

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

FORM 10-K  
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014  
COMMISSION FILE NUMBER 001-05270

**AMERICAN INDEPENDENCE CORP.**  
(Exact name of Registrant as specified in its charter)

**DELAWARE** **11-1817252**  
\_\_\_\_\_  
(State of Incorporation) (I.R.S. Employer Identification No.)

**485 Madison Avenue, New York, New York** **10022**  
\_\_\_\_\_  
(Address of Principal Executive Offices) (Zip Code)  
**(212) 355-4141**

\_\_\_\_\_  
Registrant's telephone number, including area code:

**NONE**

\_\_\_\_\_  
Securities registered pursuant to Section 12(b) of the Act

**COMMON STOCK, PAR VALUE \$0.01 PER SHARE**

\_\_\_\_\_  
Securities registered pursuant to Section 12(g) of the Act

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

Yes  
 No

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

Yes  
 No

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

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

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer   
Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes  
 No

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, as of June 30, 2014 was \$9,836,000.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

<u>Class</u>
<u>Outstanding at March 16, 2015</u>
Common Stock, \$0.01 par value
8,079,215

## **Documents Incorporated by Reference**

Portions of the registrant's definitive proxy statement to be delivered (or made available, pursuant to applicable regulations) to stockholders in connection with the 2015 annual meeting of stockholders to be held in May 2015 are incorporated by reference in response to Part III of this Report.

## Explanatory Note

American Independence Corp. (“AMIC”) was acquired in a series of transactions by Independence Holding Company (“IHC”) beginning in 2002 with a 19.9% equity investment and culminating in its current ownership of 90%. In March 2010, as a result of share purchases of AMIC in the open market, IHC increased its ownership of AMIC to over 50%. Management determined at this time that a change in control event occurred and, accordingly, IHC established a new basis for AMIC’s assets and liabilities in IHC’s consolidated financial statements based on the fair value of AMIC’s identifiable assets and liabilities assumed at the time it increased its ownership to over 50%. However, because IHC acquired less than 80%, AMIC was not permitted to reflect the impact of its change in control in its separate financial statements. IHC then made a series of acquisitions of AMIC stock, and by January of 2013 IHC’s ownership had increased to over 80%. Although by this time, IHC acquired over 80% of AMIC’s shares, management elected not to reflect the impact of the change in control, so AMIC continued to account for its assets and liabilities at historical basis in its separate financial statements. During the second quarter of 2014, the Stock Agreement, dated as of July 30, 2002, that (among other things) placed certain restrictions on IHC’s ability to acquire additional shares of AMIC stock, was terminated and, pursuant to the applicable provisions of AMIC’s certificate of incorporation, AMIC’s Board of Directors granted approval for IHC and its subsidiaries, at any point in the future, to increase their aggregate ownership of AMIC’s outstanding shares of common stock without obtaining prior approval. Due to the lifting of these restrictions and requirements, management evaluated the preferability of accounting for the aforementioned change in control in its separate financial statements and concluded that the accounting change was preferable. Accordingly, AMIC elected to implement the change in control accounting and reflect IHC’s basis in the assets acquired and liabilities assumed in the Company’s separate financial statements. This change was initially implemented during the interim period ended June 30, 2014. As a result of the accounting change, those assets and liabilities as remeasured at their fair value as of the date of IHC’s acquisition of the Company have been “pushed down” to the financial statements of the Company beginning with January 1, 2013, the earliest date “push down” is permitted. “Push down” accounting results in reporting AMIC’s separate financial statements as if it were a new entity with a new basis of accounting. Due to our new basis of accounting, our financial statements include a black line denoting that our financial statements covering periods prior to the push down date of January 1, 2013 are not comparable to our financial statements as of and subsequent to this date. References to the “Predecessor” Company refer to reporting dates of the Company through December 31, 2012, reflecting results of operations and cash flows of the Company prior to the push down date on our historical accounting basis; subsequent thereto, the Company is referred to as the “Successor” Company, reflecting the impact of push down accounting and the results of operations and cash flows of the Company subsequent to the push down date.

The consolidated financial statements and financial information of AMIC reported prior to this Form 10-K are not directly comparable to the financial statements and financial information of AMIC included in this report as a result of the above-mentioned change in accounting principle. The differences relate to basis differences in goodwill, intangible assets and related amortization, other assets, other investments, non-controlling interests in subsidiaries, taxes and related tax provisions, net income, additional paid-in capital, retained earnings and total shareholders’ equity. See Note 1(B) of Notes to Consolidated Financial Statements for the impact of this adoption on AMIC’s consolidated balance sheets and consolidated statements of income at and for the period ended December 31, 2013.

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## **FORWARD-LOOKING STATEMENTS**

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

*Numerous risks and uncertainties may impact the matters addressed by our forward-looking statements, any of which could negatively and materially affect our future financial results and performance. We describe some of these risks and uncertainties in greater detail in Item 1A of this report, Risk Factors.*

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





**Item 1. Business*****Business Overview***

American Independence Corp. is a Delaware corporation (NASDAQ: AMIC). We are a holding company principally engaged in health insurance and reinsurance with principal executive offices located at 485 Madison Avenue, New York, New York 10022.

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

We provide specialized health coverage and related services to commercial customers and individuals. We focus on niche health products and/or narrowly defined distribution channels in the United States. Our wholly owned subsidiary, Independence American Insurance Company ("Independence American"), markets its products through IHC Risk Solutions, LLC ("Risk Solutions"), IHC Specialty Benefits, Inc., IPA Family, LLC, and IPA Direct, LLC, which are subsidiaries of AMIC, and through independent brokers, producers and agents.

As used in this report, unless otherwise required by the context, AMIC and its subsidiaries are sometimes collectively referred to as the "Company" or "AMIC", or are implicit in the terms "we", "us" and "our".

Since November 2002, AMIC has been affiliated with Independence Holding Company, which owned 90% of AMIC's stock as of December 31, 2014. The senior management of Independence Holding Company provides direction to the Company through a service agreement between the Company and Independence Holding Company. Independence Holding Company and its subsidiaries including, among others, Standard Security Life Insurance Company of New York ("Standard Security Life") and Madison National Life Insurance Company, Inc. ("Madison National Life") are collectively referred to as "IHC".

AMIC retains much of the risk that it underwrites, and sells or reinsures on the following lines of business:

- Medical stop-loss
- Fully insured medical including:
  - Major medical (including group and individual in run-out)
  - Ancillary (including short-term medical, vision, dental, supplemental products (including fixed indemnity limited benefit, critical illness, and hospital indemnity) and small group stop-loss)
- Pet insurance
- Occupational accident
- New York State Disability Benefits Law ("DBL")

Independence American, which is domiciled in Delaware, is licensed to write property and/or casualty insurance in all 50 states and the District of Columbia, and has an A- (Excellent) rating from A.M. Best Company, Inc. ("A.M. Best"). We have been informed by A.M. Best that an A.M. Best rating is assigned after an extensive quantitative and qualitative evaluation of a company's financial condition and operating performance, and is also based upon factors relevant to policyholders, agents, and intermediaries, and is not directed towards protection of investors. A.M. Best ratings are not recommendations to buy, sell or hold securities of the Company. Given its broad licensing, A- (Excellent) rating from A.M. Best, and that it is the only property and casualty company in IHC, Independence American expects to expand the distribution of its occupational accident, pet insurance, and ancillary and supplemental benefit products.

Risk Solutions is a full-service direct writer of medical stop-loss insurance for self-insured employer groups. Risk Solutions markets, underwrites, collects premiums, administers and processes claims, and

performs medical management services. AMIC also has a 23% minority investment in Majestic Underwriters LLC ("Majestic"), which transferred its stop-loss block and employees to Risk Solutions as of January 1, 2012 in exchange for fee income based on the business transferred. IHC owns the remaining 77% interest in Majestic. Risk Solutions has offices near Hartford, CT, Philadelphia, PA, Chicago, IL, and Ft. Wayne, IN and markets and underwrites employer medical stop-loss. It writes business for Standard Security Life, Madison National Life, Independence American, and one other carrier.

AMIC also has a wholly owned sales and marketing company, IHC Specialty Benefits, Inc. ("Specialty Benefits"), a 92% ownership in our consumer direct sales call center, IPA Direct, LLC ("IPAD"), a 40% ownership in Global Accident Facilities, LLC ("GAF"), a holding company for a managing general underwriting agency for non-subscriber occupational accident and other business, a 90% ownership in our consumer direct sales agency, IPA Family, LLC ("IPA Family"), and a 51% ownership in our lead generation agency, HealthInsurance.org ("HIO"). Risk Solutions, Specialty Benefits, HIO, IPAD and IPA Family are collectively referred to as "our Agencies".

Health insurance is increasingly being sold through direct-to-consumer channels, such as private exchanges, websites and call centers. We are well positioned to take advantage of this shift through Specialty Benefits, IPAD, IPA Family and HIO. IPAD, which was founded in mid-2012, is a rapidly growing direct sales call centers focused on our ancillary products and other carriers' major medical. IPA Family is an established consumer direct sales agency with approximately 250 agents focusing on the same product mix as IPAD. HIO generates leads for IPAD, IPA Family and non-affiliated entities, and monetizes traffic primarily through private exchange partners, web based entities or call centers that enroll subsidy-eligible individuals on exchanges managed by the federal and state governments.

## **Our Philosophy**

Our business strategy consists of maximizing underwriting profits through a variety of niche health products and/or through distribution channels that enable us to access underserved markets or markets in which we believe we have a competitive advantage. In addition to distributing through independent agents and brokers, Independence American focuses on alternative distribution sources, such as captive agencies and direct-to-consumer initiatives. While management considers a wide range of factors in its strategic planning and decision-making, underwriting profit is consistently emphasized as the primary goal in all decisions.

For information pertaining to the Company's reportable business segment, reference is made to Note 1 of the Notes to Consolidated Financial Statements included in Item 8 of this report.

## **Our Products**

### **Medical Stop-Loss**

Self-insured group major medical plans permit employers flexibility in designing employee health coverages at a cost that may be lower than that available through other health care plans provided by an insurer or managed care organizations ("MCO"). Employer medical stop-loss insurance provides coverage to public and private entities that elect to self-insure their employees' medical coverage for losses within specified ranges, which permits such groups to manage the risk of excessive health insurance costs by limiting specific and aggregate losses to predetermined amounts.

This stop-loss coverage is available on either a "specific" or a "specific and aggregate" or an "aggregate only" basis. Specific stop-loss coverage reimburses employers for large claims incurred by an individual employee or dependent. When an employee's or dependents' covered claims exceed the specific stop-loss deductible, covered amounts in excess of the deductible are reimbursable to the employer under the specific stop-loss policy. The specific stop-loss deductible is selected based on the number of covered employees, the employer's capacity to assume some of the risk, and the medical claim experience of the plan. Aggregate stop-loss coverage protects the employer against fluctuations due to claim frequency. The employer's overall claim liability is limited to a certain dollar amount, often referred to as the attachment point. An aggregate stop-loss policy usually provides reimbursement when coverage claims for the plan as a whole exceed the aggregate attachment point.



Standard Security Life and Independence American market employer medical stop-loss insurance nationally on a direct basis through Risk Solutions and indirectly through two select independent managing general underwriters ("MGUs"), which are non-salaried contractors that receive administrative fees. MGUs are responsible for establishing an employer's conditions for coverage in accordance with guidelines formulated and approved by Standard Security Life and Independence American, billing and collecting premiums from the employers, paying commissions to agents, and third-party administrators ("TPAs") and/or brokers. Standard Security Life and Independence American are responsible for selecting MGUs, establishing underwriting guidelines, maintaining approved policy forms and reviewing employers' claims for reimbursement, as well as establishing appropriate accounting procedures and reserves.

## **Fully Insured Health Products**

The Fully Insured Health line of business is comprised of: (i) major medical coverage (comprised of small-group major medical, major medical health plans for individuals and families in run-off and large-group major medical); (ii) ancillary benefits, including dental, vision, short-term medical, supplemental products (including fixed indemnity limited benefit, critical illness, and hospital indemnity) and small group stop-loss; (iii) pet insurance; and (iv) non-subscriber occupational accident. IHC affiliates perform marketing, sales, underwriting and administrative functions on the majority of our Fully Insured Health business. We have also established a relationship with a leading provider of international health plans for specialized niche markets, and invested in a joint venture that has acquired various wholly-owned operating subsidiaries (including third-party administrators and brokers) that focus on non-subscriber occupational accident coverage in Texas, injured-on-duty coverage in Massachusetts and other accident-related coverages.

### **Major Medical Health Benefit Coverages**

This category is primarily comprised of small group major medical insurance ("SGMM"), major medical health plans for individuals and families ("IMM") policies, and large group major medical (including international health). IMM and SGMM on Independence American paper are in run-off and IHC has deemphasized the sale of SGMM. Our major medical line of business was adversely affected in 2013 and 2014 as a result of direct and indirect changes brought about by healthcare reform, and we have determined that we would not be able to earn an acceptable profit margin on IMM and SGMM in the future.

Major medical premiums shrank in 2014 and will continue to reduce in 2015.

### **Ancillary Products**

This category is primarily comprised of dental, vision, short-term medical, supplemental products (including fixed indemnity limited benefit, critical illness, and hospital indemnity), and small group stop-loss. These are sold through multiple distribution strategies. The ancillary products grew significantly in 2014 and we expect continued growth in 2015.

Independence American sells group and individual dental products. IHC administers the majority of Independence American's dental business and is also the primary distribution source of this line of business. The dental portfolio includes indemnity and PPO plans for employer groups of two or more lives and for individuals within affinity groups. Employer plans are offered on both employer paid and voluntary bases. As part of the distribution of our dental products, we also offer vision plans that offer a flat reimbursement amount for exams and materials. Gross dental premiums remained flat in 2014. We expect the dental business to grow in 2015.

Independence American sells short-term medical ("STM") products in the majority of states. STM is designed specifically for people with temporary needs for health coverage. Typically, STM products are written for a defined duration of at least 30 days and less than twelve months. Among the typical purchasers of STM products are people who are in between open enrollment periods or need coverage for a limited duration until their Affordable Care Act ("ACA") plan becomes effective, and others who need insurance for a specified period of time less than 365 days. Independence American's gross premium increased in this line of business in 2014. We anticipate continued growth in this line of business in 2015 in part due to increased demand for coverage and new distribution relationships.



The Company markets supplemental products to individuals and families. These lines of business are generally used as either a supplement to a major medical plan or in lieu of major medical coverage for persons that choose not to purchase such coverage. The main driver for growth in this line is that consumers are moving to higher-cost sharing on their individual major medical plans, and are looking for products to help them offset the additional risk of higher deductibles and out of pocket limits. The product lines included in this supplemental grouping include critical illness and bundled packages of accident medical coverage, critical illness and life insurance. Sales of hospital indemnity plans ("HIP") and fixed indemnity limited benefit plans increased in 2014, however, premiums may decrease in 2015 due to new regulations. These products, which are available in most states, are not directly impacted by the ACA and are available through multiple distribution sources including Company owned direct-to-consumer websites, call center and career agents, general agents and on-line agencies.

In 2014, the Company significantly expanded its marketing of self-funded medical plans for employers between 10 and 50 employees. These plans, which are currently marketed only in certain states, appeal to employers that wish to participate in cost savings and wellness initiatives that will lower their claims costs. We expect that sales of the small group self-funded plans will continue to grow significantly in 2015 as we increase distribution and make the product available in additional states.

### **Pet Insurance**

Independence American writes pet insurance through a marketing and administrative company. During 2012, Independence American began to renew premium that had been underwritten by another insurance company. These plans are marketed to dog and cat owners through veterinary offices, independent marketing organizations, its nationwide call center, and direct-to-consumer. Independence American had earned premium from pet insurance in 2014 of approximately \$29 million. We expect this to be relatively flat in 2015.

### **Occupational Accident**

Independence American writes occupational accident insurance through marketing and administrative companies owned by Global Accident Facilities, LLC ("GAF"), a joint venture in which the Company currently has a 40% interest. The Company's interest in GAF increases to 60% upon the occurrence of certain events. This occupational accident product provides accidental death, accident disability and accident medical benefits for occupational injuries to employees of companies that have elected to not participate in the Texas workers compensation system (non-subscribers). The product also gives the employer the option to purchase coverage for employer's liability. Employer's liability arises when an injured employee brings an action against the employer for occupational injuries and chooses not to accept the benefits provided for by the employer's occupational accident benefit plan. The employer is covered for damages and costs arising from the settlement of such action, subject to the terms and limits of the policy. On December 31, 2013, GAF acquired an entity that provides administrative services for occupational accident insurance as well as Injured on Duty coverage, a form of occupational accident coverage. It is expected that synergies can be achieved through coordination of administrative services with other entities owned by GAF. It is also expected that GAF may be a production source of other products such as medical stop-loss insurance. In 2014, Independence American recorded approximately \$12 million of occupational accident business and expects premiums to grow to approximately \$16 million in 2015.

