumulated and communicated to the registrant's management, including the principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

(b) There were no changes in the registrant's internal control over financial reporting that occurred during the registrant's last fiscal half-year (the registrant's second fiscal half-year in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

ITEM 11. EXHIBITS.

(a)(1) Code of ethics required to be disclosed under Item 2 of Form N-CSR: Not applicable at this time.

(a)(2) Certifications pursuant to Rule 30a-2(a) under the Investment Company Act of 1940 (17 CFR 270.30a-2(a)) attached hereto as Exhibit 99.CERT.

(a)(3) Not applicable at this time.

(b) Certification pursuant to Rule 30a-2(b) under the Investment Company Act of 1940 (17 CFR 270.30a-2(b)) attached hereto as Exhibit 99.906CERT.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

(registrant) Colonial High Income Municipal Trust

By (Signature and Title) /s/ J. Kevin Connaughton

J. Kevin Connaughton, President and Treasurer

Date August 3, 2004

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By (Signature and Title) /s/ J. Kevin Connaughton

J. Kevin Connaughton, President and Treasurer

Date August 3, 2004

"margin-left:15px; text-indent:-15px">Other Liabilities 953 1,332

Total liabilities held for sale
$91,480 $99,109

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The results of discontinued operations were as follows:

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
	(In thousands)			
Revenue from discontinued operations				
Student loan business	$ 2,157	$ 2,875	$ 4,696	$ 5,927
Other discontinued operations	57	101	106	170
	2,214	2,976	4,802	6,097
Expenses from discontinued operations				
Student loan business	2,329	2,455	7,495	4,669
Other discontinued operations	1	(508)	3	(543)
	2,330	1,947	7,498	4,126
Increase in provision for loan allowance on student loans	(5,338)		(5,338)	
Income (loss) from discontinued operations before income taxes	(5,454)	1,029	(8,034)	1,971
Income tax benefits (expenses)	1,909	(360)	2,812	(690)
Income from discontinued operations (net of income taxes)	$ (3,545)	$ 669	$ (5,222)	$ 1,281

3. MEDICARE DIVISION

Exit from the Medicare Market

In late 2007, the Company expanded into the Medicare market by offering a new portfolio of Medicare Advantage Private-Fee-for-Service Plans (PFFS) called HealthMarkets Care Assured Plans (HMCA Plans) in selected markets in 29 states with coverage effective for January 1, 2008. Policies are issued by Chesapeake, one of the Company s subsidiaries, under a contract with the Centers for Medicare and Medicaid Services (CMS). The HMCA Plans are offered to Medicare eligible beneficiaries as a replacement for original Medicare and Medigap (Supplement) policies. They provide enrollees with the actuarial benefit equivalence they would receive under original Medicare, as well as certain additional benefits or benefit options, such as preventive care, pharmacy benefits and certain vision, dental and hearing services.

On July 15, 2008, the Medicare Improvements for Patients and Providers Act of 2008 was enacted, resulting in significant changes to the Medicare program. These changes include, among other things, the phased elimination of Medicare Advantage PFFS deeming arrangements with providers beginning in 2011. The Company believes that this new law will make it difficult for the Company to operate effectively in the Medicare market. As a result, in July 2008, the Company decided that it will not participate in the Medicare Advantage marketplace beyond the current year. The Company will continue to serve its current members through 2008 and fulfill its obligations under the current Medicare contract with CMS.

In connection with its exit from the Medicare market, the Company will incur employee termination costs of approximately $2.5 million and asset impairment charges of $1.2 million. In accordance with FAS 144, the results of operations of Medicare Division will continue to be included in continuing operations on its Consolidated Condensed Statements of Income (Loss) until the run-off operation ceases. The Company believes that its exit from the Medicare market will not, in the aggregate, have a material adverse effect on the Company s consolidated financial position, but may potentially have a material adverse effect on the results of operations or cash flows in any given accounting period.

Charges Incurred in the Current Period

During the three months ended June 30, 2008, the Company recognized a $4.9 million expense associated with a minimum volume guarantee fee related to the Company s contract with a third party administrator. This minimum volume guarantee fee was for member months over the three year term of the contract covering calendar years 2008 through 2010. To the extent the Company will now incur a contract termination fee instead, based on the decision to exit the Medicare market, the amount of the minimum volume guarantee fee was limited to the amount of the anticipated contract termination fee.

4. DEBT

In connection with the Merger completed on April 5, 2006, HealthMarkets, LLC, a direct wholly-owned subsidiary of the Company, 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, and the proceeds were used to fund a portion of the consideration paid in the Merger. At June 30, 2008, 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.

Also in connection with the merger, on April 5, 2006, HealthMarkets Capital Trust I and HealthMarkets Capital Trust II (two newly formed 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.

The following table sets forth detail of the Company s debt and interest expense (dollars in thousands):

	Principal Amount at June 30, 2008	Interest Expense Three Months Ended June 30, 2008	Interest Expense Six Months Ended June 30, 2008
2006 credit agreement:			
Term loan	$ 362,500	$ 5,168	$ 10,593
$75 Million revolver (non-use fee)		35	72
Trust preferred securities:			
UICI Capital Trust I	15,470	249	541
HealthMarkets Capital Trust I	51,550	762	1,766
HealthMarkets Capital Trust II	51,550	1,091	2,181
Other:			
Interest on Deferred Tax		1,054	2,096
Amortization of financing fees		1,121	2,222
Total	$ 481,070	$ 9,480	$ 19,471

Management uses derivative instruments to protect against the risk of changes in prevailing interest rates adversely affecting future cash flows associated with changes in the LIBOR rate applicable to its term loan credit facility discussed above. The derivative instrument used by the Company to protect against such risk is the interest rate swap. The Company accounts for its interest rate swaps in accordance with FAS 133, *Accounting for Derivative Instruments and Hedging Activities*.

The Company owns three interest rate swap agreements with an aggregate notional amount of $300.0 million. The terms of the swaps are 3, 4 and 5 years beginning on April 11, 2006. The Company presents the fair value of the interest rate swap agreements at the end of the period in either Other assets or Other liabilities, as applicable, on its consolidated condensed balance sheet. At June 30, 2008, the interest rate swaps had an aggregate fair value of approximately $9.2 million, which is reflected under the caption Other Liabilities. During the three and six months ended June 30, 2008, the Company incurred a loss of $18,000 and $35,000, respectively, related to the ineffectiveness of the interest rate swap. The Company 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.

During the quarter ended June 30, 2008, pretax expense of $1.6 million ($1.0 million net of tax) was reclassified into interest expense from accumulated other comprehensive income as adjustments to interest payments on variable rate debt.

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In addition, expense of $171,000 ($111,000 net of tax) was reclassified into earnings associated with the previous termination of the hedging relationship in the fourth quarter of 2006.

During the six months ended June 30, 2008, pretax expense of $1.9 million ($1.2 million net of tax) was reclassified into interest expense from accumulated other comprehensive income as adjustments to interest payments on variable rate debt. In addition, expense of $341,000 ($221,000 net of tax) was reclassified into earnings associated with the previous termination of the hedging relationship in the fourth quarter of 2006.

At June 30, 2008, accumulated other comprehensive income included a deferred after-tax net loss of $6.0 million related to the interest rate swaps of which $1.5 million ($962,000 net of tax) is the remaining amount of loss associated with the previous terminated hedging relationship. This amount is expected to be reclassified into earnings in conjunction with the interest payments on the variable rate debt through April 2011.

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.

5. NET INCOME (LOSS) 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,	
	2008	2007	2008	2007
	(In thousands, except per share amounts)			
Income (loss) from continuing operations	$ (15,684)	$ 22,694	$ (20,300)	$ 44,773
Income (loss) from discontinued operations	(3,545)	669	(5,222)	1,281
Net income (loss) available to common shareholders	$ (19,229)	$ 23,363	$ (25,522)	$ 46,054
Weighted average shares outstanding, basic	30,447	30,353	30,587	30,289
Dilutive effect of stock options and other shares		804		817
Weighted average shares outstanding, dilutive	30,447	31,157	30,587	31,106
Basic earnings (losses) per share:				
From continuing operations	$ (0.51)	$ 0.75	$ (0.66)	$ 1.48
From discontinued operations	(0.12)	0.02	(0.17)	0.04
Net income (loss) per share, basic	$ (0.63)	$ 0.77	$ (0.83)	$ 1.52
Diluted earnings (losses) per share:				
From continuing operations	$ (0.51)	$ 0.73	$ (0.66)	$ 1.44
From discontinued operations	(0.12)	0.02	(0.17)	0.04
Net income (loss) per share, basic	$ (0.63)	$ 0.75	$ (0.83)	$ 1.48

The common stock equivalents for the three and six months ended June 30, 2008 are excluded from the weighted average shares used to compute diluted net loss per share as they would be anti-dilutive to the per share calculation. The Company s diluted weighted average shares outstanding for the three and six months ended June 30, 2008 were 676,513 and 689,988, respectively.