### **Group Disability**

IHC entered into a reinsurance relationship with a leading producer of expatriate business, effective January 1, 2012, which provides employee benefit insurance, including medical, life, and disability, to expatriates, third-party nationals or high net-worth local nationals. In 2014, IHC, through its insurance subsidiaries, reinsured 15% of the risk for the medical and disability portion of this business on a quota share basis and retroceded 50% of the health and disability premium to Independence American. Other than run-out, IHC is not reinsuring this business in 2015. Independence American will continue to reinsure 10% of the risk on the health business in 2015, and we have filed these policies in the United States on Independence American's paper for employers that wish to purchase a domestic policy to cover their employees. Due to an increase in overall retention on the health business, the Company expects an increase in premium in this line of business in 2015.



Independence American reinsures 20% of Standard Security Life's DBL. All companies with more than one employee in New York State are required to provide DBL insurance for their employees. DBL coverage provides temporary cash payments to replace wages lost as a result of disability due to non-occupational injury or illness. The DBL business is marketed primarily through independent general agents. Independence American expects the reinsurance premium from this line of business to grow modestly in 2015.

## **Reinsurance**

Reinsurance is an arrangement in which an insurance company (the "reinsurer") agrees to indemnify another insurance company (the "ceding company") against all or a portion of the insurance risks underwritten by the ceding company under one or more insurance contracts. Reinsurance provides a ceding company with additional underwriting capacity by permitting it to accept larger risks and write more business than would be possible without an accompanying increase in statutory capital and surplus. There are two basic types of reinsurance arrangements: treaty and facultative reinsurance. In treaty reinsurance, the ceding company is obligated to cede and the reinsurer is obligated to assume a specified portion of a type of category of risks insured by the ceding company. Treaty reinsurers do not separately evaluate each of the individual risks assumed under their treaties and, consequently, after a review of the ceding company's underwriting practices, are largely dependent on the original risk underwriting decisions made by the ceding company. In facultative reinsurance, the ceding company cedes and the reinsurer assumes all or part of the risk under a single insurance contract. Independence American currently only participates in treaty reinsurance. Both treaty and facultative reinsurance can be written on either a pro rata basis or an excess of loss basis. Under pro rata reinsurance, the ceding company and the reinsurer share the premiums as well as the losses and expenses in an agreed proportion. Under excess of loss reinsurance, the reinsurer indemnifies the ceding company against all or a specified portion of losses and expenses in excess of a specified dollar amount, known as the ceding company's retention or reinsurer's attachment point, generally subject to a negotiated reinsurance contract limit. Premiums paid by the ceding company to a reinsurer for excess of loss reinsurance are not directly proportional to the premiums that the ceding company receives because the reinsurer does not assume a proportionate risk. In pro rata reinsurance, the reinsurer generally pays the ceding company a ceding commission. The ceding commission generally is based on the ceding company's cost of acquiring and managing the business being reinsured (commissions, premium taxes, assessments and miscellaneous administrative expenses). Independence American participates in pro rata reinsurance for their medical stop-loss business.

During 2014, 56% of Independence American's premiums earned were derived from assumed reinsurance premiums, compared to 59% in 2013. In 2014, 62% of this premium was related to medical stop-loss business, 30% was related to fully insured health business, and 8% was related to Group Disability. Of the medical stop-loss premiums, 89% was generated from pro rata reinsurance treaties with Standard Security Life and Madison National Life pursuant to which they cede, at treaty renewals, at least 15%, and may cede up to 50%, of their gross medical stop-loss premiums written to Independence American under most of IHC's medical stop-loss programs. For 2014, Standard Security Life and Madison National Life ceded, on average, approximately 27% of their medical stop-loss business to Independence American. The reinsurance treaties between Independence American and Standard Security Life and Independence American and Madison National Life, which were to terminate December 31, 2014, have been amended to extend the termination date to December 31, 2019. Standard Security Life, which is domiciled in New York, is licensed as an insurance company in all 50 states, the District of Columbia, the Virgin Islands and Puerto Rico. Madison National Life, which is domiciled in Wisconsin, is licensed to sell insurance products in 49 states, the District of Columbia, Guam, American Samoa and the U.S. Virgin Islands, and is an accredited reinsurer in New York. Both companies are rated A- (Excellent) by A.M. Best. The balance of the medical stop-loss assumed reinsurance premium was related to business written by unaffiliated carriers on other programs. For 2014, Independence American received between 10% and 25% of the premium on these unaffiliated programs. The Company's strategic plan is to continue to expand its fully insured health premium, maintain its occupational accident and pet insurance written by Independence American, and to increase reinsurance premiums from medical stop-loss, group disability and other lines of business written by IHC.

## **Federal Net Operating Loss Carryforwards**

At December 31, 2014, AMIC had consolidated net operating loss ("NOL") carryforwards of approximately \$264 million for federal income tax purposes. Some or all of the NOL carryforwards may be available to offset, for federal income tax purposes, the future taxable income, if any, of AMIC as described in more detail in Note 11 of the Notes to Consolidated Financial Statements. The Internal Revenue Service ("IRS")

has previously audited the Company's 2003, 2004 and 2009 consolidated income tax returns and no changes to the reported tax for those periods. The IRS has not audited any of AMIC's tax returns for any of the years in which the losses giving rise to the NOL carryforward were reported.

Our ability to utilize our NOLs would be substantially reduced if AMIC were to undergo an "ownership change" within the meaning of Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"). Generally, an "ownership change" occurs if one or more "5% Stockholders" (which generally includes any stockholder who owns five percent or more in value of a company's capital stock) increase their aggregate percentage ownership by more than 50 percentage points over the lowest percentage of stock owned by such stockholders over the preceding three-year period. For this purpose, all holders who each own less than five percent of a company's capital stock generally are treated together as a single "5% Stockholder." In addition, certain attribution rules, which generally attribute ownership of stock to the ultimate beneficial owner thereof without regard to ownership by nominees, trusts, corporations, partnerships, or other entities, are applied to determine the level of stock ownership of a particular stockholder. Transactions in the public markets among stockholders owning less than five percent of the equity securities are generally not included in the calculation, but acquisitions by a person causing that person to become a five percent or more stockholder may be treated as a five percentage (or more) point change in ownership, regardless of the size of the purchase that caused the threshold to be exceeded.

In order to reduce the risk of an ownership change, in November 2002, AMIC's stockholders approved an amendment to its certificate of incorporation restricting transfers of shares of its common stock that could result in the imposition of limitations on the use, for federal, state and city income tax purposes, of AMIC's NOL carryforwards and certain federal income tax credits. The certificate of incorporation generally restricts any person from attempting to sell, transfer or dispose, or purchase or acquire any AMIC stock, if such transfer would affect the percentage of AMIC stock owned by a 5% Stockholder. Any person attempting such a transfer will be required, prior to the date of any proposed transfer, to request in writing that the board of directors review the proposed transfer and authorize or not authorize such proposed transfer. Any attempted transfer made in violation of the stock transfer restrictions will be null and void. In the event of an attempted or purported transfer involving a sale or disposition of capital stock in violation of stock transfer restrictions, the transferor will remain the owner of such shares. Notwithstanding such transfer restrictions, there could be circumstances under which an issuance by AMIC of a significant number of new shares of common stock or other new class of equity security having certain characteristics (for example, the right to vote or convert into common stock) might result in an ownership change under the Code.

As of December 31, 2012, the Company and its subsidiaries filed a consolidated Federal income tax return on a September 30 fiscal year. Effective January 15, 2013, the Company has been included in the consolidated Federal income tax returns of IHC on a June 30 fiscal year as a result of the increase in IHC's ownership interest in AMIC to over 80%. Accordingly, the Company changed from a September 30 fiscal tax year to a June 30 fiscal tax year in 2013.

## **Investments and Reserves**

Independence American's securities portfolio is managed by employees of IHC and its affiliates, and ultimate investment authority rests with Independence American's board of directors. As a result of the nature of its insurance liabilities, Independence American endeavors to maintain a significant percentage of its assets in investment grade securities, cash and cash equivalents. At December 31, 2014, 99.5% of the fixed maturities were investment grade. The internal investment group provides a summary of the investment portfolio and the performance thereof at the meetings of the Company's board of directors.

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

Liabilities for policy benefits and claims were computed using information derived from actual historical premium and claims data. This method is widely used in the health insurance industry to estimate the liabilities for policy benefits and claims. Inherent in this calculation are management and actuarial judgments and estimates which could significantly impact the ending reserve liabilities and, consequently, operating results. Actual results may differ, and these estimates are subject to interpretation and change. See Critical Accounting Policies for further explanation of insurance reserve calculation.



## **Competition and Regulation**

Independence American competes with many larger insurance and reinsurance companies and managed care organizations. Risk Solutions competes with many other managing general underwriters, insurance companies, and MCOs.

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

Certain transactions within the AMIC holding company system are also subject to regulation and supervision by such regulatory agencies. All such transactions must be fair and equitable. Notice to or prior approval by the applicable insurance department is required with respect to transactions affecting the ownership or control of an insurer and of certain material transactions, including dividend declarations, between an insurer and any person in its holding company system. Under Delaware insurance laws, "control" is defined as the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a person, and is presumed to exist if any person, directly or indirectly, owns, controls or holds with the power to vote ten percent or more of the voting securities of any other person. An agreement to acquire control of an insurer domiciled in Delaware must be approved by the Office of the Insurance Commissioner of the State of Delaware. In addition, periodic disclosure is required concerning the operations, management and financial condition of the insurer within the holding company system. An insurer is also required to file detailed annual statements with each supervisory agency, and its affairs and financial conditions are subject to periodic examination.

The National Association of Insurance Commissioners has developed a formula for analyzing insurance companies called risk-based capital. The risk-based capital formula is intended to establish minimum capital thresholds that vary with the size and mix of an insurance company's business and assets. It is designed to identify companies with capital levels that may require regulatory attention. The risk-based capital ratio is determined by dividing an insurance company's total adjusted capital, as defined, by its authorized control level risk-based capital. Companies that do not meet certain minimum standards require specified corrective action. At December 31, 2014, Independence American's total adjusted capital was significantly in excess of the authorized control level risk-based capital.

## **Employees**

The Company and its subsidiaries, collectively, had 189 employees as of December 31, 2014.

## Item 1A. Risk Factors

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

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

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

In particular, at December 31, 2014, fixed maturities represented \$73.6 million or 93% of our total investments of \$78.9 million. The fair value of fixed maturities and the related investment income fluctuates depending on general economic and market conditions. The fair value of these investments generally increases or decreases in an inverse relationship with fluctuations in interest rates, while net investment income realized by us will generally increase or decrease in line with changes in market interest rates. In addition, actual net investment income and/or cash flows from investments that carry prepayment risk, such as mortgage-backed securities, may differ from those anticipated at the time of investment as a result of interest rate fluctuations. An investment has prepayment risk when there is a risk that the timing of cash flows that result from the repayment of principal might occur earlier than anticipated because of declining interest rates or later than anticipated because of rising interest rates. For mortgage-backed securities, credit risk exists if mortgagees default on the underlying mortgages. Although at December 31, 2014, approximately 99.5% of the fixed maturities were investment grade, all of our fixed maturities are subject to credit risk. If any of the issuers of our fixed maturities suffer financial setbacks, the ratings on the fixed maturities could fall (with a concurrent fall in fair value) and, in a worst case scenario, the issuer could default on its financial obligations. If the issuer defaults, we could have realized losses associated with the impairment of the securities.

The impact of market value fluctuations affects our Consolidated Financial Statements. Because all of our fixed maturities are classified as available for sale, changes in the fair value of our securities are reflected in our stockholders' equity (accumulated other comprehensive income or loss). No similar adjustment is made for liabilities to reflect a change in interest rates. Therefore, interest rate fluctuations and economic conditions could adversely affect our stockholders' equity, total comprehensive income and/or cash flows.

We review our investment securities regularly and determine whether other-than-temporary impairments have occurred. For fixed maturities, if a decline in fair value is judged by management to be other-than-temporary, and we do not intend to sell the security and it is not more likely than not that we will be required to sell the security prior to recovery of the security's amortized cost, the impairment is bifurcated into (a) the amount of the total impairment related to the credit loss, and (b) the amount of the total impairment related to all other factors. The amount of the other-than-temporary impairment related to the credit loss is recognized by a charge to total other-than-temporary impairment losses in the Consolidated Statements of Income, establishing a new cost basis for the security. The amount of the other-than-temporary impairment related to all other factors is recognized in other comprehensive income in the Consolidated Balance Sheets. The factors considered by management in its regular review include, but are not limited to: the length of time and extent to which the fair value has been less than cost; the financial condition and near-term prospects of the issuer; adverse changes in ratings announced by one or more rating agencies; subordinated credit support; whether the issuer of a debt security has remained current on principal and interest payments; current expected cash flows; whether the decline in fair value appears to be issuer specific or, alternatively, a reflection of general market or industry conditions (including, in the case of fixed maturities, the effect of changes in market interest rates); and our intent to sell, or be required to sell, the debt security before the anticipated recovery of our remaining amortized cost



basis. Therefore, changes in facts and circumstances and critical assumptions could result that further impairments have occurred. This could lead to additional losses on investments, particularly those that management has the intent and ability to hold until recovery in value occurs.

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

Ratings have become an increasingly important factor in establishing the competitive position of insurance companies. Independence American is rated A- (Excellent) by A.M. Best, whose ratings reflect its opinions of an insurance company's financial strength, operating performance, strategic position, and ability to meet its obligations to policyholders and are not evaluations directed to investors. The rating of Independence American is subject to periodic review by A.M. Best. If A.M. Best were to reduce Independence American's ratings from current levels, our business would be adversely affected.

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

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

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

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

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

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

Our industry is highly competitive and has experienced severe price competition from time to time over the last several years. We face competition from domestic and international insurance and reinsurance companies, from underwriting agencies, and from diversified financial services companies that are much larger than we are. Some of these competitors have greater financial, marketing and other resources, have been operating longer than we have and have established long-term and continuing business relationships through the





industry, which can be a significant competitive advantage. In addition to competition in the operation of our business, we face competition from a variety of sources in attracting and retaining qualified employees. We cannot assure you that we will maintain our current competitive position in the markets in which we operate, or that we will be able to expand our operations into new markets and compete effectively in the future. If we fail to do so, our business could be materially adversely affected.

**The occurrence of various events may adversely affect our ability to utilize fully our NOL carryforwards.**

We have U.S. federal NOL carryforwards of approximately \$264 million, which may be used against any profits from our business. However, events outside of our or IHC's control, such as certain acquisitions and dispositions of our common stock, may limit the use of all or a portion of our NOL carryforwards. If such events were to occur, our expectation of using our NOL carryforwards against potential profits would not be realized and we could potentially have a higher tax liability in the future than we would otherwise have had. As the NOL carryforwards are utilized by AMIC, the amount of our NOL carryforwards could be reduced upon audit by the IRS for those tax years open for assessment under the statute of limitations.

**Our common stock has a small public float, which could result in reduced liquidity for our common stock and greater volatility in the market price of our common stock.**

In October 2013, our affiliate IHC purchased 762,640 shares of our common stock in connection with a tender offer, resulting in IHC and its subsidiaries increasing its ownership to 90.0%. Historically, the common stock of a company with a smaller public float has been less liquid than the common stock of a company with broader public ownership, the average daily trading volume of a company with a smaller public float is less than a company with a larger public float, and the trading prices for the common stock of a company with a smaller public float may be more volatile than generally may be the case for more widely held common stock. We cannot predict the prices at which our common stock will trade in the future. Future open market purchases, if authorized, would further reduce our public float. Further, since the public float of our common stock and the number of beneficial holders of our securities has been reduced as the result of the tender offer, it may be more difficult to maintain our listing on the NASDAQ Stock Market.

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

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

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

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

**Our industry is highly regulated and changes in regulations affecting our businesses may reduce our profitability and limit our growth.**

Our insurance subsidiary is subject to state insurance laws and regulated by the insurance departments of the various states in which it is domiciled and licensed, which, among other things, conduct



periodic examination of insurance companies. State laws grant insurance regulatory authorities broad administrative powers with respect to various aspects of our insurance business, including:

- licensing companies and agents to transact business and regulating their respective conduct in the market;
- requiring certain methods of accounting and prescribing the form and content of records of financial condition required to be filed;
- calculating the value of assets to determine compliance with statutory requirements;
- establishing statutory capital and reserve requirements, such as for unearned premiums and losses;
- regulating certain premium rates and requiring deposits for the benefit of policyholders;
- establishing maximum interest rates on insurance policy loans;
- establishing standards of solvency, including risk-based capital measurements, which are a measure developed by the National Association of Insurance Commissioners (NAIC) and used by state insurance regulators to identify insurance companies that potentially are inadequately capitalized;
- mandating certain insurance benefits and restricting the size of risks insurable under a single policy;
- regulating unfair trade and claims practices, including the imposition of restrictions on marketing and sales practices, distribution arrangements and payment of inducements;
- approving changes in control of insurance companies;
- restricting transactions between insurance companies and their affiliates, including the payment of dividends to affiliates; and
- regulating the nature or types, concentration or amounts, quality and valuation of investments.

Currently, the U.S. federal government does not directly regulate the business of insurance. However, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), which was signed into law in July 2010 by President Obama, created a Federal Insurance Office. While the office will not directly regulate domestic insurance business, it will monitor all aspects of the insurance industry, including identifying gaps in the regulation of insurers that could contribute to a crisis in the insurance industry and/or the U.S. economy. Further, the Dodd-Frank Act authorizes the office to make recommendations that certain insurers be subject to more stringent regulation, and conduct a study on how to modernize and improve the system of insurance regulation in the United States. The Dodd-Frank Act also created the Consumer Financial Protection Bureau (“CFPB”). While the CFPB does not have direct jurisdiction over insurance products, it is possible that regulations promulgated by the CFPB may extend its authority more broadly to cover certain insurance products and thereby may adversely affect our results of operations. Additionally, federal legislation and administrative policies in other areas can significantly and adversely affect insurance companies, including general financial services regulation, securities regulation, privacy regulation, tort reform legislation, and taxation.

We are uncertain as to the impact that this new legislation and regulatory guidance will have on the Company and cannot assure that it will not adversely affect our financial condition and results of operations. In addition, compliance with applicable laws and regulations is time consuming and personnel-intensive, and changes in these laws and regulations may materially increase our direct and indirect compliance efforts and other expenses of doing business.

**Certain of our business arrangements are terminable by other parties.**



Independence American currently reinsures 20% of Standard Security Life's short-term statutory disability benefit product, but Standard Security Life is not contractually obligated to continue to cede this business to Independence American after termination of the current treaty year. Together with Madison National Life, Standard Security Life has ceded approximately 12% of the majority of their fully insured health business lines to Independence American, but neither Standard Security Life nor Madison National Life are contractually obligated to continue to cede this business to Independence American after termination of the current treaty years. Further, Standard Security Life and Madison National Life ceded approximately 27%, on average, of their medical stop-loss business to Independence American in 2014, but are not contractually obligated to cede amounts in excess of 15%. Risk Solutions is a significant producer of medical stop-loss business for IHC, producing 82% of total IHC stop-loss premium in 2014.

**Healthcare reform may further adversely affect our business, cash flows, financial condition and results of operations.**

Although health insurance is generally regulated at the state level, legislative actions have been taken at the federal level that impose added restrictions on our business. The Patient Protection and Affordable Care Act ("PPACA") was signed into law in March 2010. Provisions of the PPACA and related reforms are causing sweeping and fundamental changes to the U.S. health care system that are expected to significantly affect the health insurance industry. The effects on our Company's business include, in particular, a requirement that we pay rebates to customers if the loss ratios for some of our product lines are less than specified percentages; the need to reduce commissions and the consequent risk that insurance producers may sell less of our products than they have in the past; a prohibition from imposing any pre-existing condition exclusion; limits on our ability to rescind coverage except for intentional fraud; increased costs to modify and/or sell our products; the need to provide a minimum standard for coverage, so that all plans must cover at least 60 percent of the typical person's medical bills and include a set of "essential health benefits" from hospitalization to mental health to rehabilitative services to maternity care; intensified competitive pressures that limit our ability to increase rates; significant risk of customer loss; new and higher taxes and fees to generate the revenues to implement the PPACA; additional administrative costs to implement the requirements of healthcare reform; and the need to operate with a lower expense structure at both the business segment and enterprise level.

We are unable to predict what additional legislation or regulation, if any, relating to the health care industry or third-party coverage and reimbursement may be enacted in the future or what effect such legislation or regulation would have on our business.

We will continue to monitor the implementation of PPACA and reassess our business strategies accordingly. We have made, and are continuing to make, significant changes to our operations, products and strategy to adapt to the new environment. However, if our plans for operating in the new environment are unsuccessful or if there is less demand than we expect for our products in the new environment, our results could be adversely affected.

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

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

State insurance regulators and the NAIC regularly re-examine existing laws and regulations applicable to insurance companies and their products. Changes in these laws and regulations, or in interpretations thereof, are often made for the benefit of the consumer at the expense of the insurer and thus could have an adverse effect on our business. We cannot predict what impact, if any, the results of these studies or other such proposals, if enacted, may have on our financial condition, results of operations and cash flows.

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

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

**Legal and regulatory investigations and actions are increasingly common in the insurance business and may result in financial losses and harm our reputation.**

We face a significant risk of litigation and regulatory investigations and actions in the ordinary course of operating our businesses, including the risk of class action lawsuits and individual lawsuits relating, among other things, to sales or underwriting practices, payment of contingent or other sales commissions, claims payments and procedures, product design, disclosure, administration, additional premium charges for premiums paid on a periodic basis, interest crediting practices, denial or delay of benefits and breaches of fiduciary or other duties to customers. Plaintiffs in class action and other lawsuits against us may seek very large or indeterminate amounts, including punitive and treble damages, which may remain unknown for substantial periods of time. We are also subject to various regulatory inquiries, such as information requests, subpoenas, market conduct exams and books and record examinations, from state and federal regulators and other authorities, which may result in fines, recommendations for corrective action or other regulatory actions. Even if we ultimately prevail in the litigation, regulatory action or investigation, we could suffer significant reputational harm, which could have an adverse effect on our business.

**The effects of emerging claim and coverage issues on our business are uncertain.**

As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended liability for claims and coverage may emerge. These changing conditions may adversely affect our business by either extending coverage beyond our underwriting intent or by increasing the number or size of claims. In some instances, these changes may not become apparent until some time after we have issued insurance or reinsurance contracts that are affected by the changes. As a result, the full extent of liability under our insurance or reinsurance contracts may not be known for a significant period after a contract is issued, and our financial position and results of operations may be materially adversely affected.

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

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

- Fluctuations in interest rates, inflationary pressures and other changes in the investment environment, which affect returns on invested capital;
- Rising levels of actual costs that are not known by companies at the time they price their products;
- Losses related to epidemics, terrorist activities, random acts of violence or declared or undeclared war;
- Development of judicial interpretations relating to the scope of insurers' liability;
- The overall level of economic activity and the competitive environment in the industry;
- Greater than expected use of health care services by members;
- New mandated benefits or other regulatory changes that change the scope of business or increase our costs; and

- Failure of MGUs, agents, third-party administrators and producers to adhere to the underwriting guidelines, market-conduct practices and other requirements (as applicable) under their agreements with us.

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

**The stock transfer restriction in our certificate of incorporation may not protect against adverse tax consequences.**

Although the stock transfer restrictions contained in our certificate of incorporation are intended to reduce the likelihood of an ownership change, it will not prevent all transfers that might result in an "ownership change." Furthermore, certain changes in relationships and other events not addressed by the stock transfer restrictions could cause us to undergo an "ownership change." Section 382 of the Code is an extremely complex provision with respect to which there are many uncertainties. In addition, we have not requested a ruling from the IRS regarding the effectiveness of the stock transfer restrictions and, therefore, we cannot be certain that the IRS will agree that the stock transfer restrictions are effective for purposes of Section 382 of the Code. Further, we cannot assure that the stock transfer restrictions or portions thereof will be enforceable in Delaware courts or that the IRS would agree that all of our tax net operating loss carryforwards are allowable. In addition, our board of directors may determine, in its sole discretion, to permit a restricted transfer that results in an "ownership change" if it determines that such transfer is in our best interests. Therefore, the stock transfer restrictions were to reduce, but not necessarily eliminate, the risk that Section 382 of the Code will cause limitations on the use of our tax attributes.

**We may experience periods with excess underwriting capacity and unfavorable premium rates because the insurance and reinsurance business is historically cyclical, which could cause our results to fluctuate.**

The insurance and reinsurance business historically has been a cyclical industry characterized by periods of intense price competition due to excessive underwriting capacity, as well as periods when shortages of capacity permitted an increase in pricing and, thus, more favorable premium levels. An increase in premium levels is often, over time, offset by an increasing supply of insurance and reinsurance capacity, either by capital provided by new entrants or by the commitment of additional capital by existing insurers or reinsurers, which may cause prices to decrease. Any of these factors could lead to a significant reduction in premium rates, less favorable policy terms and fewer opportunities to underwrite insurance risks, which could have a material adverse effect on our results of operations and cash flows.

**Failures elsewhere in the insurance industry could obligate us to pay assessments through guaranty associations.**

Virtually all states require insurers licensed to do business in that state to bear a portion of the loss suffered by some insureds as the result of impaired or insolvent insurance companies. When an insurance company becomes insolvent, state insurance guaranty associations have the right to assess other insurance companies doing business in their state for funds to pay obligations to policyholders of the insolvent company, up to the state-specific limit of coverage. The total amount of the assessment is based on the number of insured residents in each state, and each company's portion is based on its proportionate share of premium volume in the relevant lines of business. The future failure of a large life or health insurer could trigger assessments which we would be obligated to pay. Further, amounts for historical insolvencies may be assessed over many years, and there can be significant uncertainty around the total obligation for a given insolvency. Existing liabilities may not be sufficient to fund the ultimate obligations of a historical insolvency, and we may be required to increase our liability, which could have an adverse effect on our results of operations.

**The failure to maintain effective and efficient information systems and to safeguard the security of our data could adversely affect our business.**

Our business depends significantly on effective information systems, and we have different information systems for our various businesses. We have committed and will continue to commit significant resources to develop, maintain and enhance our existing information systems, transition existing systems to upgraded systems, and develop new information systems in order to keep pace with continuing changes in information processing technology, evolving industry and regulatory standards, and changing customer preferences.

Moreover, our computer systems have been, and will continue to be, subject to computer viruses or other malicious codes, unauthorized access, cyber-attacks, hackers or other computer-related penetrations. To





date, we are not aware of a material breach of cybersecurity. We commit significant resources to administrative and technical controls to prevent cyber incidents and protect our information technology, but our preventative actions to reduce the risk of cyber threats may be insufficient to prevent physical and electronic break-ins, denial of service and other cyber-attacks or security breaches. Such an event could compromise our confidential information as well as that of our clients and third parties with whom we interact, impede or interrupt business operations and may result in other negative consequences, including remediation costs, loss of revenue, additional regulatory scrutiny and litigation and reputational damage.

Our database and systems are also vulnerable to damage or interruption from system outages, disasters such as earthquakes, fires, floods, acts of terrorism, blackouts, power loss, telecommunications failures, and similar events, which would compromise our ability to conduct business. In the event of such failures, our systems may not be available to our customers or business partners for an extended period of time, which could hurt our relationships with our customers and business partners.

Our failure to maintain effective and efficient information systems and protect the security of such systems could have a material adverse effect on our financial condition and results of operations.

#### **Item 1B. *Unresolved Staff Comments***

None

#### **Item 2. *Properties***

Risk Solutions leases 6,200 square feet of office space in Marlton, New Jersey, which expires on June 30, 2017, 2,478 square feet of office space in Fort Wayne, Indiana, which expires on March 31, 2020, 1,297 square feet of office space in Downers Grove, IL, which expires on December 31, 2016, and 11,230 square feet of office space in Enfield, Connecticut, which expires on November 30, 2018. IPA Family leases 7,000 square feet of office space in Tampa, Florida, which expires on October 31, 2016. IPA Direct leases 2,974 square feet of office space in Lake Mary, Florida, which expires on September 30, 2015, and 2,357 square feet of office space in Fort Lauderdale, Florida, which expires on October 31, 2017. Specialty Benefits leases 3,951 square feet of office space in Eagan, Minnesota, which expires on March 31, 2016.

#### **Item 3. *Legal Proceedings***

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

#### **Item 4. *Mine Safety Disclosures***

None

## Item 5.

**Market for the Registrant's Common Equity, Related Stockholder Matters And Issuer Purchases of Equity Securities****Market Information**

American Independence Corp. ("AMIC or the "Company") common stock is been listed and traded on the NASDAQ Stock Market ("NASDAQ") under the symbol "AMIC". The following table sets forth for the periods indicated the range of prices for the Company's common stock as reported by NASDAQ.

<b>Quarter Ended:</b>		<b>High</b>	<b>Low</b>
December 31, 2014	\$	11.47	\$ 9.84
September 30, 2014	\$	12.50	\$ 10.51
June 30, 2014	\$	12.89	\$ 10.22
March 31, 2014	\$	12.53	\$ 10.02

<b>Quarter Ended:</b>		<b>High</b>	<b>Low</b>
December 31, 2013	\$	13.45	\$ 9.59
September 30, 2013	\$	9.97	\$ 6.94
June 30, 2013	\$	8.20	\$ 6.60
March 31, 2013	\$	7.35	\$ 4.39

**Holders of Record**

At February 18, 2015, there were 62 record holders of the Company's common stock. The number of record owners was determined from the Company's stockholder records maintained by the Company's transfer agent. The closing price for the Company's common stock at December 31, 2014 was \$10.26.

Our ability to utilize our federal NOL carryforwards would be substantially reduced if AMIC were to undergo an "ownership change" within the meaning of Section 382(g)(1) of the Internal Revenue Code. AMIC will be treated as having had an "ownership change" if there is more than a 50% increase in stock ownership during a three year "testing period" by "5% stockholders". In order to reduce the risk of an ownership change, in November 2002, AMIC's stockholders approved an amendment to its certificate of incorporation restricting transfers of shares of its common stock that could result in the imposition of limitations on the use, for federal, state and city income tax purposes, of AMIC's NOL carryforwards and certain federal income tax credits. The certificate of incorporation generally restricts any person from attempting to sell, transfer or dispose, or purchase or acquire any AMIC stock, if such transfer would affect the percentage of AMIC stock owned by a 5% stockholder. Any person attempting such a transfer will be required, prior to the date of any proposed transfer, to request in writing that the board of directors review the proposed transfer and authorize such proposed transfer. Any attempted transfer made in violation of the stock transfer restrictions will be null and void. In the event of an attempted or purported transfer involving a sale or disposition of capital stock in violation of stock transfer restrictions, the transferor will remain the owner of such shares. Notwithstanding these transfer restrictions, there could be circumstances under which an issuance by AMIC of a significant number of new shares of common stock or other new class of equity security having certain characteristics (for example, the right to vote or convert into common stock) might result in an ownership change under the Code.

**Dividends**

The Company does not have any legal restriction on paying dividends, and no dividend on the Company's stock was declared during 2014.

### **Securities Authorized for Issuance Under Equity Compensation Plans**

The information under the heading "Equity Compensation Plan Information" in the Company's definitive proxy statement for the 2015 annual meeting of stockholders is incorporated herein by reference.