As of June 30, 2008, 27,000,062 shares of Class A-1 common stock were issued, of which 26,903,513 were outstanding and 96,549 shares were held in treasury and 4,026,104 shares of Class A-2 common stock were issued, of which 3,225,913 shares were outstanding and 800,191 shares were held in treasury. As of December 31, 2007, 27,000,062 shares of Class A-1 common stock were issued, of which 26,899,056 were outstanding and 101,006 shares were held in treasury and 3,952,204 shares of Class A-2 common stock were issued, of which 3,623,266 shares were outstanding and 328,938 shares were held in treasury.

6. COMMITMENTS AND CONTINGENCIES

The Company is a party to the following material legal proceedings:

Association Group Litigation

As previously disclosed, on September 26, 2003, HealthMarkets and The MEGA Life and Health Insurance Company (MEGA) were named as cross-defendants in a lawsuit initially filed on July 30, 2003 (*Retailers Credit Association of Grass Valley, Inc. v. Henderson et al. v. UICI et al.*) in the Superior Court of the State of California for the County of Nevada, Case No. L69072. In the suit, cross-plaintiffs asserted several causes of action, including breach of the implied covenant of good faith and fair dealing, fraud, violation of California Business and Professions Code § 17200 and negligent and intentional misrepresentation, and sought injunctive relief and monetary damages in an unspecified amount. On August 28, 2006, the Court entered a final judgment in favor of all named cross-defendants. On March 26, 2008, the California Court of Appeals affirmed the trial court s judgment and on June 3, 2008, the California Supreme Court denied cross-plaintiff s petition for review. No further avenues of appeal are available to cross-plaintiffs and thus this case is concluded with respect to HealthMarkets and MEGA.

As previously disclosed, HealthMarkets and MEGA were named as defendants in an action filed on May 31, 2006 (*Linda L. Hopkins and Jerry T. Hopkins v. HealthMarkets, MEGA, the National Association for the Self Employed, et al.*) pending in the Superior Court for the County of Los Angeles, California, Case No. BC353258. Plaintiffs have alleged several causes of action, including breach of fiduciary duty, negligent failure to obtain insurance, intentional misrepresentation, fraud by concealment, promissory fraud, negligent misrepresentation, civil conspiracy, professional negligence, negligence, intentional infliction of emotional distress, and violation of the California Consumer Legal Remedies, California Civil Code Section 1750, et seq. Plaintiffs seek injunctive relief, disgorgement of profits and general and punitive monetary damages in an unspecified amount. The Court granted MEGA s motion for summary judgment and dismissed the case on July 10, 2008.

HealthMarkets and Mid-West National Life Insurance Company of Tennessee (Mid-West) 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 sustained Mid-West s demurrer, without leave to amend, disposing of plaintiff s claim for violation of the California Consumer Legal Remedies statute. The Court granted Mid-West s motion for summary judgment and dismissed the case on August 12, 2008.

The Company currently believes that resolution of the above proceedings will not have a material adverse effect on the Company s consolidated financial condition or results of operations.

Fair Labor Standards Act Agent Litigation

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 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, and on March 30, 2007 the Court denied HealthMarkets and Mid-West s motion and granted the Plaintiffs motion.

On August 2, 2007, the District Court granted HealthMarkets and Mid-West s Motion for an interlocutory appeal but denied requests to stay the litigation. On September 14, 2007, the United States Fifth Circuit Court of Appeals granted HealthMarkets and Mid-West s petition to hear the interlocutory appeal, which is pending before the Fifth Circuit.

In April 2008, a court-approved notice to prospective participants in the collective action was mailed. A total of 54 prospective participants have given notice of their opt-in elections, which together with the original 14 plaintiffs brings the total number of participants in the collective action to 68. Discovery in this matter is ongoing. At present, the Company is unable to determine what, if any, impact these matters may have on the Company s consolidated financial condition or results of operation.

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Other Litigation Matters

MEGA was named as a defendant in an action filed on April 8, 2003 (*Lucinda Myers v. MEGA et al.*) pending in the District Court of Potter County, Texas, Case No. 90826-E. Plaintiff has alleged several causes of action, including breach of contract, breach of the duty of good faith and fair dealing, negligence, unfair claims settlement practices, violation of the Texas Deceptive Trade Practices-Consumer Protection Act, mental anguish, and felony destruction of records and securing execution by deception. Plaintiff seeks monetary damages in an unspecified amount, and declaratory relief. MEGA asserted a counterclaim alleging, among other things, a cause of action against plaintiff for rescission of the health insurance contract due to material misrepresentations in the application for insurance. Following a trial held in February 2006, a jury rendered a verdict in favor of MEGA with respect to MEGA s claim for rescission of the policy, effectively disposing of all causes of action against the defendants and the Court rendered final judgment for defendants on March 9, 2006. Plaintiff filed a notice of appeal and, on April 17, 2008, the appellate court reversed the lower court s judgment and remanded the case for further proceedings. MEGA filed a motion for rehearing with the appellate court on May 12, 2008, which is pending before the appellate court.

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 April 22, 2008, Mid-West filed a motion for summary judgment which is pending before the Court.

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. The Company believes that the liability, if any, resulting from the disposition of such proceedings, claims, demands, disputes or matters would not be material to the Company s financial condition or results of operations.

*Regulatory Matter*s *Rhode Island*

The Rhode Island Office of the Health Insurance Commissioner conducted a targeted market conduct examination regarding MEGA s small employer market practices during 2005. As a result of that examination, MEGA is in the process of negotiating a settlement with the Office of the Health Insurance Commissioner. The Company anticipates that Mid-West will also agree to a settlement with the Office of the Health Insurance Commissioner since it sells similar plans in Rhode Island. The Company believes that this settlement will be on terms that will not have a material adverse effect upon the Company s consolidated financial condition or results of operations. Negotiations are on-going and the settlement is not final.

Regulatory Matters Multi-state Market Conduct Examination

As previously disclosed, in March 2005, HealthMarkets received notification that the Market Analysis Working Group of the NAIC had chosen the states of Washington and Alaska to lead a multi-state market conduct examination of HealthMarkets principal insurance subsidiaries (the Insurance Subsidiaries) for the examination period January 1, 2000 through December 31, 2005. Thirty-six (36) states elected to participate in the examination. The examiners issued a final examination report on December 20, 2007.

The findings of the final examination report cite deficiencies in five major areas of operation: (i) insufficient training of agents and lack of oversight of agent activities, (ii) deficient claims handling practices, (iii) insufficient disclosure of the relationship with affiliates and the membership associations, (iv) deficient handling of complaints and grievances, and (v) failure to maintain a formal corporate compliance plan and centralized corporate compliance department.

In connection with the issuance of the final examination report, the Washington Office of Insurance Commissioner issued an order adopting the findings of the final examination report and ordering the Insurance Subsidiaries to comply with certain required actions set forth in the report. The order requires the Insurance Subsidiaries to file a detailed report specifying how they have addressed each of the requirements of the order and another report outlining, by examination area, all business reforms, improvements and changes to policies and procedures.

During 2004, in response to state specific examination findings, the Insurance Subsidiaries began making significant changes to their structure and operational processes. These changes included the enhancement of its agent training and oversight programs, the reorganization and consolidation of the Company s compliance department, the adoption of additional methods to monitor agent sales activities, the implementation of a benefits confirmation telephone call program to obtain further assurances that customers understand their health insurance coverage and the creation of a Regulatory Advisory Panel consisting of former regulators to provide objective advice to the Board and management. The Company believes the Insurance Subsidiaries have effectively addressed or are in the process of addressing many of the findings identified in the final examination report. Many of these enhancements occurred after the examination period and are therefore not reflected in the examination report findings.

On May 29, 2008, the Insurance Subsidiaries entered into a regulatory settlement agreement (RSA) with the Director of the Alaska Division of Insurance and the Insurance Commissioner of Washington State (the Lead Regulators) that provides for the settlement of the examination on the following terms:

(1) A monetary penalty in the amount of $20 million, payable within ten business days of the effective date of the RSA, this amount was recognized in the Company s results of operations for the year ending December 31, 2007;

(2) A monetary penalty of up to an additional $10 million if the Insurance Subsidiaries are found not to comply with the requirements of the RSA when re-examined. Compliance will be monitored by the Lead Regulators, the Insurance Subsidiaries domestic regulators (The Insurance Commissioner of the State of Oklahoma and the Commissioner of Insurance of the State of Texas) and the California Department of Insurance (collectively, the Monitoring Regulators). The Monitoring Regulators will determine the amount, if any, of the penalty for failure to comply with the requirements of the RSA through a follow-up examination scheduled to occur during 2010. The Company has not recognized any expense associated with this contingent penalty;

(3) An Outreach Program to be administered by the Insurance Subsidiaries with certain existing insureds, which will be implemented within six months of the effective date of the RSA. The Insurance Subsidiaries will send a notice to all existing insureds whose medical coverage was issued by the Insurance Subsidiaries prior to August 1, 2005 which will include contact information for insureds to obtain information about their coverage and the address of a website responsive to coverage questions; and

(4) Ongoing monitoring of the Insurance Subsidiaries compliance with the RSA by the Monitoring Regulators, through periodic reports from the Insurance Subsidiaries. The Insurance Subsidiaries will be required to continue their implementation of certain corrective actions, the standards of which must be met by December 31, 2009. The Insurance Subsidiaries will bear the reasonable costs of monitoring by the Monitoring Regulators and their designees. In the event that the Monitoring Regulators find that the Insurance Subsidiaries have intentionally breached the terms of the RSA, resulting penalties and fines as a result of such finding will not be limited to the monetary penalties of the RSA.