## Issuer Purchases of Equity Securities

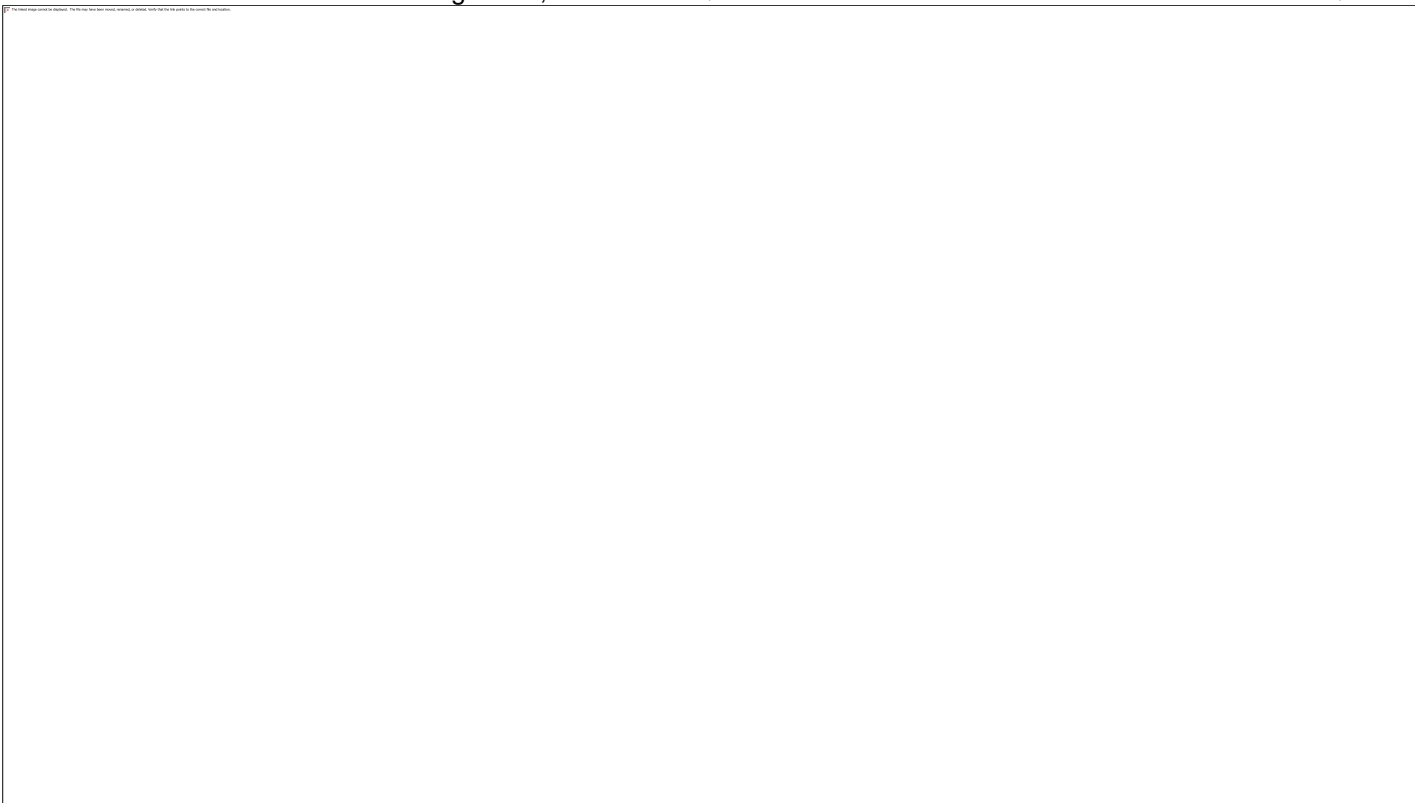
In November 2012, the Board of Directors of AMIC authorized the repurchase of up to 962,886 shares of AMIC's common stock. The repurchase program may be discontinued or suspended at any time. There were no share repurchases during the year ended December 31, 2014. As of December 31, 2014, 500,000 shares were still authorized to be repurchased under the program.

## Performance Graph

The following graph compares the cumulative total stockholder return on AMIC's common stock with that of the NASDAQ US Benchmark Total Return Index and the NASDAQ Insurance (Supersector) Total Return Index. The comparison assumes \$100 was invested on December 31, 2009 in AMIC common stock and in each of the foregoing indices and assumes reinvestment of dividends, if any. The performance shown in the graph represents past performance and should not be considered an indication of future performance.

### Comparison of Five Year Cumulative Total Return

Among AMIC, the NASDAQ US Benchmark Total Return Index and the NASDAQ Insurance (Supersector) Total Return Index



Item 6.

*Selected Financial Data*

The following is a summary of selected consolidated financial data of the Company for each of the last five years. The consolidated financial statements and financial information of AMIC reported prior to January 1, 2013 are not directly comparable to the financial statements and financial information of AMIC included in this report as a result of the change in accounting principle as noted in the explanatory note to the financial statements. The differences relate to basis differences in goodwill, intangible assets and related amortization, other assets, other investments, non-controlling interests in subsidiaries, taxes and related tax provisions, net income, additional paid-in capital, retained earnings and total shareholders' equity. In accordance with GAAP, due to our new basis of accounting, our financial statements include a black line denoting that our financial statements covering periods prior to the push down date of January 1, 2013 are not comparable to our financial statements as of and subsequent to this date. References to the "Predecessor" Company refer to reporting dates of the Company through December 31, 2012, reflecting results of operations and cash flows of the Company prior to the push down date on our historical accounting basis; subsequent thereto, the Company is referred to

as the "Successor" Company, reflecting the impact of push down accounting and the results of operations and cash flows of the Company subsequent to the push down date.

(In thousands, except per share data)	Successor		Predecessor		
	Year Ended December 31,		Year Ended December 31,		
	2014	2013	2012	2011	2010
<b>Income Data:</b>					
Total revenues	\$ 164,876	\$ 153,273	\$ 101,885	\$ 88,038	\$ 89,404
Net income	5,347	3,865	10,542	3,184	2,982
<b>Balance Sheet Data:</b>					
Total investments	78,902	73,632	67,126	64,341	64,449
Total assets	165,781	153,174	158,983	132,780	129,876
Insurance liabilities	52,497	45,319	38,314	29,005	26,203
AMIC stockholders' equity	91,580	84,299	104,152	93,989	92,060
<b>Per Share Data:</b>					
Basic income per common share	.65	.36	1.16	.29	.25
Diluted income per common share	.65	.36	1.16	.29	.25
Book value per common share	11.34	10.44	12.59	11.36	10.82

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

## Item 7.

### *Management's Discussion and Analysis of Financial Condition and Results of Operations*

#### Overview

We are an insurance holding company engaged in the insurance and reinsurance business through our wholly owned insurance company, Independence American Insurance Company ("Independence American"), our wholly owned sales and marketing company, IHC Specialty Benefits, Inc. ("Specialty Benefits"), our wholly owned full service direct writer of medical-stop insurance for self-insured employer groups, IHC Risk Solutions, LLC ("Risk Solutions"), our 92% owned consumer direct sales call center, IPA Direct, LLC ("IPAD"), our 90% owned consumer direct sales agency, IPA Family LLC ("IPA Family"), and our 51% owned lead generation agency, HealthInsurance.org ("HIO"). Since November 2002, AMIC has been affiliated with Independence Holding Company ("IHC"), which owned 90% of AMIC's stock as of December 31, 2014. The senior management of IHC provides direction to the Company through a service agreement between the Company and IHC. In 2014, a significant amount of Independence American's revenue was from reinsurance premiums. The majority of these premiums are ceded to Independence American from IHC under reinsurance treaties to cede its gross medical stop-loss premiums written to Independence American. In addition, Independence American assumes fully insured health, New York State Disability Benefits Law ("DBL"), and long-term disability ("LTD") premiums from IHC, and assumes medical stop-loss premiums from unaffiliated carriers. Independence American writes pet insurance, medical stop-loss, short-term medical, occupational accident, dental and other ancillary products. Given its broad licensing, A- (Excellent) rating from A.M. Best, and that it is the only property and casualty company in IHC, Independence American expects to expand the distribution of its specialty health, occupational accident, and pet insurance products.

While management considers a wide range of factors in its strategic planning, the overriding consideration is underwriting profitability. Management's assessment of trends in healthcare and in the medical stop-loss market play a significant role in determining whether to expand Independence American's health insurance premiums. Since Independence American reinsures a portion of all of the business produced by Risk Solutions, and since it is also eligible to earn profit sharing commissions based on the profitability of the business it places, Risk

Solutions also emphasizes underwriting profitability. In addition, management focuses on controlling operating costs. By sharing employees with IHC and sharing resources among our subsidiaries, we strive to maximize our earnings.



The following is a summary of key performance information and events (in thousands):

	Successor		Predecessor
	Year Ended		Year Ended
	December 31,		December 31,
	2014	2013	2012
Revenues	\$ 164,876	\$ 153,273	\$ 101,885
Expenses	160,331	147,832	95,233
Income before income tax	4,545	5,441	6,652
Provision (benefit) for income taxes	(802)	1,576	(3,890)
Net income	5,347	3,865	10,542
Less: Net income attributable to the non-controlling interest	(97)	(983)	(950)
Net income attributable to American Independence Corp.	<u>\$ 5,250</u>	<u>\$ 2,882</u>	<u>\$ 9,592</u>

The book value of the Company's stockholders' equity increased to \$11.34 per share at December 31, 2014 compared to \$10.44 per share at December 31, 2013.

The Company further reduced the deferred tax asset valuation allowance by \$2.5 million and \$5.9 million at December 31, 2014 and 2012, respectively, primarily due to the expected increase in future income. No such adjustment was recorded for the year ended December 31, 2013.

Net income per share amounted to \$0.65 per share, diluted, or \$5.3 million, for the year ended December 31, 2014, compared to \$0.36 per share, diluted, or \$2.9 million for the year ended December 31, 2013.

At December 31, 2014, 99.5% of the Company's fixed maturities were investment grade.

Consolidated investment yields were 2.9% and 3.2% for the years ended December 31, 2014 and 2013, respectively.

Premiums earned increased 5% to \$133.6 million for the year ended December 31, 2014 from \$127.2 million for the year ended December 31, 2013, primarily due to higher premiums for pet insurance, and occupational accident business, offset by lower premiums for assumed major medical, and direct individual major medical business due to the run-off of these lines, and direct medical stop-loss due to the cancellation of a product source.

For the year ended December 31, 2014, our Agencies generated revenues of \$28.3 million compared to \$23.0 million for the year ended December 31, 2013 due to higher revenues generated at Risk Solutions, IPAD and Specialty Benefits.

- Agency net loss increased \$0.8 million from \$1.2 million for the year ended December 31, 2013 to \$2.0 million for the year ended December 31, 2014 due to the changes in the Affordable Care Act which have disrupted sales in the second and third quarter of 2014, and due to expenses attributable to the start-up of IPAD, our consumer direct sales call center.

- Underwriting experience, as indicated by its GAAP Combined Ratios on our three lines of business for the years ended December 31, 2014, 2013 and 2012 are as follows (in thousands):



	Successor		Predecessor
	2014	2013	2012
<b>Medical Stop-Loss</b>			
Premiums Earned	\$ 53,279	\$ 55,508	\$ 47,531
Insurance Benefits Claims and Reserves	36,330	37,762	32,573
Profit Commission Expense	1,070	2,417	262
Expenses	13,454	14,149	12,662
Loss Ratio <sup>(A)</sup>	68.2%	68.0%	68.5%
Profit Commission Expense Ratio <sup>(B)</sup>	2.0%	4.4%	0.6%
Expense Ratio <sup>(C)</sup>	25.3%	25.5%	26.6%
Combined Ratio <sup>(D)</sup>	<u>95.5%</u>	<u>97.9%</u>	<u>95.7%</u>

	Successor		Predecessor
	2014	2013	2012
<b>Fully Insured Health</b>			
Premiums Earned	\$ 74,309	\$ 66,167	\$ 32,762
Insurance Benefits Claims and Reserves	48,710	45,884	22,220
Profit Commission Expense (Recovery)	463	(129)	(145)
Expenses	22,827	17,060	7,929
Loss Ratio <sup>(A)</sup>	65.6%	69.3%	67.8%
Profit Commission Expense Ratio <sup>(B)</sup>	0.6%	-0.2%	-0.4%
Expense Ratio <sup>(C)</sup>	30.7%	25.8%	24.2%
Combined Ratio <sup>(D)</sup>	<u>96.9%</u>	<u>94.9%</u>	<u>91.6%</u>

	Successor		Predecessor
	2014	2013	2012
<b>Group Disability</b>			
Premiums Earned	\$ 6,018	\$ 5,528	\$ 3,485
Insurance Benefits Claims and Reserves	3,847	3,472	2,055
Expenses	1,767	1,594	1,043
Loss Ratio <sup>(A)</sup>	63.9%	62.8%	59.0%
Expense Ratio <sup>(C)</sup>	29.4%	28.8%	29.9%
Combined Ratio <sup>(D)</sup>	<u>93.3%</u>	<u>91.6%</u>	<u>88.9%</u>

(A)

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

(B)

Profit commission expense ratio represents profit commissions divided by premiums earned.

(C)

Expense ratio represents commissions, administrative fees, premium taxes and other underwriting expenses divided by premiums earned.

(D)

The combined ratio is equal to the sum of the loss ratio, profit commission expense ratio and the expense ratio.

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The Company recorded a decrease in the combined ratio in the medical stop-loss line of business for the year ended December 31, 2014. This is due to lower profit commissions due to unfavorable claims experience on the run-off of assumed business emanating from a non-owned MGU program that was terminated effective December 31, 2013.

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The Company recorded an increase in the combined ratio in the fully insured health line of business for the year ended December 31, 2014 primarily due to an increase in the expense ratio due to a change in the mix of business to lines that have higher commission and expenses structures, partially offset by a

decrease in loss ratio as the Company moves to specialty health lines and moves away from major medical.

The Company experienced an increased loss ratio for group disability for the year ended December 31, 2014 as a result of higher losses for the international line of LTD business.

## CRITICAL ACCOUNTING POLICIES

The accounting and reporting policies of the Company conform to U.S. generally accepted accounting principles ("GAAP"). The preparation of the Consolidated Financial Statements in conformity with GAAP requires the Company's management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. A summary of the Company's significant accounting policies and practices is provided in Note 1 of the Notes to the Consolidated Financial Statements included in Item 8. Management has identified the accounting policies described below as those that, due to the judgments, estimates and assumptions inherent in those policies, are critical to an understanding of the Company's Consolidated Financial Statements and this Management's Discussion and Analysis.

### ***Policy Benefits and Claims***

The Company maintains loss reserves to cover its estimated liability for unpaid losses and loss adjustment expenses, where material, including legal and other fees, for reported and unreported claims incurred as of the end of each accounting period. These loss reserves are based on actuarial assumptions and are maintained at levels that are estimated in accordance with GAAP. The Company's estimate of loss reserves represents management's best estimate of the Company's liability at the balance sheet date.

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

Management believes that the Company's methods of estimating the liabilities for policy benefits and claims provided appropriate levels of reserves at December 31, 2014. Changes in the Company's reserve estimates are recorded through a charge or credit to its earnings.

### **Medical Stop-Loss**

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

#### *Projected Net Loss Ratio*

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

While the Company establishes a best estimate of the Projected Net Loss Ratio, actual experience may deviate from this estimate. This was the case with the 2013, 2012 and 2011 underwriting years that increased (decreased) by 0.7, (3.4), and 11.7 Loss Ratio points, respectively. While the Company believes that larger variations are possible, based on the Company's experience to date, it is reasonably likely that the actual



experience will fall within a range up to five Net Loss Ratio points above or below the expected Projected Net Loss Ratio for the 2014 underwriting year at December 31, 2014. The impact of these reasonably likely changes at December 31, 2014, would be an increase in net reserves (in the case of a higher ratio) or a decrease in net reserves (in the case of a lower ratio) of up to approximately \$1.3 million with a corresponding increase or decrease in the pre-tax expense for insurance benefits, claims and reserves.

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

#### *Claim Development Patterns*

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

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

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

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

#### **Fully Insured Health**

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

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





## ***Premium and Fee Income Revenue Recognition***

Direct and assumed premiums from short-duration contracts are recognized as revenue over the period of the contracts in proportion to the amount of insurance protection provided. The Company records fee income as policy premium payments are earned. Risk Solutions is compensated in two ways. It earns fee income based on the volume of business produced, and collects profit-sharing commissions if such business exceeds certain profitability benchmarks. Profit-sharing commissions are accounted for beginning in the period in which the Company believes they are reasonably estimable, which is typically at the point that claims have developed to a level where Claim Development Patterns can be applied to generate reasonably reliable estimates of ultimate claim levels.

## ***Reinsurance***

Amounts recoverable or paid for under reinsurance contracts are included in total assets or total liabilities as due from reinsurers or due to reinsurers. In 2014, Independence American derived a significant amount of its business from pro rata quota share reinsurance treaties with Standard Security Life and Madison National Life, which are wholly owned subsidiaries of IHC. These treaties, which were to terminate on December 31, 2014, have been amended to extend the termination date to December 31, 2019. Standard Security Life and Madison National Life must cede at least 15% of their medical stop-loss business to Independence American under these treaties. Additionally, Standard Security Life and Madison National Life have received regulatory approval to cede up to 50% to Independence American under most of IHC's medical stop-loss programs. For each of the twelve months ended December 31, 2014 and 2013, Standard Security Life and Madison National Life ceded an average of approximately 27% and 26%, respectively, of their medical stop-loss business to Independence American. Independence American reinsures 20% of Standard Security Life's DBL business and 8% of certain of IHC's LTD business. Standard Security Life and Madison National Life also ceded approximately 10% of the majority of their fully insured health business lines to Independence American. In addition, in 2014, Independence American ceded 8% of its fully insured health business lines to unaffiliated reinsurers.

## ***Income Taxes***

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the period in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income of AMIC, and tax planning strategies in making this assessment. Management believes that although uncertainty exists regarding the future realization of deferred tax assets, the valuation allowance has been adjusted to account for the expected utilization of net operating losses against future taxable income. A liability for uncertain tax positions is recorded when it is more likely than not that a tax position will not be sustained upon examination by taxing authorities.

The Company has net operating loss carryforwards for federal income tax purposes available to reduce future income subject to income taxes. The net operating loss carryforwards expire between 2018 and 2028.

U.S. Federal and California tax laws impose substantial restrictions on the utilization of net operating loss and credit carryforwards in the event of an "ownership change" for tax purposes, as defined in Section 382 of the Internal Revenue Code.

## ***Investments***

The Company has classified all of its investments as either available-for-sale or trading securities. These investments are carried at fair value with unrealized gains and losses reported in accumulated other comprehensive income (loss) in the Consolidated Balance Sheets for available-for-sale securities or as unrealized gains or losses in the Consolidated Statements of Income for trading securities. Fixed maturities and equity securities available-for-sale totaled \$74.6 million and \$69.2 million at December 31, 2014 and 2013, respectively. Premiums and discounts on debt securities purchased at other than par value are amortized and accreted, respectively, to interest income in the Consolidated Statements of Income, using the constant yield method over the period to maturity. Net realized gains and losses on investments are computed using the specific identification method and are reported in the Consolidated Statements of Income on the trade date.





Fair value is determined using quoted market prices when available. In some cases, we use quoted market prices for similar instruments in active markets and/or model-derived valuations where inputs are observable in active markets. When there are limited or inactive trading markets, we use industry-standard pricing methodologies, including discounted cash flow models, whose inputs are based on management assumptions and available current market information. Further, we retain independent pricing vendors to assist in valuing certain instruments, primarily all the securities in our portfolio classified in Level 2 or Level 3 in the Fair Value Hierarchy.

The Company periodically reviews and assesses the vendor's qualifications and the design and appropriateness of its pricing methodologies. Management will on occasion challenge pricing information on certain individual securities and, through communications with the vendor, obtain information about the assumptions, inputs and methodologies used in pricing those securities, and corroborate it against documented pricing methodologies. Validation procedures are in place to determine completeness and accuracy of pricing information, including, but not limited to: (i) review of exception reports that (a) identify any zero or un-priced securities; (b) identify securities with no price change; and (c) identify securities with significant price changes; (ii) performance of trend analyses; (iii) periodic comparison of pricing to alternative pricing sources; and (iv) comparison of pricing changes to expectations based on rating changes, benchmarks or control groups. In certain circumstances, pricing is unavailable from the vendor and broker pricing information is used to determine fair value. In these instances, management will assess the quality of the data sources, the underlying assumptions and the reasonableness of the broker quotes based on the current market information available. To determine if an exception represents an error, management will often have to exercise judgment. Procedures to resolve an exception vary depending on the significance of the security and its related class, the frequency of the exception, the risk of material misstatement, and the availability of information for the security. These procedures include, but are not limited to; (i) a price challenge process with the vendor; (ii) pricing from a different vendor; (iii) a reasonableness review; (iv) a change in price based on better information, such as an actual market trade, among other things. Management considers all facts and relevant information obtained during the above procedures to determine the proper classification of each security in the Fair Value Hierarchy.

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

Equity securities may experience other-than-temporary impairment in the future based on the prospects for full recovery in value in a reasonable period of time and the Company's ability and intent to hold the security

to recovery. If a decline in fair value is judged to be other-than-temporary or management does not have the intent or ability to hold a security, a loss is recognized by a charge to total other-than-temporary impairment losses in the Consolidated Statements of Income for the difference between the carrying value and the fair value of the securities. For the purpose of other-than-temporary impairment evaluations, investment grade redeemable preferred stocks are evaluated in a manner similar to debt securities. Declines in the creditworthiness of the issuer of debt securities with both debt and equity-like features requires the use of the equity model in analyzing the security for other-than-temporary impairment.

**Results of Operations for the Year Ended December 31, 2014, compared to the Year Ended December 31, 2013**

		Fees and	Net	Benefits,	Selling,	Amortization	
<u>December 31,</u>	<u>Premiums</u>	<u>Other</u>	<u>Investment</u>	<u>Claims</u>	<u>General</u>	<u>and</u>	
<u>2014</u>	<u>Earned</u>	<u>Income</u>	<u>Income</u>	<u>and</u>	<u>and</u>	<u>and</u>	<u>Total</u>
<u>(In thousands)</u>				<u>Reserves</u>	<u>Admin</u>	<u>Depreciation</u>	
Independence							
American:							
Medical stop-loss	\$ 53,279	-	1,103	36,330	14,524	-	\$ 3,528
Publicly Insured Health	74,309	-	782	48,710	23,290	-	3,091
Group Disability	6,018	-	102	3,847	1,767	-	506
Total Independence							
American	133,606	-	1,987	88,887	39,581	-	7,125
Agencies	-	28,101	150	-	28,515	1,692	(1,956)
Corporate	-	-	65	-	1,656	-	(1,591)
Subtotal	\$ <u>133,606</u>	<u>28,101</u>	<u>2,202</u>	<u>88,887</u>	<u>69,752</u>	<u>1,692</u>	<u>3,578</u>
Net realized investment gains							967
Income before income taxes							4,545
Income tax benefit							802
Net income							5,347
Less: Net income attributable to non-controlling interests							(97)
Net income attributable to American Independence Corp.							\$ <u>5,250</u>

		Fees and	Net	Benefits,	Selling,	Amortization	
<u>December 31,</u>	<u>Premiums</u>	<u>Other</u>	<u>Investment</u>	<u>Claims</u>	<u>General</u>	<u>and</u>	
<u>2013</u>	<u>Earned</u>	<u>Income</u>	<u>Income</u>	<u>and</u>	<u>and</u>	<u>and</u>	<u>Total</u>
<u>(In thousands)</u>				<u>Reserves</u>	<u>Admin</u>	<u>Depreciation</u>	
Independence							
American:							
Medical stop-loss	\$ 55,508	-	1,242	37,762	16,566	-	\$ 2,422
Publicly Insured Health	66,167	-	631	45,884	16,931	-	3,983

Group Disability	<u>5,528</u>	<u>-</u>	<u>73</u>	<u>3,472</u>	<u>1,594</u>	<u>-</u>	<u>535</u>
Total Independence							
American	127,203	-	1,946	87,118	35,091	-	6,940
Agencies	-	22,884	111	-	22,384	1,836	(1,225)
Corporate	-	-	47	-	1,403	-	(1,356)
Subtotal	<u>\$ 127,203</u>	<u>22,884</u>	<u>2,104</u>	<u>87,118</u>	<u>58,878</u>	<u>1,836</u>	<u>4,359</u>
Net realized investment gains							1,082
Income before income taxes							5,441
Provision for income taxes							(1,576)
Net Income							3,865
Less: Net income attributable to non-controlling interests							(983)
Net income attributable to American Independence Corp.							<u>\$ 2,882</u>

*Premiums Earned.* Premiums earned increased 5%, or \$6,403,000 from 2013 to 2014. The Company currently has three lines of business. Premiums relating to medical stop-loss business decreased \$2,229,000 due to a decrease of \$7,509,000 in medical stop-loss premiums written by Independence American through an independent MGU that has been terminated, offset by an increase of \$5,280,000 in medical stop-loss assumed by Independence American. Premiums relating to fully insured health (consisting of major medical, fixed indemnity limited benefit, short-term medical, dental, vision, small group stop-loss, hospital indemnity, occupational accident, pet insurance, international medical, and individual health) increased \$8,142,000. The

increase is primarily due to an increase of \$10,188,000 in pet premium written due to an increase in sales, an increase of \$8,691,000 in occupational accident business written due to the transfer of business from another carrier, an increase in international medical premiums assumed of \$2,458,000, an increase of \$2,658,000 in hospital indemnity premiums written, an increase of \$3,622,000 in small group stop-loss written, an increase of \$1,481,000 in occupational accident premiums assumed, an increase of \$705,000 in short-term medical premiums assumed, and an increase in assumed limited medical of \$518,000, offset by a decrease in major medical premiums written and assumed of \$21,006,000 and a decrease in vision premiums assumed of \$1,098,000. Premiums relating to group disability increased \$490,000 due to higher DBL premiums assumed. For the year ended December 31, 2014, Independence American assumed 10% of IHC's short-term medical business, 20% of IHC's DBL business, 8% of certain of IHC's LTD business, and approximately 27% of IHC's medical stop-loss business. There were no significant changes to these percentages from the prior year. For the year ended December 31, 2014 and December 31, 2013, Independence American assumed approximately 10% and 12%, respectively, of certain of IHC's group major medical business.

Fee and Agency Income. Fee and agency income increased \$5,497,000 from 2013 to 2014. Risk Solutions fee income-administration increased \$3,774,000 to \$11,655,000 for 2014, compared to \$7,881,000 for 2013. Risk Solutions fee income-profit commission increased \$714,000 to \$1,268,000 for 2014, compared to \$554,000 for 2013. Profit commissions for a given year are based primarily on the performance of business written during portions of the three preceding years. Therefore, profit commissions for 2014 are based on business written during portions of 2011, 2012 and 2013. In 2014, agency income consisted of commission income and other fees of \$1,874,000 and \$1,067,000 from IPA Family and IPAD, respectively, and revenue of \$5,181,000 and \$6,873,000 from HIO and Specialty Benefits, respectively. In 2013, agency income consisted of commission income and other fees of \$3,655,000 and \$38,000 from IPA Family and IPAD, respectively, and revenue of \$8,230,000 and \$2,063,000 from HIO and Specialty Benefits, respectively. The decrease in revenue for the two agencies is primarily due to disrupted sales due to changes in the ACA.

Net Investment Income. Net investment income increased \$98,000 from 2013 to 2014 due to higher invested assets, offset by a decline in yield on those assets. The consolidated investment yields were 2.9% and 3.2% for the years ended December 31, 2014 and 2013, respectively.

Net Realized Investment Gains. The Company recorded a net realized investment gain of \$967,000 for the year ended December 31, 2014, compared to a gain of \$1,082,000 for the year ended December 31, 2013. The Company's decision as to whether to sell securities is based on management's ongoing evaluation of investment opportunities and economic market conditions, thus creating fluctuations in realized gains or losses from period to period.

Other Income. Other income decreased \$280,000 from 2013 to 2014 due to lower income from our equity investment in GAF for the year ended December 31, 2014, compared to the year ended December 31, 2013.

Insurance Benefits, Claims and Reserves. Insurance benefits claims and reserves increased 2%, or \$1,769,000 from 2013 to 2014. The increase is primarily due to an increase in direct pet health of \$6,581,000 due to higher premiums, an increase in direct occupational accident of \$6,526,000 due to higher premiums, an increase in assumed medical stop-loss of \$3,368,000 due to higher premiums assumed, an increase in small group stop-loss of \$2,785,000 due to higher premiums, an increase in assumed international health of \$1,827,000 due to higher premiums assumed and a higher loss ratio, an increase in assumed limited medical of \$419,000 due to higher premiums and a higher loss ratio, an increase in assumed occupational accident of \$677,000 due to higher premiums, an increase of \$525,000 in direct hospital indemnity premiums due to higher premiums, an increase in assumed LTD of \$235,000 due to a higher loss ratio, an increase in assumed DBL of \$140,000 due to higher premiums assumed, and an increase in assumed short-term medical of \$385,000 due to higher premiums assumed, offset by a decrease in direct and assumed major medical of \$15,971,000 due to lower premiums, a decrease in direct medical stop-loss of \$4,799,000 due to lower premiums and a lower loss ratio, and a decrease in assumed vision of \$964,000 due to a lower loss ratio and lower premiums.

Selling, General and Administrative. Selling, general and administrative expenses increased \$10,874,000 from 2013 to 2014. This increase is due to higher commission expense of \$4,671,000 at Independence American due to higher premiums and a change in the mix of business, higher expenses of \$4,220,000 and \$2,669,000 at Specialty Benefits and Risk Solutions, respectively, primarily due to higher salary expense relating to an increase in sales, and higher expenses of \$1,340,000 due to the formation of IPAD in July



2013, offset by a decrease in expenses of \$1,206,000 and \$893,000 at HIO and IPA Family, respectively due to lower revenue.

Amortization and Depreciation. Amortization and depreciation expense decreased \$144,000 from 2013 to 2014 due to higher amortization rates in earlier years.

Income Taxes. The provision for income taxes decreased \$2,378,000 to a tax benefit of \$802,000, an effective rate of -18.0%, for 2014, compared to a tax provision of \$1,576,000, an effective rate of 35.4%, for 2013. Net income for 2014 and 2013 includes a non-cash provision for federal income taxes of \$1,647,000 and \$1,477,000, respectively. The state tax effective rate increased to 0.3% for 2014, compared to 0.7% for 2013. In 2014, the Company further reduced the valuation allowance relating to the deferred tax asset by \$2,500,000, which caused a corresponding increase in such deferred tax asset. The valuation allowance relates to the probability that AMIC might not be able to fully utilize its prior tax year federal net operating loss carryforwards ("NOLs"). For as long as AMIC utilizes its NOL carryforwards, it will not pay any income taxes, except for federal alternative minimum taxes and state income taxes. Excluding the \$2,500,000 reduction in the valuation allowance relating to the deferred tax asset, the effective tax rate was 38.2% for 2014.

Net Income attributable to the non-controlling interest. Net income attributable to the non-controlling interest decreased \$886,000 from 2013 to 2014, due to lower income at HIO and IPA. The net income for the year ended December 31, 2014 and 2013 relates to the 49% non-controlling interest in HIO, the 10% non-controlling interest in IPA Family, and the 8% non-controlling interest in IPAD.

Net Income attributable to American Independence Corp. The net income attributable to the Company increased to \$5,250,000, or \$.65 per share, diluted, for 2014, compared to \$2,882,000, or \$.36 per share, diluted, for 2013.