According to its terms, the RSA became effective on August 15, 2008, which is thirty days after it was executed by twenty-seven states. As of August 15, 2008, forty-eight states had signed the RSA.

Regulatory Matters General

The Company s insurance subsidiaries are subject to various pending market conduct or other regulatory examinations, inquiries or proceedings arising in the ordinary course of business. 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. Historically, our insurance subsidiaries have from time to time been subject to such fines and penalties, none of which individually or in the aggregate have had a material adverse effect on our results of operations or financial condition. However, the multi-state market conduct examination and 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, singly 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 or retain insurance policies, 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.

7. SEGMENT INFORMATION

The Company operates three business segments, the Insurance segment, Other Key Factors and Disposed Operations. The Insurance segment includes the Company s Self-Employed Agency Division (SEA), the Life Insurance Division, the Medicare Division and Other Insurance Division. Other Key Factors includes investment income not allocated to the Insurance segment, realized gains or losses on sale of investments, interest expense on corporate debt, general expenses relating to corporate operations, variable non-cash stock-based compensation and operations that do not constitute

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reportable operating segments. Disposed Operations includes the Company s former Star HRG Division and former Student Insurance Division.

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 methods were applied. Certain assets are not individually identifiable by segment and, accordingly, have been allocated by formulas. Segment revenue includes 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 operating segments are accounted for under respective agreements, which provide for such transactions generally at cost.

Revenue from continuing operations, income (loss) 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,**	
	2008	**2007**	**2008**	**2007**
	(In thousands)		**(In thousands)**	
Revenue from continuing operations:				
Insurance:				
Self-Employed Agency Division	$ 315,535	$ 362,380	$ 638,424	$ 722,620
Life Insurance Division	23,305	22,706	47,395	44,260
Medicare Division	29,916		46,018	
Other Insurance Division	8,219	7,882	15,911	15,508
Total Insurance	376,975	392,968	747,748	782,388
Other Key Factors	(1,859)	7,263	6,300	19,931
Intersegment Eliminations	(44)	(490)	(91)	(978)
Total revenue excluding disposed operations	375,072	399,741	753,957	801,341
Disposed Operations	175	41	172	9
Total revenue from continuing operations	$ 375,247	$ 399,782	$ 754,129	$ 801,350

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2008	**2007**	**2008**	**2007**
	(In thousands)		**(In thousands)**	
Income (loss) from continuing operations before federal income taxes:				
Insurance:				
Self-Employed Agency Division	$ 18,450	$ 49,500	$ 30,745	$ 84,930
Life Insurance Division	(17,860)	488	(19,980)	517
Medicare Division	(7,327)	(1,270)	(12,304)	(1,407)
Other Insurance Division	3,169	1	4,241	1,761
Total Insurance	(3,568)	48,719	2,702	85,801
Other Key Factors	(24,292)	(14,107)	(37,008)	(18,320)
Total operating income (loss) excluding disposed operations	(27,860)	34,612	(34,306)	67,481

Disposed Operations	643	143	452	499
Total income (loss) from continuing operations before taxes	$ (27,217)	$ 34,755	$ (33,854)	$ 67,980

	June 30, 2008	December 31, 2007
	(In thousands)	
Assets		
Insurance:		
Self-Employed Agency Division	$ 824,816	$ 878,911
Life Insurance Division	544,928	540,474
Medicare Division	22,704	
Other Insurance Division	19,841	21,034
Total Insurance	1,412,289	1,440,419
Other Key Factors	515,010	553,855
Total Assets excluding disposed operations and held for sale	1,927,299	1,994,274
Assets held for sale	95,630	110,355
Disposed Operations	25,493	50,953
	$ 2,048,422	$ 2,155,582

The Student Insurance Division (included in Disposed Operations) assets of $25.5 million and $51.0 million at June 30, 2008 and December 31, 2007, respectively, primarily represent a reinsurance receivable associated with a coinsurance agreement entered into with an insurance affiliate of UnitedHealth Group.

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2006 Sale of Student Insurance Division

On December 1, 2006, the Company sold substantially all of the assets formerly comprising MEGA s Student Insurance Division. The purchase price is subject to downward or upward adjustment based on the amount of premium to be generated with respect to the 2007-2008 school year and actual claims experience with respect to the in-force block of student insurance business at the time of the sale. The Company has made no adjustment to the purchase price due to the premium provision and will continue to examine whether any adjustments should be made in the future.

The Company has recorded $518,000, $1.2 million and $6.5 million of realized gains as an adjustment to the purchase price in 2008, 2007 and 2006, respectively, related to positive claim experience with respect to the in-force block of student insurance business at the time of the sale. In May 2008, the Company received $8.2 million associated with the final upward adjustment related to the actual claim experience.

8. AGENT AND EMPLOYEE STOCK PLANS

Agent Stock Accumulation Plans

The Company sponsors a series of stock accumulation plans (the Agent Plans) established for the benefit of the independent insurance agents and independent sales representatives associated with UGA Association Field Services, New United Agency and Cornerstone America.

The following table sets forth the total compensation expense and tax benefit associated with the Company s Agent Plans for the three and six months ended June 30, 2008 and 2007:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(In thousands)		(In thousands)	
SEA and Medicare Division stock-based compensation expense	$ 1,283	$ 1,476	$ 2,603	$ 6,097
Other Key Factors variable non-cash stock-based compensation (benefit) expense	(3,508)	1,546	(3,218)	(5)
Total Agent Plan compensation (benefit) expense	(2,225)	3,022	(615)	6,092
Related Tax Benefit (Expense)	(779)	1,058	(215)	2,132
Net (benefit) expense included in financial results	$ (1,446)	$ 1,964	$ (400)	$ 3,960

At December 31, 2007, the Company had recorded 1,446,624 unvested matching credits associated with the Agent Plans, of which 430,455 vested in January 2008. Upon vesting, the Company decreased additional paid-in capital by $359,000, decreased treasury shares by $15.4 million and decreased other liabilities by $15.1 million. At June 30, 2008, the Company had recorded 1,100,526 unvested matching credits. Agent Plan transactions are not reflected in the Consolidated Condensed Statement of Cash Flows since issuance of equity securities to settle the Company s liabilities under the Agent Plans are non-cash transactions.

Employee Stock Option Plans

During the quarter ended June 30, 2008, options to purchase a total of 1,035,000 shares of Class A-1 common stock were granted under the 2006 Plan at an exercise price of $34.80, which represented the fair value of Class A-1 common stock as determined by the Board of Directors on the date of grant of such options.

9. TRANSACTIONS WITH RELATED PARTIES

On April 5, 2006, the Company completed its Merger and, as a result, affiliates of The Blackstone Group, Goldman Sachs Capital Partners and DLJ Merchant Banking Partners (the Private Equity Investors) held, as of June 30, 2008, approximately 54.7%, 22.4%, and 11.2%, 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.

In accordance with the terms of Transaction and Monitoring Fee Agreements with advisory affiliates of each of the Private Equity Investors, the advisory affiliates of each of the Private Equity Investors agreed to provide to the Company ongoing monitoring, advisory and consulting services, for which the Company agreed to pay to affiliates of each of The Blackstone Group, Goldman Sachs Capital Partners and DLJ Merchant Banking Partners an annual monitoring fee in an amount equal to $7.7 million, $3.2 million and $1.6 million, respectively. Aggregate annual monitoring fees in the amount of $12.5 million with respect to 2008 were paid in full to the advisory affiliates of the Private Equity Investors on January 8, 2008. The Company has expensed $6.3 million through June 30, 2008.

On April 20, 2007, the Company s Board of Directors approved a $10.0 million investment by Mid-West National Life Insurance Company of Tennessee 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 the quarter ended June 30, 2008, the Company received $317,000 in a capital distribution (return of capital) from Goldman Sachs Real Estate Partners, L.P. During the six months ended June 30, 2008, the Company received $431,000 ($403,000 return of capital and $28,000 income) in capital distributions from Goldman Sachs Real Estate Partners, L.P. The Company funded $3.3 million in capital calls through December 31, 2007. The Company did not fund any additional capital calls in 2008.