Results of Operations for the Year Ended December 31, 2013 (Successor), compared to the Year Ended December 31, 2012 (Predecessor)

<b>Successor</b>							
<b>December 31,</b>	<b>Premiums</b>	<b>Fees and</b>	<b>Net</b>	<b>Benefits,</b>	<b>Selling,</b>	<b>Amortization</b>	
<b>2013</b>	<b>Earned</b>	<b>Other</b>	<b>Investment</b>	<b>Claims</b>	<b>General</b>	<b>and</b>	<b>Total</b>
<b>(In thousands)</b>		<b>Income</b>	<b>Income</b>	<b>and</b>	<b>and</b>	<b>and</b>	
				<b>Reserves</b>	<b>Admin</b>	<b>Depreciation</b>	
Independence							
American:							
Medical stop-loss	\$ 55,508	-	1,242	37,762	16,566	-	\$ 2,422
Fully Insured Health	66,167	-	631	45,884	16,931	-	3,983
Group Disability	5,528	-	73	3,472	1,594	-	535
Total Independence							
American	127,203	-	1,946	87,118	35,091	-	6,940
Agencies	-	22,884	111	-	22,384	1,836	(1,225)
Corporate	-	-	47	-	1,403	-	(1,356)
Subtotal	\$ <u>127,203</u>	<u>22,884</u>	<u>2,104</u>	<u>87,118</u>	<u>58,878</u>	<u>1,836</u>	<u>4,359</u>
Net realized investment gains							1,082
Income before income taxes							5,441
Provision for income taxes							(1,576)
Net income							3,865
Less: Net income attributable to non-controlling interests							(983)
Net income attributable to American Independence Corp.							\$ <u>2,882</u>

<b>Predecessor</b>							
<b>December 31,</b>	<b>Premiums</b>	<b>Fees and</b>	<b>Net</b>	<b>Benefits,</b>	<b>Selling,</b>	<b>Amortization</b>	
<b>2012</b>	<b>Earned</b>	<b>Other</b>	<b>Investment</b>	<b>Claims</b>	<b>General</b>	<b>and</b>	<b>Total</b>
<b>(In thousands)</b>		<b>Income</b>	<b>Income</b>	<b>and</b>	<b>and</b>	<b>and</b>	
				<b>Reserves</b>	<b>Admin</b>	<b>Depreciation</b>	
Independence							
American:							
Medical stop-loss	\$ 47,531	-	1,327	32,574	12,924	-	\$ 3,360
Fully Insured Health	32,762	-	513	22,220	7,784	-	3,271
Group Disability	3,485	-	65	2,055	1,043	-	452

Total Independence							
American	83,778	-	1,905	56,849	21,751	-	7,083
Agencies	-	15,567	171	-	14,705	509	524
Corporate	-	-	50	-	1,419	-	(1,369)
Subtotal	<u>\$ 83,778</u>	<u>15,567</u>	<u>2,126</u>	<u>56,849</u>	<u>37,875</u>	<u>509</u>	<u>6,238</u>
Net realized investment gains							603
Other-than-temporary impairment losses							(189)
Income before income taxes							6,652
Income tax benefit							3,890
Net Income							10,542
Less: Net income attributable to non-controlling interests							(950)
Net income attributable to American Independence Corp.							<u>\$ 9,592</u>

*Premiums Earned.* Premiums earned increased 52%, or \$43,425,000 from 2012 to 2013. The Company currently has three lines of business. Premiums relating to medical stop-loss business increased \$7,977,000. This is due to an increase of \$8,406,000 in medical stop-loss premiums assumed, offset by a decrease of \$429,000 in medical stop-loss premiums written. Premiums relating to fully insured health consisting of group major medical, fixed indemnity limited benefit, short-term medical, dental, vision, hospital indemnity, occupational accident, pet insurance, international medical, and individual health increased \$33,405,000. The increase is primarily due to an increase of \$15,388,000 in pet premiums, an increase of \$11,206,000 in group major medical premiums assumed, an increase of \$3,072,000 in international medical premiums assumed, an increase in small group business written of \$1,319,000, and an increase in occupational accident business written of \$954,000. Premiums relating to group disability increased \$2,043,000 due to higher DBL and LTD premiums assumed. For the year ended December 31, 2013, Independence American assumed 10% of IHC's

short-term medical business, 20% of IHC's DBL business, 8% of certain of IHC's LTD business, and approximately 26% of IHC's medical stop-loss business. There were no significant changes to these percentages from the prior year. For the years ended December 31, 2013 and December 31, 2012, Independence American assumed approximately 12% and 8%, respectively, of certain of IHC's group major medical business.

Fee and Agency Income. Fee and agency income increased \$6,980,000 from 2012 to 2013. Risk Solutions fee income-administration increased \$2,401,000 to \$7,881,000 for 2013, compared to \$5,480,000 for 2012. Risk Solutions fee income-profit commission decreased \$632,000 to \$554,000 for 2013, compared to \$1,186,000 for 2012. Profit commissions for a given year are based primarily on the performance of business written during portions of the three preceding years. Therefore, profit commissions for 2013 are based on business written during portions of 2010, 2011 and 2012. In 2013, agency income consisted of commission income and other fees of \$3,655,000 and \$38,000 from IPA Family and IPAD, respectively, and revenue of \$8,230,000 and \$2,063,000 from HIO and Specialty Benefits, respectively. In 2012, agency income consisted of commission income and other fees of \$4,303,000 from IPA Family, and revenue of \$3,497,000 and \$975,000 from HIO and Specialty Benefits, respectively.

Net Investment Income. Net investment income decreased \$22,000 from 2012 to 2013. The consolidated investment yields were 3.2% and 3.3% for the years ended December 31, 2013 and 2012, respectively.

Net Realized Investment Gains and Other-Than-Temporary Impairment Losses. The Company recorded a net realized investment gain of \$1,082,000 for the year ended December 31, 2013, compared to a gain of \$603,000 for the year ended December 31, 2012. The Company's decision as to whether to sell securities is based on management's ongoing evaluation of investment opportunities and economic market conditions, thus creating fluctuations in realized gains or losses from period to period. For the years ended December 31, 2013 and 2012, the Company recorded \$0 and \$189,000, respectively, of other-than-temporary-impairment losses. These credit losses were a result of the expected cash flows of a debt security being less than the debt security's amortized cost.

Other Income. Other income increased \$337,000 from 2012 to 2013 due to income from our new equity investment in GAF for the year ended December 31, 2013, compared to the year ended December 31, 2012.

Insurance Benefits, Claims and Reserves. Due to the increase in premiums, insurance benefits claims and reserves increased 53%, or \$30,269,000 from 2012 to 2013. The increase is primarily due to an increase in assumed group major medical of \$10,133,000 due to higher premiums assumed and a higher loss ratio, an increase in direct pet insurance of \$9,726,000 due to a higher premiums written and a higher loss ratio, an increase in assumed medical stop-loss of \$8,049,000 due to an increase in premiums assumed and a higher loss ratio, an increase in assumed international medical of \$1,521,000 due to higher premiums assumed offset by a lower loss ratio, an increase in DBL of \$1,272,000 due to higher premiums assumed and a higher loss ratio, and an increase in small group of \$1,034,000 due to higher premiums written, offset by a decrease in direct medical stop-loss of \$2,861,000 due to a lower loss ratio, and a decrease in direct group major medical of \$847,000 due to a decrease in premiums written.

Selling, General and Administrative. Selling, general and administrative expenses increased \$21,003,000 from 2012 to 2013. This increase is primarily due to higher commission expense of \$9,122,000 at Independence American due to higher premiums, higher profit commission expense of \$2,170,000 at Independence American due to higher commissions for direct medical stop loss, higher expenses of \$1,228,000 due to the formation of Specialty Benefits in May 2012, higher expenses at Risk Solutions of \$2,063,000 primarily due to higher salary expense and travel expense related to an increase in sales, higher administration expense of \$1,574,000 at Independence American due to higher pet insurance premiums written, higher expenses at HIO of \$4,545,000 due to higher referral fees, and higher expenses of \$357,000 due to the formation of IPAD in July 2013, offset by lower expenses at IPA Family of \$515,000 primarily due to lower agent expenses.

Amortization and Depreciation. Amortization and depreciation expense increased \$1,327,000 from 2012 to 2013, primarily due the impact of the application of push down accounting in 2013.



*Income Taxes.* The provision for income taxes increased \$5,466,000 to \$1,576,000, an effective rate of 35.4%, for 2013, compared to a tax benefit of \$3,890,000, an effective rate of -68.2%, for 2012. Net income for 2013 and 2012 includes a non-cash provision for federal income taxes of \$1,477,000 and \$1,868,000, respectively. The state tax effective rate decreased to 0.7% for 2013, compared to 1.4% for 2012. In 2012, the Company further reduced the valuation allowance relating to the deferred tax asset by \$5,900,000, which caused a corresponding increase in such deferred tax asset. The valuation allowance relates to the probability that AMIC might not be able to fully utilize its prior tax year federal net operating loss carryforwards ("NOLs"). For as long as AMIC utilizes its NOL carryforwards, it will not pay any income taxes, except for federal alternative minimum taxes and state income taxes. Excluding the \$5,900,000 reduction in the valuation allowance relating to the deferred tax asset, the effective tax rate was 35.3% for 2012.

*Net Income attributable to the non-controlling interest.* Net income attributable to the non-controlling interest increased \$33,000 from 2012 to 2013. The net income for the years ended December 31, 2013 and 2012 relates to the 49% non-controlling interest in HIO and the 10% non-controlling interest in IPA Family. Also included in the net income for the year ended December 31, 2013 is the 8% non-controlling interest in our new company IPAD.

*Net Income attributable to American Independence Corp.* The net income attributable to the Company decreased to \$2,882,000, or \$.36 per share, diluted, for 2013, compared to \$9,592,000, or \$1.16 per share, diluted, for 2012.

## **LIQUIDITY AND CAPITAL RESOURCES**

### *Independence American*

Independence American principally derives cash flow from: (i) operations; (ii) the receipt of scheduled principal payments on its portfolio of fixed income securities; and (iii) earnings on investments and other investing activities. Such cash flow is partially used to finance liabilities for insurance policy benefits and reinsurance obligations.

### *Corporate*

Corporate derives cash flow funds principally from: dividends and tax payments from its subsidiaries and investment income from corporate liquidity. The ability of Independence American to pay dividends to its parent company is governed by Delaware insurance laws and regulations; otherwise, there are no regulatory constraints on the ability of any of our other subsidiaries to pay dividends to its parent company. For the twelve months ended December 31, 2014, Independence American and our Agencies paid \$786,000 in dividends and \$2,000,000 in tax payments to Corporate.

Corporate utilizes cash primarily for the payment of general overhead expenses, to make acquisitions, and common stock repurchases.

### *Cash Flows*

The Company had \$4.6 million and \$4.4 million of cash and cash equivalents as of December 30, 2014 and December 31, 2013, respectively.

For the year ended December 31, 2014, operating activities provided the Company with \$4.2 million of cash, whereas \$3.3 million of cash was utilized by investing activities primarily due to higher net purchases of fixed maturity securities. Financing activities, which utilized \$0.7 million for the period, includes a \$0.3 million contingent liability payment, and \$0.5 million utilized to pay dividends to noncontrolling interests.

At December 31, 2014, the Company had \$18,881,000 of restricted cash at Risk Solutions. This amount is directly offset by corresponding liabilities for Premium and Claim Funds Payable of \$18,881,000. This asset, in part, represents the premium that is remitted by the insureds and is collected by Risk Solutions on behalf of the insurance carriers they represent. Each month the premium is remitted to the insurance carriers by Risk Solutions. Until such remittance is made the collected premium is carried as an asset on the balance sheet with a corresponding payable to each insurance carrier. In addition to the premium being held at Risk Solutions, Risk Solutions is in possession of cash to pay claims. The cash is deposited by each insurance carrier into a bank



account that Risk Solutions can access to reimburse claims in a timely manner. The cash is used by Risk Solutions to pay claims on behalf of the insurance carriers they represent.

At December 31, 2014, the Company had \$33,616,000 of policy benefits and claims that it expects to pay out of current assets and cash flows from future business. If necessary, the Company could utilize the cash received from maturities and repayments of its fixed maturity investments if the timing of claim payments associated with the Company's policy benefits and claims does not coincide with future cash flows.

The chart below reflects the maturity distribution of AMIC's contractual obligations at December 31, 2014 (in thousands):

	<b>Net Operating Leases</b>	<b>Policy Benefits and Claims</b>	<b>Total</b>
2015	\$ 552	\$ 33,383	\$ 33,935
2016	447	38	485
2017	234	28	262
2018	195	23	218
2019	115	21	136
2020 and thereafter	29	123	152
Total	<u>\$ 1,572</u>	<u>\$ 33,616</u>	<u>\$ 35,188</u>

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

#### **BALANCE SHEET**

Total investments, net of amounts due to/from brokers, increased \$5,378,000 to \$79,137,000 at December 31, 2014 from \$73,759,000 at December 31, 2013, due to higher net purchases of fixed maturity securities, and a decrease in net unrealized losses on investments.

The Company had receivables from reinsurers of \$5,532,000 at December 31, 2014. All of the business ceded to such reinsurers is of short-duration. All of such receivables are either due from related parties, highly rated companies or are adequately secured. No allowance for doubtful accounts was deemed necessary at December 31, 2014.

The Company's policy benefits and claims by line of business are as follows (in thousands):

	<b>Total Policy Benefits and Claims</b>	
	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Medical Stop-Loss	\$ 15,929	\$ 20,618
Fully Insured Health	15,742	13,276
Group Disability	1,945	1,358
	<u>\$ 33,616</u>	<u>\$ 35,252</u>



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

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



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

The \$7,281,000 increase in AMIC's stockholders' equity is primarily due to net income of \$5,250,000 and a decrease in net unrealized losses on investments of \$1,998,000. The decrease in net unrealized losses on investments is due to a decrease in interest rates, which increased the value of the Company's bond portfolio.

### Asset Quality and Investment Impairments

The nature and quality of insurance company investments must comply with all applicable statutes and regulations, which have been promulgated primarily for the protection of policyholders. The Company's gross unrealized gains on available-for-sale securities totaled \$615,000 at December 31, 2014. Approximately 99.5% of the Company's fixed maturities were investment grade. The Company marks all of its available-for-sale securities to fair value through accumulated other comprehensive income or loss. Higher grade investments tend to carry less default risk and, therefore, lower interest rates than other types of fixed maturity investments. At December 31, 2014, approximately 0.5% (or \$390,000) of the carrying value of fixed maturities was invested in non-investment grade fixed maturities (primarily commercial mortgage obligations) (investments in such securities have different risks than investment grade securities, including greater risk of loss upon default, and thinner trading markets). The Company does not have any non-performing fixed maturity investments at December 31, 2014.

Approximately 1.0% of fixed maturities, primarily municipal obligations, in our investment portfolio are insured by financial guaranty insurance companies. The purpose of this insurance is to increase the credit quality of the fixed maturities and their credit ratings. If the obligations of these financial guarantors ceased to be valuable, either through a credit rating downgrade or default, these debt securities would likely receive lower credit ratings by the rating agencies that would reflect the creditworthiness of the various obligors as if the fixed maturities were uninsured. The following table summarizes the credit quality of our fixed maturity portfolio as rated, and as rated if the fixed maturities were uninsured, at December 31, 2014:

Bond Ratings	As Rated %	If Uninsured %
AAA	22.3%	22.3%
AA	46.5%	45.4%
A	29.4%	30.5%
BBB	1.3%	1.3%
<b>Total Investment Grade</b>	<b>99.5%</b>	<b>99.5%</b>
BB or lower	0.5%	0.5%
<b>Total Fixed Maturities</b>	<b>100%</b>	<b>100%</b>

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

The Company reviews its investments regularly and monitors its investments continually for impairments as discussed in Note 1 (G) (v) of the Notes to Consolidated Financial Statements. The Company did not record

an other-than-temporary impairment loss for the years ended December 31, 2014 and 2013. For the year ended December 31, 2012, the Company recorded a loss of \$359,000 for other-than-temporary impairments. Of that impairment loss, \$189,000 was recognized in earnings for the year ended December 31, 2012, and \$170,000 of impairment loss was recognized in other comprehensive income for the year ended December 31, 2012. At December 31, 2014, the Company did not own securities in which the carrying value was less than 80% of their amortized cost.

The unrealized losses on all available-for-sale securities have been evaluated in accordance with the Company's impairment policy and were determined to be temporary in nature at December 31, 2014. In 2014, the Company experienced a decrease in net unrealized losses of \$1,998,000, which increased stockholders' equity by \$1,998,000 (reflecting net unrealized losses of \$154,000 at December 31, 2014 compared to net unrealized losses of \$2,152,000 at December 31, 2013). From time to time, as warranted, the Company may employ investment strategies to mitigate interest rate and other market exposures. Further deterioration in credit quality of the companies backing the securities, further deterioration in the condition of the financial services industry, a continuation of the current imbalances in liquidity that exist in the marketplace, a continuation or worsening of the current economic recession, or additional declines in real estate values may further affect the fair value of these securities and increase the potential that certain unrealized losses be designated as other-than-temporary in future periods and the Company may incur additional write-downs.

## **CAPITAL RESOURCES**

As Independence American's total adjusted capital was significantly in excess of the authorized control level risk-based capital, the Company remains well positioned to increase or diversify its current activities. It is anticipated that future acquisitions or other expansion of operations will be funded internally from existing capital and surplus and parent company liquidity. In the event additional funds are required, it is expected that they would be borrowed or raised in the public or private capital markets to the extent determined to be necessary or desirable.

## **OUTLOOK**

### **Independence American**

Independence American, which is domiciled in Delaware, is licensed to write property and/or casualty insurance in all 50 states and the District of Columbia, and has an A- (Excellent) rating from A.M. Best Company, Inc. ("A.M. Best"). An A.M. Best rating is assigned after an extensive quantitative and qualitative evaluation of a company's financial condition and operating performance, and is also based upon factors relevant to policyholders, agents, and intermediaries, and is not directed towards protection of investors. A.M. Best ratings are not recommendations to buy, sell or hold securities of the Company.

The majority of Independence American's revenue is from reinsurance premiums, although Independence American continues to increase the premiums written on its paper. During 2014, Independence American wrote group major medical, medical stop-loss, pet insurance, major medical plans for individuals and families, hospital indemnity, a small amount of short-term medical, fixed indemnity limited benefit and dental. Independence American has ceased writing major medical plans for individuals and families and has curtailed writing small group major medical. Independence American expects to expand the distribution of its ancillary health products. The majority of major medical plans for individuals and families was written through IPA Family. IPA Family and IPAD have begun to write major medical through well-known national insurance companies while continuing to focus on Independence American's and IHC's ancillary products.

- We experienced meaningful growth in reinsured medical stop-loss premiums in 2013 as a result of growth in business written by IHC, and this trend continued in 2014. We have also begun writing small group stop-loss on Independence American paper. This increase is attributable to a growing market for medical stop-loss as smaller employers identify the advantages of self-funding, the expansion of IHC as a direct writer, and the emergence of IHC's captive solution program.

- Our pet insurance premiums experienced significant growth in 2014, but we expect flat sales in 2015.

- We continue to focus on direct-to-consumer distribution initiatives through IPAD, IPA Family and HIO as we believe this will be a growing means for selling health insurance and ancillary products in the coming years.

- Our individual major medical premiums decreased significantly in 2014 and will continue to reduce in 2015 as a result of having exited this line of business.

- We will continue to adapt to health care reform by continuing to proactively adjust our distribution strategies and mix of Fully Insured Health products to take advantage of changing market demands.

- Our small group major medical reinsured premiums decreased in 2014 as a result of exiting the two states in which Independence American wrote business, and a decrease of premiums reinsured from IHC, and we expect a continued decline in 2015.

- We intend to increase our sales of (and reinsurance from IHC's sales of) short-term and fixed indemnity limited benefit and ancillary health products, such as dental, to offset the reduction in major medical premiums. We will also increase our DBL reinsurance premiums due to higher sales at IHC.

- While we experienced significant growth in non-subscriber occupational accident insurance in Texas, and health insurance for groups seeking coverage for expatriate employees in 2014, we expect these lines to be relatively flat in 2015.

- We make changes in the valuation allowance for our deferred tax asset from time to time as our earnings grow, which would positively impact our earnings and book value.

### **IHC Treaties**

With respect to the IHC Treaties, the Company's operating results are affected by the following factors: (i) the percentage of business ceded to Independence American pursuant to the IHC Treaties; (ii) the amount of gross premium written by Standard Security Life or Madison National Life that is ceded to the IHC Treaties; and (iii) the amount of gross premium produced by Risk Solutions and other distribution sources written by carriers other than Standard Security Life or Madison National Life that is ceded to Independence American. The profitability of the business ceded will also impact our operating results. Independence American assumes medical stop-loss, fully insured health, DBL and LTD premiums from IHC under the IHC Treaties.

### **Percentage of Business Ceded**

In 2015 and beyond, the percentage of medical stop-loss ceded to Independence American will depend on how much IHC determines it has available to reinsure and Independence American's desire to reinsure IHC's business. Since the percentage being ceded is now well in excess of the contractual minimum, there is no guarantee that IHC will continue to increase the percentage of business ceded to Independence American or, in fact, cede in excess of 15%. However, Risk Solutions is a significant producer of medical stop-loss business for IHC.

Independence American reinsures 20% of Standard Security Life's DBL product. Standard Security Life is not contractually obligated to continue to cede this business to Independence American after termination of the current treaty year. Independence American assumed 8% of certain of IHC's LTD business. Standard Security Life and Madison National Life ceded approximately 10% of their fully insured health business to Independence American. Standard Security Life and Madison National Life are not contractually obligated to continue to cede this business to Independence American after termination of the current treaty years.

#### **Amount of Premiums Written**

The gross medical stop-loss premiums earned by IHC increased by approximately 6%, while premiums earned by AMIC decreased 4% in 2014 as a result of a decrease in stop-loss premiums written by Independence American, offset by an increase in premiums produced by Risk Solutions. Risk Solutions anticipates increasing its production of medical stop-loss business in 2015. IHC has reported that it expects its fully insured and DBL

premiums to increase slightly in 2015. Therefore, Independence American anticipates reinsuring a higher amount of medical-stop loss and DBL premium ceded by IHC in 2015.

## Profitability

While maintaining our current profitability levels, we experienced significant growth of our stop-loss business written by Risk Solutions in 2014, our largest core business, which we attribute to the more efficient and controlled model of writing the majority of our medical stop-loss on a direct basis. At present, all indicators point to a continuation of these trends for business produced by Risk Solutions in 2015.

We will continue to focus on our strategic objectives, including expanding our distribution network. However, the success of a portion of our Fully Insured Health business has been affected by the passage of the Patient Protection and Affordable Care Act of 2010, as amended, and its subsequent interpretations by state and federal regulators. While the law has influenced our decision, and that of many other insurers, to exit or reduce their presence in major medical essential health benefit (“EHB”) plans in the small employer and individual markets, non-EHB lines of business and Medical Stop-Loss have been impacted by health care reform minimally or not at all.

Our results depend on the adequacy of our product pricing, our underwriting, the accuracy of our reserving methodology, returns on our invested assets, and our ability to manage expenses. We will also need to be diligent with the increased rate review scrutiny to effect timely rate changes and will need to stay focused on the management of medical cost drivers as medical trend levels cause margin pressures. Therefore, factors affecting these items, as well as, unemployment and global financial markets, may have a material adverse effect on our results of operations and financial condition.

## Item 7A.

### Quantitative and Qualitative Disclosures About Market Risk

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

The following summarizes the estimated pre-tax change in fair value (based upon hypothetical parallel shifts in the U.S. Treasury yield curve) of the fixed income portfolio (excluding redeemable preferred stocks of \$381,000) assuming immediate changes in interest rates at specified levels at December 31, 2014:

	Change in Interest Rates				
	200 basis point rise	100 basis point rise	Base scenario	100 basis point decline	200 basis point decline
Corporate securities	\$ 26,453	\$ 27,955	\$ 29,557	\$ 31,171	\$ 32,397
Foreign government	5,928	6,224	6,549	6,905	7,289
CMO	1,156	1,196	1,234	1,270	1,285
U.S. Government obligations	6,201	6,456	6,723	7,002	7,132
Agency MBS	66	68	69	70	70
GSE	1,228	1,317	1,416	1,525	1,632
State & Political Subdivisions	23,319	25,429	27,679	29,558	30,643
Total Estimated fair value	\$ 64,351	\$ 68,645	\$ 73,227	\$ 77,501	\$ 80,448
Estimated change in value	\$ (8,876)	\$ (4,582)		\$ 4,274	\$ 7,221



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

The results of the model specify whether the investments and their related cash flows can support the related current insurance cash flows. Additionally, various scenarios are developed changing interest rates and

other related assumptions. These scenarios help evaluate the market risk due to changing interest rates in relation to the business.

In the Company's analysis of the asset-liability model, a 100 to 200 basis point change in interest rates on the Company's liabilities would not be expected to have a material adverse effect on the Company. With respect to its investments, the Company employs (from time to time as warranted) investment strategies to mitigate interest rate and other market exposures.



**AMERICAN INDEPENDENCE CORP. AND SUBSIDIARIES****INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

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

## Report of Management on Internal Control Over Financial Reporting

### **The Board of Directors and Stockholders American Independence Corp.**

The management of American Independence Corp. ("AMIC") is responsible for establishing and maintaining adequate internal control over financial reporting. AMIC's internal control system was designed to provide reasonable assurance to the Company's management and Board of Directors regarding reliability of financial reporting and the preparation and fair presentation of published financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

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

Management assessed the effectiveness of AMIC's internal control over financial reporting as of December 31, 2014. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control – Integrated Framework* (1992). Based on our assessment we concluded that, as of December 31, 2014, AMIC's internal control over financial reporting is effective.



**The Board of Directors and Stockholders  
American Independence Corp.:**

We have audited the accompanying consolidated balance sheets of American Independence Corp. and subsidiaries (the Company) as of December 31, 2014 and 2013 (Successor Company), and the related consolidated statements of income, comprehensive income (loss), changes in stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2014 (Successor Company), and the year ended December 31, 2012 (Predecessor Company). These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of American Independence Corp. and subsidiaries as of December 31, 2014 and 2013 (Successor Company), and the results of their operations and their cash flows for the years ended December 31, 2014 and 2013 (Successor Company), and the year ended December 31, 2012 (Predecessor Company), in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Company has elected, beginning with January 1, 2013, the earliest period permitted, to reflect Independence Holding Company's basis in the assets acquired and liabilities assumed in connection with Independence Holding Company's acquisition of the Company. As a result of the new basis of accounting, the consolidated financial information for the periods after January 1, 2013 is presented on a different basis than that for the period before the acquisition and, therefore, is not comparable.

/s/ KPMG LLP

New York, New York

March 16, 2015



**American Independence Corp. and Subsidiaries**  
**Consolidated Balance Sheets**  
(In thousands, except share data)

<b>ASSETS:</b>	<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>Investments:</b>		
Securities purchased under agreements to resell	\$ 3,143	\$ 3,563
Trading securities	1,138	859
Fixed maturities available-for-sale, at fair value	73,608	68,222
Equity securities available-for-sale, at fair value	1,013	988
<b>Total investments</b>	<b>78,902</b>	<b>73,632</b>
Cash and cash equivalents	4,569	4,424
Restricted cash (\$15,867 and \$8,803, respectively, restricted by related parties)	18,881	10,067
Accrued investment income	652	604
Premiums receivable (\$9,115 and \$8,622, respectively, due from related parties)	13,257	14,364
Net federal deferred tax asset	12,025	11,172
Due from reinsurers (\$2,869 and \$3,206, respectively, due from related parties)	5,532	7,549
Intangible assets	9,915	11,408
Accrued fee income (\$1,384 and \$1,076, respectively, due from related parties)	4,469	2,332
Due from securities brokers	293	172
Other assets (\$165 and \$0, respectively, due from related parties)	17,286	17,450
<b>TOTAL ASSETS</b>	<b>\$ 165,781</b>	<b>\$ 153,174</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY:</b>		
<b>LIABILITIES:</b>		
Policy benefits and claims (\$19,843 and \$17,370, respectively, due to related parties)	\$ 33,616	\$ 35,252
Premium and claim funds payable (\$15,867 and \$8,803, respectively, due to related parties)	18,881	10,067
Commission payable (\$3,747 and \$3,423, respectively, due to related parties)	4,672	5,455
Accounts payable, accruals and other liabilities (\$1,784 and \$1,643, respectively, due to related parties)	11,283	13,251
State income taxes payable	597	544
Due to securities brokers	58	45
Due to reinsurers (\$597 and \$639, respectively, due to related parties)	2,334	1,177

Total liabilities	71,441	65,791
<b>STOCKHOLDERS' EQUITY:</b>		
American Independence Corp. stockholders' equity:		
Preferred stock, \$0.10 par value, 1,000 shares designated; no shares issued and outstanding	-	-
Common stock, \$0.01 par value, 15,000,000 shares authorized; 9,181,793 shares issued, respectively; 8,079,215 and 8,072,548 shares outstanding, respectively	92	92
Additional paid-in capital	79,746	79,694
Accumulated other comprehensive loss	(154)	(2,152)
Treasury stock, at cost, 1,102,578 shares and 1,109,245 shares, respectively	(10,243)	(10,305)
Retained earnings	22,139	16,970
Total American Independence Corp. stockholders' equity	91,580	84,299
Non-controlling interest in subsidiaries	2,760	3,084
Total equity	94,340	87,383
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 165,781</b>	<b>\$ 153,174</b>

See accompanying Notes to Consolidated Financial Statements.

**American Independence Corp. and Subsidiaries**  
**Consolidated Statements of Income**  
(In thousands, except per share data)

	<b>Successor</b>		<b>Predecessor</b>
	<b>Year Ended</b>		<b>Year Ended</b>
	<b>December 31,</b>		<b>December 31,</b>
	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>REVENUES:</b>			
Premiums earned (\$68,843, \$69,710 and \$41,191, respectively, from related parties)	\$ 133,606	\$ 127,203	\$ 83,778
Fee and agency income (\$14,475, \$10,058 and \$5,622, respectively, from related parties)	27,918	22,421	15,441
Net investment income	2,202	2,104	2,126
Net realized investment gains	967	1,082	603
Other-than-temporary impairment losses:			
Total other-than-temporary impairment losses	-	-	(359)
Portion of losses recognized in other comprehensive income	-	-	170
Net impairment losses recognized in earnings	-	-	(189)
Other income	183	463	126
	<u>164,876</u>	<u>153,273</u>	<u>101,885</u>
<b>EXPENSES:</b>			
Insurance benefits, claims and reserves (\$46,077, \$40,490 and \$25,993, respectively, from related parties)	88,887	87,118	56,849
Selling, general and administrative expenses (\$21,319, \$19,223 and \$13,335, respectively, from related parties)	69,752	58,878	37,875
Amortization and depreciation	1,692	1,836	509
	<u>160,331</u>	<u>147,832</u>	<u>95,233</u>
Income before income tax	4,545	5,441	6,652
Provision (benefit) for income taxes	(802)	1,576	(3,890)
Net income	5,347	3,865	10,542
Less: Net income attributable to the non-controlling interest	(97)	(983)	(950)

Net income attributable to American Independence Corp.	\$ <u>5,250</u>	\$ <u>2,882</u>	\$ <u>9,592</u>
<b>Basic income per common share:</b>			
Basic income per common share attributable to			
American Independence Corp. common stockholders	\$ <u>.65</u>	\$ <u>.36</u>	\$ <u>1.16</u>
Weighted-average shares outstanding	<u>8,077</u>	<u>8,076</u>	<u>8,272</u>
<b>Diluted income per common share:</b>			
Diluted income per common share attributable to			
American Independence Corp. common stockholders	\$ <u>.65</u>	\$ <u>.36</u>	\$ <u>1.16</u>
Weighted-average diluted shares outstanding	<u>8,103</u>	<u>8,084</u>	<u>8,272</u>

See accompanying Notes to Consolidated Financial Statements.

**American Independence Corp. and Subsidiaries**  
**Consolidated Statements of Comprehensive Income (Loss)**  
(In thousands)

	<u>Successor</u>		<u>Predecessor</u>
	<u>Year Ended</u>		<u>Year Ended</u>
	<u>December 31,</u>		<u>December 31,</u>
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Net Income	\$ 5,347	\$ 3,865	\$ 10,542
Other comprehensive income (loss):			
Unrealized holding gains (losses) arising during the period	2,872	(3,124)	937
Reclassification adjustment for (gains) losses included in net income	(874)	(857)	(575)
Reclassification adjustment for other-than-temporary impairment losses included in net income	-	-	189
Other comprehensive income (loss)	1,998	(3,981)	551
Comprehensive income (loss)	7,345	(116)	11,093
Less: comprehensive income attributable to non-controlling interests	(97)	(983)	(950)
Comprehensive income (loss) attributable to American Independence Corp.	<u>\$ 7,248</u>	<u>\$ (1,099)</u>	<u>\$ 10,143</u>

See accompanying Notes to Consolidated Financial Statements.

**American Independence Corp. and Subsidiaries**  
**Consolidated Statements of Changes In Stockholders' Equity**  
(In thousands)

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TREASURY STOCK, AT COST	RETAINED EARNINGS / (ACCUMULATED DEFICIT)	TOTAL AMIC STOCKHOLDERS' EQUITY	NON-CONTROLLING INTERESTS IN SUBSIDIARIES	TOTAL EQUITY
<b>PREDECESSOR</b>									
<b>BALANCE AT DECEMBER 31, 2011</b>	\$ 92	\$ 479,418	\$ 1,278	\$ (9,107)	\$ (377,692)	\$ 93,989	\$ -	\$ 93,989	
Net income					9,592	9,592	950	10,542	
Net change in unrealized gains (losses) on certain available-for-sale securities			551			551	-	551	
Dividends paid to non-controlling interest							(891)	(891)	
Other		-			(13)	(13)	13	-	
Share-based compensation expense		33				33	-	33	
<b>BALANCE AT DECEMBER 31, 2012</b>	92	479,451	1,829	(9,107)	(368,113)	104,152	72	104,224	
<b>SUCCESSOR</b>									
<b>BALANCE AT JANUARY 1, 2013</b>	92	79,664	1,829	(9,107)	14,113	86,591	2,965	89,556	
Net income					2,882	2,882	983	3,865	
Net change in unrealized gains (losses) on certain available-for-sale securities			(3,981)			(3,981)	-	(3,981)	
Dividends paid to non-controlling interest						-	(889)	(889)	
Other		(12)			(25)	(37)	25	(12)	
Repurchase of common stock					(1,198)	(1,198)		(1,198)	
Share-based compensation expense		42				42	-	42	
<b>BALANCE AT DECEMBER 31, 2013</b>	92	79,694	(2,152)	(10,305)	16,970	84,299	3,084	87,383	

Net income				5,250		5,250	97	5,347
Net change in unrealized gains (losses) on certain available-for-sale securities			1,998			1,998	-	1,998
Dividends paid to non-controlling interest							(473)	(473)
Other				(52)		(52)	52	-
Exercise of stock options				62		33		33
Share-based compensation expense		52				52	-	52
<b>BALANCE AT DECEMBER 31, 2014</b>	<u>\$ 92</u>	<u>79,746</u>	<u>\$ (154)</u>	<u>\$ (10,243)</u>	<u>\$ 22,139</u>	<u>\$ 91,580</u>	<u>\$ 2,760</u>	<u>\$ 94,340</u>

See accompanying Notes to Consolidated Financial Statements.