On April 20, 2007, the Company s Board of Directors approved a $10.0 million investment by The MEGA Life and Health Insurance Company 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 quarter ended June 30, 2008, the Company funded $1.4 million in capital calls. During the six months ended June 30, 2008, the Company funded $1.5 million in capital calls. The Company previously funded $1.6 million in capital calls through December 31, 2007.

10. INVESTMENTS

A. Other Than Temporary Impairment

Investments are reviewed quarterly (or more frequently if certain indicators arise) to determine if they have suffered an impairment of value that is considered other than temporary. In its review, management considers the following indicators of impairment: fair value significantly below cost; decline in fair value attributable to specific adverse conditions affecting a particular investment; decline in fair value attributable to specific conditions, such as conditions in an industry or in a geographic area; decline in fair value for an extended period of time; downgrades by rating agencies from investment grade to non-investment grade; financial condition deterioration of the issuer and situations where dividends have been reduced or eliminated or scheduled interest payments have not been made. If investments are determined to be other than temporarily impaired, a loss is recognized at the date of determination.

During the quarter ended June 30, 2008, the Company recognized impairment charges of $5.6 million primarily related to certain investments in collateralized debt obligations. These impairment charges resulted from other than temporary reductions in the fair value of the investments compared to the Company s cost basis.

B. Fair Value Measurement

Effective January 1, 2008, HealthMarkets adopted FAS No. 157, *Fair Value Measurements*, for financial assets and liabilities. FAS No. 157 defines fair value, expands disclosure requirements, and specifies a hierarchy of valuation techniques. The disclosure of fair value estimates in the FAS 157 hierarchy is based on whether the significant inputs into the valuation are observable. In determining the level of hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the Company s significant market assumptions. Following is a brief description of the type of valuation information (inputs) that qualifies a financial asset for each level:

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 that are not active. Directly observable market inputs for substantially the full term of the asset or liability, e.g., 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.

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Valuation of Investments

For investments that have quoted market prices in active markets, the Company uses the quoted market prices 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, fair values are estimated by management based on independent external valuation information, which utilizes various models and valuation techniques based on a range of 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 general, the fair values based on these observable market inputs fall into the Level 2 of the hierarchy, but in certain cases where there is limited activity or less transparency around inputs to the valuation, the fair values are reflected within Level 3 of the valuation hierarchy. When relying on bid/ask spreads from dealers, the Company typically uses the mid-mark to determine fair value. In extreme cases, where the bid/ask spread is unusually wide, the Company may use a convention other than the mid-mark to determine fair value based on other observable inputs.

The following is a description of the valuation methodologies used for financial assets measured at fair value, including the general classification of such assets pursuant to the valuation hierarchy.

Fixed Income Investments

Fixed income investments, other than U.S. Treasury securities, generally do not trade on a daily basis. The fair value estimates for the majority of these securities are estimated by management based on independent external valuation information, which utilizes available market data such as relevant market information, benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing. Option adjusted spread model is also used to develop prepayment and interest rate scenarios.

Each asset class is evaluated based on relevant market information, relevant credit information, perceived market movements and sector news. The market inputs utilized in the pricing evaluation, listed in the approximate order of priority, include: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data, and industry and economic events. The extent of the use of each market input depends on the asset class and the market conditions. The Company may have to make assumptions for market based inputs that are unavailable due to market conditions.

Because the fair value estimates of most fixed income investments are determined by evaluations that are based on observable market information rather than market quotes, all estimates of fair value for fixed income investments, other than U.S. Treasury securities, are disclosed in Level 2 of the hierarchy. The estimated values of U.S. Treasury securities are included in the amount disclosed in Level 1 as the estimates are based on unadjusted market prices.

While the vast majority of the Company s fixed income investments are included in Level 2, the Company holds a small number of fixed income investments where it estimates the fair value of these bonds using internal pricing matrices with some unobservable inputs that are significant to the valuation. Due to the limited amount of observable market information, the Company includes the fair value estimates for these particular bonds in Level 3 of the hierarchy.

Equities

The Company maintains one investment in Equity securities in which the Company uses a quoted market price based on observable market transactions. The Company includes the fair value estimate for this stock in Level 1 of the hierarchy. The remaining amount in Equity securities represents one security accounted for using the equity method of accounting and, therefore, does not require fair value disclosure under the provisions of FAS 157.

Derivatives

The Company s derivative instruments are valued using models that primarily use market observable inputs and, therefore, are classified as Level 2 because they are traded in markets where quoted market prices are not readily available.

Agent and Employee Stock Plans

The Company accounts for its agent and 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. 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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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 as of June 30, 2008

In thousands	Level 1	Level 2	Level 3	Total
Government and agencies	$ 10,859	$ 30,285	$	$ 41,144
Corporate debt and other		537,365		537,365
Mortgage and asset-backed		316,444	2,279	318,723
Municipals		198,797	21,682	220,479
Corporate equities	40			40
Short-term and other investments	288,299		2,015	290,314
	$ 299,198	$ 1,082,891	$ 25,976	$ 1,408,065

Liabilities at Fair Value as of June 30, 2008

In thousands	Level 1	Level 2	Level 3	Total
Interest rate swaps	$	$ 9,237	$	$ 9,237
Agent and employee plans			20,246	20,246
	$	$ 9,237	$ 20,246	$ 29,483

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 months and six months ended June 30, 2008. As of the quarter ended June 30, 2008, the Company determined that its municipal auction rate security investments previously presented in Level 2 of the hierarchy, should be classified as Level 3 due to no available observable markets inputs and, therefore, transferred them on the disclosure table.

Changes in Level 3 Assets and Liabilities Measured at Fair Value for the Three Months Ended June 30, 2008

	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						
Other invested assets	$ 2,464	$ 1,833	$ (236)	$ (2,046)	$	$ 2,015
Mortgage and asset-backed	2,428	(50)	(99)			2,279
Municipals		(1,418)			23,100	21,682
Liabilities						
Agent and Employee Stock Plans	$ 22,957	$ (4,878)	$ 2,167	$	$	$ 20,246

Changes in Level 3 Assets and Liabilities Measured at Fair Value for the Six Months Ended June 30, 2008

Purchases,

	Beginning Balance	Unrealized Gains or (losses)	Sales, Payments and Issuances, Net	Realized Losses(1)	Transfer in /(out) of Level 3, Net	Ending Balance
			(In Thousands)			
Assets						
Other invested assets	$ 3,380	$ 1,175	$ (494)	$(2,046)	$	$ 2,015
Mortgage and asset-backed	2,579	(118)	(182)			2,279
Municipals		(1,418)			23,100	21,682
Liabilities						
Agent and Employee Stock Plans	$37,273	$(4,878)	$(12,149)	$	$	$20,246

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

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

Cautionary Statements Regarding Forward-Looking Statements

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. When used in written documents or oral presentations, the terms *anticipate, believe, estimate, expect, may, objective, plan, possible, potential, project, will* and similar expressions are ir forward-looking 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, 2007 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

The Company operates three business segments, the Insurance segment, Other Key Factors and Disposed Operations. The Insurance segment includes the Company s Self-Employed Agency Division (SEA), the Life Insurance Division, the Medicare Division and Other Insurance Division. Other Key Factors includes investment income not allocated to the Insurance segment, realized gains or losses on sale of investments, interest expense on corporate debt, general expenses relating to corporate operations, variable non-cash stock-based compensation and operations that do not constitute reportable operating segments. Disposed Operations includes the Company s former Star HRG Division and former Student Insurance Division.

Through our SEA Division, we offer a broad range of health insurance products for self-employed individuals and individuals who work for small businesses. Our basic hospital-medical and catastrophic hospital expense plans are designed to accommodate individual needs and include traditional fee-for-service indemnity plans and preferred provider organization (PPO) plans, as well as other supplemental types of coverage. In addition, we offer on a selective state-by-state basis a suite of health insurance products to the self-employed and individual market, including a basic medical-surgical expense plan, catastrophic expense PPO plans and catastrophic expense consumer guided health plans.

We market these products to the self-employed and individual markets through independent contractor agents associated with UGA-Association Field Services (UGA) and Cornerstone America (Cornerstone), which are our dedicated agency sales forces that primarily sell the Company s products. The Company has approximately 1,300 independent writing agents per week in the field selling health insurance to the self employed market in 44 states.

Through our Life Insurance Division, we issue universal life, whole life and term life insurance products to individuals in four markets that we believe are underserved: the self-employed market, the middle income market, the Hispanic market and the senior market. We distribute these products directly to individual customers through our UGA and Cornerstone agents and other independent agents contracted through two key unaffiliated marketing companies. These two marketing companies, in turn, distribute our life products through managing general agent (MGA) networks. In June 2008, the Company entered into an agreement to sell substantially all of the business of the Life Insurance Division.

In 2007, we initiated efforts to expand into the Medicare market. In the fourth quarter of 2007, we began offering a new portfolio of Medicare Advantage Private-Fee-for-Service Plans- called HealthMarkets Care Assured Plans^{SM} (HMCA Plans) in selected markets in 29 states with coverage effective for January 1, 2008. Policies are issued by our Chesapeake subsidiary, under a contract with the Centers for Medicare and Medicaid Services (CMS). In July 2008, the Company determined it would not elect to continue the Medicare business after the 2008 plan year.

Our Other Insurance Division consists of ZON Re-USA, LLC (ZON Re) (an 82.5%-owned subsidiary) which underwrites, administers and issues accidental death, accidental death and dismemberment (AD&D), accident medical, and accident disability insurance products, both on a primary and on a reinsurance basis. We distribute these products

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through professional reinsurance intermediaries and a network of independent commercial insurance agents, brokers and third party administrators (TPAs).

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, 2008 and 2007:

	Three Months Ended June 30,		Percentage Increase	Six Months Ended June 30,		Percentage Increase
	2008	2007	(Decrease)	2008	2007	(Decrease)
	(Dollars in thousands)			(Dollars in thousands)		
REVENUE						
Health premiums	$ 326,038	$ 334,504	(3)%	$ 643,303	$ 668,266	(4)%
Life premiums and other considerations	17,761	17,444	2%	36,516	33,825	8%
	343,799	351,948	(2)%	679,819	702,091	(3)%
Investment income	15,674	23,544	(33)%	35,231	47,122	(25)%
Other income	20,390	27,445	(26)%	42,318	52,889	(20)%
Loss on sale of investments	(4,616)	(3,155)	NM	(3,239)	(752)	NM
	375,247	399,782	(6)%	754,129	801,350	(6)%
BENEFITS AND EXPENSES						
Benefits, claims, and settlement expenses	226,038	196,513	15%	450,295	411,844	9%
Underwriting, policy acquisition costs, and insurance expenses	139,678	133,444	5%	267,984	253,891	6%
Other expenses	27,268	23,646	15%	50,233	44,755	12%
Interest expense	9,480	11,424	(17)%	19,471	22,880	(15)%
	402,464	365,027	10%	787,983	733,370	7%
Income (loss) from continuing operations before income taxes	(27,217)	34,755	NM	(33,854)	67,980	NM
Federal income taxes	(11,533)	12,061	NM	(13,554)	23,207	NM
Income (loss) from continuing operations	(15,684)	22,694	NM	(20,300)	44,773	NM
Income (loss) from discontinued operations, net	(3,545)	669	NM	(5,222)	1,281	NM
Net income (loss)	$ (19,229)	$ 23,363	NM	$ (25,522)	$ 46,054	NM

NM: not meaningful

Revenue and income (loss) from continuing operations before federal income taxes (operating income) by business segment are summarized in the tables below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007

	(In thousands)		(In thousands)	
Revenues from continuing operations:				
Insurance:				
Self-Employed Agency Division	$ 315,535	$ 362,380	$ 638,424	$ 722,620
Life Insurance Division	23,305	22,706	47,395	44,260
Medicare Division	29,916		46,018	
Other Insurance	8,219	7,882	15,911	15,508
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Other Key Factors	(1,859)	7,263	6,300	19,931
Intersegment Eliminations	(44)	(490)	(91)	(978)
Total revenues excluding disposed operations	375,072	399,741	753,957	801,341
Disposed Operations	175	41	172	9
Total revenues from continuing operations	$ 375,247	$ 399,782	$ 754,129	$ 801,350

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(In thousands)		(In thousands)	
Income (loss) from continuing operations before federal income taxes:				
Insurance:				
Self-Employed Agency Division	$ 18,450	$ 49,500	$ 30,745	$ 84,930
Life Insurance Division	(17,860)	488	(19,980)	517
Medicare Division	(7,327)	(1,270)	(12,304)	(1,407)
Other Insurance Division	3,169	1	4,241	1,761
Total Insurance	(3,568)	48,719	2,702	85,801
Other Key Factors	(24,292)	(14,107)	(37,008)	(18,320)
Total operating income (loss) excluding disposed operations	(27,860)	34,612	(34,306)	67,481
Disposed Operations	643	143	452	499
Total income (loss) from continuing operations before federal income taxes	$ (27,217)	$ 34,755	$ (33,854)	$ 67,980

HealthMarkets results of operations for the three and six months ended June 30, 2008 and 2007 were particularly impacted by the following factors:

Self- Employed Agency Division

Set forth below is certain summary financial and operating data for the Company s Self-Employed Agency Division for the three and six months ended June 30, 2008 and 2007:

	Self-Employed Agency Division					
	Three Months Ended June 30,		Percentage Increase (Decrease)	Six Months Ended June 30,		Percentage Increase (Decrease)
	2008	2007		2008	2007	
	(Dollars in thousands)					
Revenue						
Earned premium revenue	$ 288,860	$ 327,183	(12)%	$ 583,064	$ 653,840	(11)%
Investment income	7,107	7,681	(7)%	14,342	15,590	(8)%
Other income	19,568	27,516	(29)%	41,018	53,190	(23)%
Total revenue	315,535	362,380	(13)%	638,424	722,620	(12)%
Benefits and Expenses						
Benefit expenses	183,370	177,885	3%	372,486	376,493	(1)%
Underwriting and policy acquisition expenses	102,887	119,740	(14)%	212,021	231,817	(9)%
Other expenses	10,828	15,255	(29)%	23,172	29,380	(21)%

Total expenses	297,085	312,880	(5)%	607,679	637,690	(5)%
Operating income	$ 18,450	$ 49,500	(63)%	$ 30,745	$ 84,930	(64)%
Other operating data:						
Loss ratio	63.5%	54.4%		63.9%	57.6%	
Expense ratio	35.6%	36.6%		36.4%	35.5%	
Combined ratio	99.1%	91.0%		100.3%	93.1%	
Average number of writing agents in period	1,318	1,911		1,363	2,070	
Submitted annualized volume	$ 116,645	$ 185,286		$ 246,270	$ 385,826	

Loss ratio. The loss ratio represents total benefit expenses as a percentage of earned premium revenue.

Expense ratio. The expense ratio represents underwriting and policy acquisition expenses as a percentage of earned premium revenue.

The SEA Division reported operating income in the three and six months period ended June 30, 2008 of $18.5 million and $30.7 million, respectively, compared to operating income of $49.5 million and $84.9 million in the corresponding 2007 period. Operating income in the SEA Division as a percentage of earned premium revenue (*i.e.,* operating margin) in the six month period ended June 30, 2008 was 5.3% compared to operating margin of 13.0% in the corresponding 2007 period. The decrease in operating margin during the current year period compared to the corresponding prior year period is primarily attributable to an increase in the loss ratio reflecting an ongoing gradual shift in product mix. For the last two years the Company s sales efforts have been focused on new PPO type products which by design have a higher loss ratio than the Company s previous products that were largely per occurrence or scheduled benefit products. Operating margin was also adversely impacted during the current year period due to an 11% decrease in earned premium. Underwriting and policy acquisition expenses decreased by $16.9 million and $19.8 million, respectively, during the three and six months ended June 30, 2008. 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. 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 memberships by our dedicated agency sales force for which other expenses are incurred for bonuses and other compensation provided to the agents. Sales of memberships by our dedicated agency 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.

In the six months ended June 30, 2008, total SEA Division submitted annualized premium volume (i.e., the aggregate annualized premium amount associated with individual and small group health insurance applications submitted by the Company s agents for underwriting by the Company) decreased to $246.3 million from $385.8 million in the corresponding 2007 period. The period over period decreases in submitted annualized premium volume was primarily attributable to a decrease in the number of writing agents and a focus, during the first quarter, on selling the Company s new Medicare product.

Life Insurance Division

Set forth below is certain summary financial and operating data for the Company s Life Insurance Division for the three and six months ended June 30, 2008 and 2007:

	Life Insurance Division					
	Three Months Ended June 30,		Percentage Increase (Decrease)	Six Months Ended June 30,		Percentage Increase (Decrease)
	2008	2007		2008	2007	
	(Dollars in thousands)					
Revenue						
Earned premium revenue	$ 17,593	$ 17,259	2%	$ 36,177	$ 33,529	8%
Investment income	5,162	5,145	0%	10,310	10,234	1%
Other income	550	302	82%	908	497	83%
Total revenue	23,305	22,706	3%	47,395	44,260	7%
Benefits and Expenses						
Benefit expenses	15,262	13,701	11%	32,282	27,580	17%
Underwriting and policy acquisition expenses	25,903	8,517	204%	35,093	16,163	117%
Total expenses	41,165	22,218	85%	67,375	43,743	54%
Operating income (loss)	$ (17,860)	$ 488	NM	$ (19,980)	$ 517	NM

NM: not meaningful

The Company s Life Insurance Division reported an operating loss in the three and six month period of June 30, 2008 of $17.9 million and $20.0 million, respectively compared to operating income of $488,000 and $517,000 in the corresponding 2007 period. The decrease in operating income for the three and six-month periods reflects a $13.0 million impairment charge to underwriting and policy acquisition expenses as a result of the decision to exit this business by reinsuring on a 100% coinsurance basis substantially all of the insurance polices associated with the Company s Life Insurance Division. Based upon the consideration expected to be received in connection with the coinsurance arrangement, the Company recorded an impairment charge to deferred acquisition costs in the three months ended June 30, 2008. *See* Note 2 of Notes to consolidated condensed financial statements. Additionally, during the quarter ended June 30, 2008, the Life Insurance Division incurred employee termination costs of $3.2 million related to the pending coinsurance arrangement. Also, contributing to the decrease in operating income for the three and six-month periods was a strengthening of the future policy and contract benefit reserves of $1.8 million and $3.9 million, respectively, for certain interest sensitive whole life products.

In the three and six months ended June 30, 2008, the Company s Life Insurance Division generated annualized paid premium volume (i.e., the aggregate annualized life premium amount associated with new life insurance policies issued by the Company) in the amount of $5.5 million and $10.6 million, respectively, compared to $4.6 million and

$8.9 million, respectively, in the corresponding 2007 period. The 2008 increase in annualized premium was primarily due to an increase in the sales of the Company s whole life product to assist seniors in meeting their needs to cover final expenses.

Medicare Division

In 2007, we initiated efforts to expand into the Medicare market. In the fourth quarter of 2007, we began offering a new portfolio of Medicare Advantage Private-Fee-for-Service Plans - called HealthMarkets Care Assured Plans[SM] (HMCA Plans) in selected markets in 29 states with coverage effective for January 1, 2008. Policies are issued by our Chesapeake subsidiary, under a contract with the Centers for Medicare and Medicaid Services (CMS).

Our HMCA Plans are offered to Medicare eligible beneficiaries as a replacement for original Medicare and Medigap (Supplement) policies. They provide enrollees with the actuarial benefit equivalence they would receive under original Medicare, as well as certain additional benefits or benefit options, such as preventive care, pharmacy benefits and certain vision, dental and hearing services. Enrollees can obtain services from any Medicare-eligible provider who agrees to accept the HMCA Plan s terms and conditions. Enrollees may or may not pay a premium in addition to the premium payable for original Medicare. The amount of the additional premium varies, based on the level of benefits and coverage. Our initial

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plan offerings include the HealthMarkets Care Assured Value Plan, which has a $3,500 annual maximum out-of-pocket for covered expenses, and the HealthMarkets Care Assured Premier Plan, which has a $1,500 annual maximum out-of-pocket for covered expenses. Each plan can be purchased with Medicare Part D prescription drug coverage as an optional benefit. Coinsurance and copayment requirements vary by plan and service received. Covered expenses are not subject to a deductible.

Set forth below is certain summary financial and operating data for the Company s Medicare Division for the three and six months ended June 30, 2008:

	Medicare Division					
	Three Months Ended June 30,		Percentage Increase (Decrease)	Six Months Ended June 30,		Percentage Increase (Decrease)
	2008	2007		2008	2007	
	(Dollars in thousands)					
Revenue						
Earned premium revenue	$ 29,813	$	NM	$ 45,859	$	NM
Investment income and other income	103		NM	159		NM
Total revenue	29,916		NM	46,018		NM
Benefits and Expenses						
Benefit expenses	26,039		NM	40,130		NM
Underwriting and policy acquisition expenses	11,204	1,270	NM	18,192	1,407	NM
Total expenses	37,243	1,270	NM	58,322	1,407	NM
Operating loss	$ (7,327)	$ (1,270)	NM	$ (12,304)	$ (1,407)	NM
Other operating data:						
Loss ratio	87.3%	NM		87.5%	NM	
Expense ratio	37.6%	NM		39.6%	NM	
Combined ratio	124.9%	NM		127.1%	NM	

Loss ratio. The loss ratio represents total benefit expenses as a percentage of earned premium revenue.

Expense ratio. The expense ratio represents underwriting and policy acquisition expenses as a percentage of earned premium revenue.

The Medicare Division produced $29.8 million and $45.9 million in earned premium for the three and six months ended June 30, 2008 on 35,534 and 54,962 member months, respectively. The Company had approximately 12,000 enrolled members as of June 30, 2008. Benefit expenses for the six-month period ended June 30, 2008 of $40.1 million resulted in a loss ratio of 87.5% consistent with the Company s expectations after adjusting for the actual member risk scores as provided by CMS. Underwriting and policy acquisition expenses of $18.2 million for the six months ended June 30, 2008 include commissions, marketing costs, and all administrative and operating costs. Additionally, the three and six-month underwriting and policy acquisition expenses include a minimum volume guarantee fee and contract termination cost of $4.9 million payable to the Company s third-party administrator. This minimum volume guarantee fee was for a contractually required member month level of activity over the three year term of the contract covering years 2008 through 2010 that the Company does not expect to meet. To the extent the Company will now incur a contract termination fee instead, based on the decision to exit the Medicare Advantage PFFS market, the amount of the minimum volume guarantee fee was limited to the amount of the anticipated contract termination fee.

In October 2007, Chesapeake voluntarily suspended its Medicare marketing and enrollment activities pending a review by CMS of Chesapeake s compliance with regulatory requirements. In connection with this review, Chesapeake agreed with CMS to take certain actions to ensure that it met applicable Medicare program requirements and, in November 2007, Chesapeake resumed marketing and enrollment activities related to its HMCA plans. The Company believes that the suspension of Medicare marketing and enrollment activities in the fourth quarter of 2007 adversely affected enrollment of beneficiaries into Chesapeake s HMCA Plans for the 2008 plan year. Chesapeake s Medicare marketing and enrollment activities are subject to ongoing review by CMS and, in April 2008, CMS requested additional materials from Chesapeake as part of a follow-up review of Chesapeake s Medicare marketing and enrollment activities during the first quarter of 2008. As a result of that review, on June 6, 2008, CMS requested that the Company submit a Corrective Action Plan (CAP). The Company submitted the CAP on June 20, 2008, and has provided routine updates on its progress to CMS every two weeks beginning on July 1, 2008. The CAP provides for the Company to: increase the number of providers willing to be deemed, implement a meaningful disciplinary process for agents, decrease the rate of complaints against the Company, and decrease the Company s level of rapid disenrollment/cancellations.

On July 15, 2008, the Medicare Improvements for Patients and Providers Act of 2008 (HR. 6331) was enacted, resulting in significant changes to the Medicare program, including the phased elimination of Medicare Advantage PFFS deeming arrangements beginning 2011. The Company believes that this new law will make it difficult for the Company to operate effectively in the Medicare Market. With this changing landscape of the Medicare regulations, in July 2008, the Company decided that it will not participate in the Medicare Advantage marketplace beyond the current year. The Company will

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continue to serve its current members through 2008 and fulfill its obligation under the current Medicare contract. In connection with its exit from the Medicare market, the Company will incur employee termination costs of $2.5 million and asset impairment charges of $1.2 million. The Company believes that its exit from the Medicare market will not, in the aggregate, have a material adverse effect on the Company s consolidated financial position, but may potentially have a material adverse effect on the results of operations or cash flows in any given accounting period.

Other Insurance Division

Set forth below is certain summary financial and operating data for the Company s Other Insurance Division for the three and six months ended June 30, 2008 and 2007:

	Other Insurance Division					
	Three Months Ended June 30,		Percentage Increase (Decrease)	Six Months Ended June 30,		Percentage Increase (Decrease)
	2008	2007		2008	2007	
	(Dollars in thousands)					
Revenue						
Earned premium revenue	$ 7,533	$ 7,465	1%	$ 14,718	$ 14,713	0%
Investment income	448	387	16%	890	747	19%
Other income	238	30	NM	303	48	NM
Total revenue	8,219	7,882	4%	15,911	15,508	3%
Benefits and Expenses						
Benefit expenses	1,816	5,074	(64)%	5,790	8,249	(30)%
Underwriting and policy acquisition expenses	3,234	2,807	15%	5,880	5,498	7%
Total expenses	5,050	7,881	(36)%	11,670	13,747	(15)%
Operating income	$ 3,169	$ 1	NM	$ 4,241	$ 1,761	141%
Other operating data:						
Loss ratio	24.1%	68.0%		39.3%	56.1%	
Expense ratio	42.9%	37.6%		40.0%	37.4%	
Combined ratio	67.0%	105.6%		79.3%	93.5%	

NM: not meaningful

Loss ratio. The loss ratio represents benefits expenses related to accident insurance and reinsurance contracts stated as a percentage of earned premiums.

Expense ratio. The expense ratio represents underwriting and policy acquisition expenses related to accident insurance and reinsurance contracts stated as a percentage of earned premium revenue.

For the three and six months ended June 30, 2008, operating income was $3.2 million and $4.2 million, respectively, on revenue of $8.2 million and $15.9 million, respectively, compared to operating income of $100,000 and $1.8 million, respectively, on revenue of $7.9 million and $15.5 million, respectively, for the corresponding period in 2007. The results for the three months ended June 30, 2008 reflect positive claim experience while the results for the three months ended June 30, 2007 reflect adverse claim experience, in particular the impact of two large claims on the reinsured business. The increase in underwriting and policy acquisition expenses for the three and six months ended June 30, 2008 includes an increase in the incentive compensation plan tied to the current period profitability partially offset by a decrease in litigation expenses from the prior year periods.

Other Key Factors

The Company s Other Key Factors segment includes investment income not otherwise allocated to the Insurance segment, realized gains and losses, interest expense on corporate debt, general expenses relating to corporate operations, variable stock compensation, and other unallocated items.

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Set forth below is certain summary financial data for the Company s Other Key Factors segment for the three and six months ended June 30, 2008 and 2007:

	Other Key Factors					
	Three Months Ended June 30,		Percentage Increase	Six Months Ended June 30,		Percentage Increase
	2008	2007	(Decrease)	2008	2007	(Decrease)
	(Dollars in thousands)					
Investment income on equity	$ 2,931	$ 10,417	(72)%	$ 9,664	$ 20,682	(53)%
Realized loss on investments	(4,790)	(3,154)	NM	(3,364)	(751)	NM
Interest expense on non-student loan debt	(9,479)	(11,424)	(17)%	(19,471)	(22,879)	(15)%
Variable stock-based compensation (expense) benefit	3,508	(1,546)	NM	3,218	5	NM
General corporate expenses and other	(16,462)	(8,400)	96%	(27,055)	(15,377)	76%
Operating expense	$ (24,292)	$ (14,107)	72%	$ (37,008)	$ (18,320)	NM

NM: not meaningful

The Other Key Factors segment reported operating losses in the three and six month period ended June 30, 2008 of $24.3 million and $37.0 million, respectively, compared to operating losses of $14.1 million and $18.3 million, respectively in the corresponding 2007 periods.

Operating results for the three and six months ended June 30, 2008 compared to the corresponding prior period reflects the following items. Investment income on equity decreased due to a decrease in the amount of assets available for investment in the 2008 period compared to the 2007 period, and a $3.4 million decrease in investment income during the current quarter on the Company s equity method investments. Interest expense decreased due to a lower outstanding principal balance in the 2008 periods on corporate debt reflecting a $75.0 million principal payment in the second quarter of 2007. General corporate expenses increased due to $5.8 million and $9.2 million of employee termination costs during the current three and six-month periods, respectively, associated with the departure of several corporate executives and $1.3 million of professional fees incurred during the current quarter associated with the Life Insurance Division transaction. In addition, realized losses during the current periods were greater than the corresponding periods in the prior year primarily due to impairment charges recognized during the current quarter on certain investments primarily in collateralized debt obligations. These impairment charges resulted from other than temporary reductions in the fair value of the investments compared to the Company s cost basis. The variable stock-based compensation results for the six-month period in 2008 reflect an additional 12% decrease in the value of the Company's share price from the comparable period in 2007. Additionally, the 2007 results reflect additional share credits granted to participants in the agent stock accumulation plans in 2007 in connection with the extraordinary cash dividend paid in the second quarter of 2007.

Liquidity and Capital Resources

Historically, the Company s primary sources of cash on a consolidated basis have been premium revenue from policies issued, investment income, fees and other income, and borrowings under a secured student loan credit facility. The primary uses of cash have been payments for benefits, claims and commissions under those policies, servicing of the Company s debt obligations, operating expenses and the funding of student loans generated under the Company s College First Alternative Loan program. In the six months ended June 30, 2008, net cash provided by operations totaled approximately $24.4 million, compared to $55.4 million in the corresponding period of 2007.

HealthMarkets, Inc., is a holding company, the principal assets of which are its investment in its wholly-owned subsidiary, HealthMarkets, LLC, to which, in connection with the Merger, HealthMarkets, Inc. contributed substantially all of its assets and liabilities. 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 HealthMarkets, LLC. HealthMarkets, LLC s principal assets are its investments in its separate operating subsidiaries, including its regulated insurance subsidiaries. At June 30, 2008 and December 31, 2007, the aggregate cash and cash equivalents and short-term investments held at both the holding company level and HealthMarkets, LLC was $84.7 million and $63.0 million, respectively.

Prior approval by insurance regulatory authorities is required for the payment by a domestic insurance company of dividends that exceed certain limitations based on statutory surplus and net income. The Company will continue to assess the results of operations of the regulated domestic insurance subsidiaries to determine the prudent dividend capability of the subsidiaries, consistent with HealthMarkets practice of maintaining risk-based capital ratios at each of the Company s domestic insurance subsidiaries significantly in excess of minimum requirements.

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Our principal insurance subsidiaries are rated by A.M. Best Company (A.M. Best), Fitch Ratings (Fitch) and Standard & Poor s (S&P). Set forth below are the current financial strength ratings of the principal insurance subsidiaries.

	A.M. Best	Fitch	S&P
MEGA	B++ (Good)	BBB+	BBB (Good)
Mid-West	B++ (Good)	BBB+	BBB (Good)
Chesapeake	B++ (Good)	BBB	BBB- (Good)

In the table above, the A.M. Best ratings carry a negative outlook, the Fitch ratings carry a negative outlook and the S&P ratings carry a stable 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 ratings currently range from A++ (Superior) to F (Liquidation). A.M. Best s ratings are based upon factors relevant to policyholders, agents, insurance brokers and intermediaries and are not directed to the protection of investors. Fitch s ratings provide an overall assessment of an insurance company s financial strength and security, and the ratings are used to support insurance carrier selection and placement decisions. Fitch s ratings range from AAA (Exceptionally Strong) to C (Very Weak). S&P s financial strength rating is a current opinion of the financial security characteristics of an insurance organization with respect to its ability to pay under its insurance policies and contracts in accordance with their terms. S&P s financial strength ratings range from AAA (Extremely Strong) to CC (Extremely Weak).

A.M. Best has assigned to HealthMarkets, Inc. an issuer credit rating of bbb- (Good) with a negative outlook. 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 d (In Default).

Fitch has assigned to HealthMarkets, Inc. a long term issuer default rating of BBB- (Good) with a negative outlook. Fitch s long term issuer default rating is a current opinion of an obligor s ability to meet all of its most senior financial obligations on a timely basis over the term of the obligation. Fitch s long term issuer default ratings range from AAA (Exceptionally Strong) to D (Default).

S&P s Rating Services has assigned to HealthMarkets, Inc. a counterparty credit rating of BB (Less Vulnerable) with a stable outlook. S&P s counterparty credit rating is a current opinion of an obligor s overall financial capacity to pay its financial obligations. S&P s counterparty credit ratings range from AAA (Extremely Strong) to D (Default).

Contractual Obligations and Off Balance Sheet Obligations

The agreements governing certain indebtedness incurred by the Company in connection with the Merger contain restrictive covenants, including certain prescribed financial ratios, limitations on additional indebtedness as a percentage of certain defined equity amounts and restrictions on the disposal of certain subsidiaries, including primarily the Company s regulated insurance subsidiaries. Other contractual obligations or off balance sheet arrangements (which consist solely of commitments to fund student loans generated by its former College Fund Life Division and letters of credit) are described in the Company s Annual Report on Form 10-K for the year ended December 31, 2007 under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations.

Set forth below is a summary of the Company s contractual obligations on a consolidated basis at June 30, 2008 and December 31, 2007 (dollars in thousands):

	At June 30, 2008	At December 31, 2007
Corporate indebtedness	$ 481,070	$ 481,070

Future policy benefits	473,780	463,277
Claim liabilities	431,227	435,099
Other policy liabilities	10,452	10,764
Capital lease obligations	267	364
Total	$ 1,396,796	$ 1,390,554

In addition to the contractual obligations set forth in the table above, the Company also is a party to various operating leases for office space and equipment.

All indebtedness issued under the secured student loan credit facility represents obligations solely of a special purpose entity (SPE) and not of the Company or any other subsidiary and is secured by student loans, accrued investment income, cash, cash equivalents and qualified investments.

At each of June 30, 2008 and December 31, 2007, the Company had $19.6 million and $14.3 million, respectively, of letters of credit outstanding relating to its insurance operations.

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 on-going basis, the Company evaluates its estimates, including those

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related to health and life insurance claims and liabilities, deferred acquisition costs, bad debts, impairment of investments, intangible assets, income taxes, financing operations and contingencies and litigation. 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, 2007 under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations *Critical Accounting Policies and Estimates*.

Fair Value Measurement

Effective January 1, 2008, HealthMarkets adopted FAS No. 157, *Fair Value Measurements*, for financial assets and liabilities. FAS No. 157 defines fair value, expands disclosure requirements, and specifies a hierarchy of valuation techniques. The disclosure of fair value estimates in the FAS 157 hierarchy is based on whether the significant inputs into the valuation are observable. In determining the level of hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the Company s significant market assumptions. Following is a brief description of the type of valuation information (inputs) that qualifies a financial asset for each level:

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 that are not active. Directly observable market inputs for substantially the full term of the asset or liability, e.g., 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.

For investments that have quoted market prices in active markets, the Company uses the quoted market prices 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, fair values are estimated by management based on independent external valuation information, which utilizes various models and valuation techniques based on a range of 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 general, the fair values based on these observable market inputs fall into the Level 2 of the hierarchy, but in certain cases where there is limited activity or less transparency around inputs to the valuation, the fair values are reflected within Level 3 of the valuation hierarchy. When relying on bid/ask spreads from dealers, the Company typically uses the mid-mark to determine fair value. In extreme cases, where the bid/ask spread is unusually wide, the Company may use a convention other than the mid-mark to determine fair value based on other observable inputs. *See* Note 10 of Notes to consolidated condensed financial statements for further information about the Company s financial assets and liabilities that are accounted for at fair value.

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, 2007.

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, 2008. Reference is made to the information contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2007 in Item 7A *Quantitative and Qualitative Disclosures about Market Risk.*

ITEM 4T. 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 (the Exchange Act), 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 6 of Notes to the 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, 2007 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 6 to Notes to the Company s Consolidated Condensed Financial Statements included herein, during the fiscal quarter 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.

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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, 2007 in Part I, Item 1A. Risk Factors, which could materially affect the Company s business, financial condition or future results. The Company has not experienced material changes with respect to its risk factors during the quarter ended June 30, 2008. 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.

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

During the three months ended June 30, 2008, the Company issued an aggregate of 57,472 unregistered shares of its Class A-1 common stock to a newly-appointed executive officer of the Company. In particular, on June 30, 2008, an executive officer of the Company purchased 57,472 shares of the Company s Class A-1 common stock for aggregate consideration of $2 million (or $34.80 per share). Such sale of securities was made in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended (and/or Regulation D promulgated thereunder) for transactions by an issuer not involving a public offering. The proceeds of such sale were used for general corporate purposes.

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-month period ended June 30, 2008.

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
4/1/08 to 4//30/08				
5/1/08 to 5/31/08				
6/1/08 to 6/30/08	91,577	34.80		
Totals	91,577	34.80		

(1) The number of shares purchased other than through a publicly announced plan or program includes 91,577 shares purchased from former or current executives 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-month period ended June 30, 2008.

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
4/1/08 to 4//30/08	442,662	35.01		
5/1/08 to 5/31/08	270,563	34.80		
6/1/08 to 6/30/08	160,680	34.80		
Totals	873,905	34.91		

(1) The number of shares purchased other than through a publicly announced plan or program includes 873,905 shares purchased from former or current participants of the stock accumulation plans established for the benefit of Company s agents.

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ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company s Annual Meeting of Stockholders was held on May 22, 2008. As of March 30, 2008, the record date for the meeting, 31,012,201 shares of common stock were issued and 30,920,137 shares were outstanding. The following individuals were elected to the Company s Board of Directors to hold office for the ensuing year.

Nominee	In Favor	Withheld/Against
Allen F. Wise	26,874,073	0
William J. Gedwed	26,874,073	0
Chinh E. Chu	26,874,073	0
Harvey C. DeMovick, Jr.	26,874,073	0
Adrian M. Jones	26,874,073	0
Mural R. Josephson	26,874,073	0
Matthew S. Kabaker	26,874,073	0
Andrew S. Kahr	26,874,073	0
Sumit Rajpal	26,874,073	0
Kamil M. Salame	26,874,073	0
Steven J. Shulman	26,874,073	0

Mr. Kahr resigned from the Board of Directors effective July 31, 2008.

The results of the voting for the proposal to amend the Company s Certificate of Incorporation to permit the Board of Directors to fill any vacancies among the Additional Directors resulting from an increase in the number of directors constituting the Board of Directors were as follows:

For	Against	Abstain
26,874,073	0	0

The results of the voting for the proposal to ratify the appointment of KPMG LLP as the Company s independent registered public accounting firm to audit the accounts of the Company for the fiscal year ending December 31, 2008 were as follows:

For	Against	Abstain
26,874,073	0	0

ITEM 5. OTHER INFORMATION

Effective June 5, 2008, the Company amended its bylaws in connection with the appointment of David W. Fields as the Company s President and Chief Operating Officer, and the appointment of Phillip J. Hildebrand as the Company s Chief Executive Officer. Article IV, Section 1 of the bylaws, which previously provided for the election of a President and Chief Executive Officer, now separates those positions and provides for the election of a Chief Executive Officer and the election of a President. In addition, Article IV of the bylaws was amended to add a new Section 6, describing the duties and responsibilities of the Vice Chairman, a new Section 8, describing the duties and responsibilities of the President and a new Section 9, describing the duties and responsibilities of the Chief Operating Officer. Article IV, Section 7 of the bylaws was also amended to modify the description of the duties and responsibilities of the Chief Executive Officer. The description of the Company s amended bylaws is qualified in its entirety by reference to the text of the amended bylaws, which are filed as Exhibit 3.2 to this Form 10-Q and incorporated herein by reference.

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ITEM 6. EXHIBITS

(a) Exhibits.

Exhibit No.	Description
3.1	Certificate of Incorporation of HealthMarkets, Inc. as amended May 22, 2008.
3.2	Amended Bylaws of HealthMarkets, Inc.
10.1	Regulatory Settlement Agreement entered into as of May 29, 2008 by and among The MEGA Life and Health Insurance Company, Mid-West National Life Insurance Company of Tennessee and Mid-West National Life Insurance Company of Tennessee and the signatory regulators.
10.2	Employment Agreement, effective as of June 5, 2008, between HealthMarkets, Inc. and Phillip Hildebrand, filed as Exhibit 99.2 to the Current Report on Form 8-K dated June 5, 2008, File No. 001-14953, and incorporated by reference herein.
10.3	Stock Option Agreement, effective as of June 5, 2008, between HealthMarkets, Inc. and Phillip Hildebrand, filed as Exhibit 99.3 to the Current Report on Form 8-K dated June 5, 2008, File No. 001-14953, and incorporated by reference herein.
10.4	Amendment No. 2 to Nonqualified Stock Option Agreement by and between HealthMarkets, Inc. and Troy A. McQuagge, filed as Exhibit 10.1 to the Current Report on Form 8-K dated June 9, 2008, File No. 001-14953, and incorporated by reference herein.
10.5	Agreement for Reinsurance and Purchase and Sale of Assets by and among The Chesapeake Life Insurance Company, Mid-West National Life Insurance Company of Tennessee, The MEGA Life and Health Insurance Company, HealthMarkets, LLC and Wilton Reassurance Company, filed as Exhibit 10.1 to the Current Report on Form 8-K dated June 12, 2008, File No. 001-14953, and incorporated by reference herein.
10.6	Stock Purchase Agreement by and among Wilton Reassurance Company and HealthMarkets, LLC., filed as Exhibit 10.2 to the Current Report on Form 8-K dated June 12, 2008, File No. 001-14953, and incorporated by reference herein.
10.7	Transition Services Agreement by and between HealthMarkets, Inc. and William J. Gedwed, filed as Exhibit 10.1 to the Current Report on Form 8-K dated June 25, 2008, File No. 001-14953, and incorporated by reference herein.
10.8	Amendment No. 1 to Nonqualified Stock Option Agreement by and between HealthMarkets, Inc. and William J. Gedwed, filed as Exhibit 10.2 to the Current Report on Form 8-K dated June 25, 2008, File No. 001-14953, and incorporated by reference herein.
31.1	Rule 13a-14(a)/15d-14(a) Certification, executed by Phillip Hildebrand, Chief Executive Officer of HealthMarkets, Inc.
31.2	Rule 13a-14(a)/15d-14(a) Certification, executed by Philip Rydzewski, Chief Accounting Officer of HealthMarkets, Inc., acting principal financial officer.

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 Hildebrand, Chief Executive Officer of HealthMarkets, Inc. and Philip Rydzewski, Chief Accounting Officer of HealthMarkets, Inc., acting principal financial officer.

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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 18, 2008	/s/ Phillip J. Hildebrand Phillip J. Hildebrand, Chief Executive Officer and Director
Date: August 18, 2008	/s/ Philip Rydzewski Philip Rydzewski, Senior Vice President and Chief Accounting Officer, acting principal financial officer

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