**American Independence Corp. and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
(In thousands)

	<u>Successor</u>		<u>Predecessor</u>
	<u>Year Ended</u>		<u>Year Ended</u>
	<u>December 31,</u>		<u>December 31,</u>
	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$ 5,347	\$ 3,865	\$ 10,542
Adjustments to reconcile net income to net change in cash from operating activities:			
Net realized investment gains	(967)	(1,082)	(603)
Other-than-temporary impairment losses	-	-	189
Amortization and depreciation	1,692	1,836	509
Equity gain	(175)	(450)	(57)
Deferred tax expense (income)	(829)	1,481	(3,965)
Non-cash stock compensation expense	52	42	33
Amortization of bond premiums and discounts	549	594	-
Change in operating assets and liabilities:			
Net purchases of trading securities	(185)	423	(196)
Change in policy benefits and claims	(1,636)	10,259	3,963
Change in net amounts due from and to reinsurers	3,174	(1,496)	68
Change in accrued fee income	(2,137)	790	(1,930)
Change in claims fund	(873)	(55)	(978)
Change in commissions payable	(783)	1,126	1,309
Change in premiums receivable	1,107	(3,977)	(2,926)
Change in income taxes	34	54	162
Distribution from interest in partnerships	-	-	86
Change in other assets and other liabilities	(217)	2,780	1,362
Net cash provided by operating activities	<u>4,153</u>	<u>16,190</u>	<u>7,568</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Change in securities under resale and repurchase agreements	420	1,671	(2,555)
Sales of and principal repayments on fixed maturities	43,800	37,191	29,305
Maturities and other repayments of fixed maturities	4,096	4,319	2,851
Purchases of fixed maturities	(50,983)	(55,102)	(32,398)
Sales of equity securities	-	1,501	528
Change in loan receivable	(83)	(1,410)	(425)
Cash paid in acquisitions, net of cash acquired	-	(1,250)	(2,300)

Other investing activities	(518)	(533)	254
Net cash used by investing activities	<u>(3,268)</u>	<u>(13,613)</u>	<u>(4,740)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from exercise of stock options	33	-	-
Payment of contingent liability on acquisition	(300)	(642)	-
Dividends paid to non-controlling interests	(473)	(889)	-
Repurchase of common stock	<u>-</u>	<u>(1,198)</u>	<u>-</u>
Net cash used by financing activities	<u>(740)</u>	<u>(2,729)</u>	<u>-</u>
Increase (decrease) in cash and cash equivalents	145	(152)	2,828
Cash and cash equivalents, beginning of period	4,424	4,576	1,748
Cash and cash equivalents, end of period	<u>\$ 4,569</u>	<u>\$ 4,424</u>	<u>\$ 4,576</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>			
Cash paid during the period for:			
Income taxes	\$ 8	\$ 32	\$ 5

See accompanying Notes to Consolidated Financial Statements.

1.  
**Significant Accounting Policies and Practices**

**(A)**

***Business and Organization***

American Independence Corp. is a Delaware corporation (NASDAQ: AMIC). We are a holding company principally engaged in the insurance and reinsurance business through: a) our wholly owned insurance company, Independence American Insurance Company ("Independence American"); b) our full service direct writer of medical stop-loss insurance for self-insured employer groups, IHC Risk Solutions, LLC ("Risk Solutions"); c) our 23% investment in Majestic Underwriters LLC ("Majestic"); d) our 51% ownership in HealthInsurance.org, LLC ("HIO"), a lead generation agency; e) our wholly owned sales and marketing company, IHC Specialty Benefits, Inc. ("Specialty Benefits"); f) our 40% ownership in Global Accident Facilities, LLC ("GAF"), a holding company for a managing general underwriting agency for non-subscriber occupational accident business; g) our 90% ownership in IPA Family, LLC ("IPA Family"), a consumer direct sales agency, and h) our 92% ownership in IPA Direct, LLC ("IPAD"), a consumer direct sales call center.

As used in this report, unless otherwise required by the context, AMIC and its subsidiaries are sometimes collectively referred to as the "Company" or "AMIC", or are implicit in the terms "we", "us" and "our". Risk Solutions, Specialty Benefits, HIO, IPAD and IPA Family are collectively referred to as "our Agencies".

Since November 2002, AMIC has been affiliated with Independence Holding Company ("IHC"). In October 2013, IHC purchased 762,640 shares of AMIC stock for \$10.00 per share in connection with a tender offer for such shares and, as a result, IHC and its subsidiaries further increased its ownership of AMIC to 90.0%. The senior management of IHC provides direction to the Company through a service agreement between the Company and IHC. IHC has also entered into reinsurance treaties through its wholly owned subsidiaries, Standard Security Life Insurance Company of New York ("Standard Security Life") and Madison National Life Insurance Company, Inc. ("Madison National Life"), whereby the Company assumes reinsurance premiums from the following lines of business: medical stop-loss, New York State Disability Benefits Law ("DBL"), short-term medical, long-term disability ("LTD") and group major medical.

**(B)**

***Basis of Presentation***

The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP") and include the accounts of AMIC and its consolidated subsidiaries. All intercompany transactions have been eliminated in consolidation. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect: (i) the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements; and (ii) the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Change in Reporting Entity**

AMIC was acquired in a series of transactions by IHC beginning in 2002 with a 19.9% equity investment and culminating in its current ownership of 90%. In March 2010, as a result of share purchases of AMIC in the open market, IHC increased its ownership of AMIC to over 50%. Management determined at this time that a change in control event occurred and, accordingly, IHC established a new basis for AMIC's assets and liabilities in IHC's consolidated financial statements based on the fair value of AMIC's identifiable assets and liabilities assumed at the time it increased its ownership to over 50%. However, because IHC acquired less than 80%, AMIC was not permitted to reflect the impact of its change in control in its separate financial statements. IHC then made a series of acquisitions of AMIC stock, and by January of 2013 IHC's ownership had



increased to over 80%. Although by this time, IHC acquired over 80% of AMIC's shares, management elected not to reflect the impact of the change in control, so AMIC continued to account for its assets and liabilities at historical basis in its separate financial statements. During the second quarter of 2014, the Stock Agreement, dated as of July 30, 2002, that (among other things) placed certain restrictions on IHC's ability to acquire additional shares of AMIC stock, was terminated and, pursuant to the applicable provisions of AMIC's certificate of incorporation, AMIC's Board of Directors granted approval for IHC and its subsidiaries, at any point in the future, to increase their aggregate ownership of AMIC's outstanding shares of common stock without obtaining prior approval. Due to the lifting of these restrictions and requirements, management evaluated the preferability of accounting for the aforementioned change in control in its separate financial statements and concluded that the accounting change was preferable. Accordingly, AMIC elected to implement the change in control accounting and reflect IHC's basis in the assets acquired and liabilities assumed in the Company's separate financial statements. This change was initially implemented during the interim period ended June 30, 2014. As a result of the accounting change, those assets and liabilities as remeasured at their fair value as of the date of IHC's acquisition of the Company have been "pushed down" to the financial statements of the Company beginning with January 1, 2013, the earliest date "push down" is permitted. "Push down" accounting results in reporting AMIC's separate financial statements as if it were a new entity with a new basis of accounting. Due to our new basis of accounting, our financial statements include a black line denoting that our financial statements covering periods prior to the push down date of January 1, 2013 are not comparable to our financial statements as of and subsequent to this date. References to the "Predecessor" Company refer to reporting dates of the Company through December 31, 2012, reflecting results of operations and cash flows of the Company prior to the push down date on our historical accounting basis; subsequent thereto, the Company is referred to as the "Successor" Company, reflecting the impact of push down accounting and the results of operations and cash flows of the Company subsequent to the push down date.

The consolidated financial statements and financial information of AMIC reported prior to this Form 10-K are not directly comparable to the financial statements and financial information of AMIC included in this report as a result of the above-mentioned change in accounting principle. The differences relate to basis differences in goodwill, intangible assets and related amortization, other assets, other investments, non-controlling interests in subsidiaries, taxes and related tax provisions, net income, additional paid-in capital, retained earnings and total shareholders' equity. The impact of this adoption on AMIC's Consolidated Balance Sheets for the period ended December 31, 2013 and the Consolidated Statements of Income for the twelve months ended December 31, 2013 is presented below (in thousands, except per share data). The cumulative effect of this adoption on AMIC's total shareholders' equity at January 1, 2013, is a decrease of \$14,668,000.

	<b>December 31, 2013</b>	
	<b>Previously Reported</b>	<b>Adjusted for New Basis</b>
<b>Consolidated Balance Sheets</b>		
Net deferred tax asset	\$ 11,248	\$ 11,172
Goodwill	23,561	-
Intangible assets	2,336	11,408
Other assets	18,105	17,450
Total assets	168,394	153,174
Additional paid-in capital	479,481	79,694
Retained earnings (deficit)	(364,730)	16,970
Total AMIC stockholders' equity	102,386	84,299
Non-controlling interest in subsidiaries	218	3,084
Total equity	102,604	87,383
Total liabilities and equity	\$ 168,394	\$ 153,174





	Twelve Months Ended	
	December 31, 2013	
	Previously Reported	Adjusted for New Basis
<u>Consolidated Statements of Income</u>		
Other income	\$ 459	\$ 463
Amortization and depreciation	981	1,836
Income before income tax	6,292	5,441
Provision for income taxes	1,874	1,576
Net income	4,418	3,865
Net income attributable to AMIC	3,435	2,882
Basic income per common share	.43	.36
Diluted income per common share	\$ .43	\$ .36

(C)

**Other Intangibles**

Intangible assets with indefinite lives, which consist of licenses, are not amortized but are evaluated for impairment in the aggregate at the end of the fourth quarter of each year, or more frequently if indicators arise. The Company's intangible assets with definite lives, consisting of broker/third party relationships and marketing agreements, are amortized over the expected life of the assets (see Note 2 of Notes to Consolidated Financial Statements).

(D)

**Cash, Cash Equivalents and Restricted Cash**

Cash and cash equivalents consist of cash and highly liquid securities with maturities of three months or less from date of purchase. Restricted cash primarily consists of funds held by Risk Solutions for the benefit of its insurers and reinsurers. These funds are restricted and are to be used to facilitate expeditious payment of approved claims. The funds are replenished by the insurers and reinsurers as claims are paid by Risk Solutions.

(E)

**Short-Term Investments**

Investments with original maturities of 91-days to 1 year are considered short-term investments and are carried at cost which approximates fair value.

(F)

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

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

(G)

**Investment Securities**



**(i)** Investments in fixed income securities, redeemable preferred stock equity securities and derivatives (options and options on future contracts) are accounted for as follows:

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

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

to maturity. Realized gains and losses on sales of available-for-sale securities are credited or charged, as appropriate, to net realized investment gains in the Consolidated Statements of Income.

**(ii)** Financial instruments sold, but not yet purchased, represent obligations to replace borrowed securities that have been sold. Such transactions occur in anticipation of declines in the fair value of the securities. The Company's risk is an increase in the fair value of the securities sold in excess of the consideration received, but that risk is mitigated as a result of relationships to certain securities owned. Unrealized gains or losses on open transactions are credited or charged, as appropriate, to net realized investment gains in the Consolidated Statements of Income. While the transaction is open, the Company will also incur an expense for any accrued dividends or interest payable to the lender of the securities. When the transaction is closed, the Company realizes a gain or loss in an amount equal to the difference between the price at which the securities were sold and the cost of replacing the borrowed securities. There were no such transactions outstanding at December 31, 2014 and 2013.

**(iii)** Gains or losses on sales of securities are determined on the basis of specific identification and are recorded in the Consolidated Statements of Income on the trade date.

**(iv)** Fair value is determined using quoted market prices when available. In some cases, we use quoted market prices for similar instruments in active markets and/or model-derived valuations where inputs are observable in active markets. When there are limited or inactive trading markets, we use industry-standard pricing methodologies, including discounted cash flow models, whose inputs are based on management assumptions and available current market information. Further, we retain independent pricing vendors to assist in valuing certain instruments, primarily all the securities in our portfolio classified in Level 2 or Level 3 in the Fair Value Hierarchy.

The Company periodically reviews and assesses the vendor's qualifications and the design and appropriateness of its pricing methodologies. Management will on occasion challenge pricing information on certain individual securities and, through communications with the vendor, obtain information about the assumptions, inputs and methodologies used in pricing those securities, and corroborate it against documented pricing methodologies. Validation procedures are in place to determine completeness and accuracy of pricing information, including, but not limited to: (i) review of exception reports that (a) identify any zero or un-priced securities; (b) identify securities with no price change; and (c) identify securities with significant price changes; (ii) performance of trend analyses; (iii) periodic comparison of pricing to alternative pricing sources; and (iv) comparison of pricing changes to expectations based on rating changes, benchmarks or control groups. In certain circumstances, pricing is unavailable from the vendor and broker pricing information is used to determine fair value. In these instances, management will assess the quality of the data sources, the underlying assumptions and the reasonableness of the broker quotes based on the current market information available. To determine if an exception represents an error, management will often have to exercise judgment. Procedures to resolve an exception vary depending on the significance of the security and its related class, the frequency of the exception, the risk of material misstatement, and the availability of information for the security. These procedures include, but are not limited to: (i) a price challenge process with the vendor; (ii) pricing from a different vendor; (iii) a reasonableness review; (iv) a change in price based on better information, such as an actual market trade, among other things. Management considers all facts and relevant information obtained during the above procedures to determine the proper classification of each security in the Fair Value Hierarchy.

**(v)** The Company reviews its investment securities regularly and determines whether other-than-temporary impairments have occurred. The factors considered by management in its regular review include, but are not limited to: the length of time and extent to which the fair value has been less than cost; the Company's intent to sell, or be required to sell, the debt security before the anticipated recovery of its remaining amortized cost basis; the financial condition and near-term prospects of the issuer; adverse changes in ratings announced by one or more rating agencies; subordinated credit support; whether the issuer of a debt security has remained current on principal and interest payments; current expected cash flows; whether the decline in fair value appears to be issuer specific or, alternatively, a reflection of general market or industry conditions including the effect of changes in market interest rates. If the Company intends to sell a debt security, or it is more likely than not that it would be required to sell a debt security before the recovery of its amortized cost basis, the entire difference between the security's amortized cost

basis and its fair value at the balance sheet date would be recognized by a charge to total other-than-temporary impairment losses in the Consolidated Statements of Income. If a decline in fair value of a debt security is judged by management to be other-than-temporary and; (i) the Company does not intend to sell the security; and (ii) it is not more likely than not that it will be required to sell the security prior to recovery of the security's amortized cost, the Company assesses whether the present value of the cash flows to be collected from the security is less than its amortized cost basis. To the extent that the present value of the cash flows generated by a debt security is less than the amortized cost basis, a credit loss exists. For any such security, the impairment is bifurcated into (a) the amount of the total impairment related to the credit loss, and (b) the amount of the total impairment related to all other factors. The amount of the other-than-temporary impairment related to the credit loss is recognized by a charge to total other-than-temporary impairment losses in the Consolidated Statements of Income, establishing a new cost basis for the security. The amount of the other-than-temporary impairment related to all other factors is recognized in other comprehensive income in the Consolidated Balance Sheets. It is reasonably possible that further declines in estimated fair values of such investments, or changes in assumptions or estimates of anticipated recoveries and/or cash flows, may cause further other-than-temporary impairments in the near term, which could be significant.

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

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

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

## ***(H)*** ***Fixed Assets***

Fixed assets are stated at cost net of accumulated depreciation. Improvements are capitalized, while repair and maintenance costs are charged to operations as incurred. Depreciation of property and equipment has been provided on the straight-line method over the estimated useful lives of the respective assets (3 years for computer equipment and 7 years for furniture and fixtures). Amortization of leasehold improvements has been provided on the straight-line method over the shorter of the lease term or the estimated useful life of the asset.



**(I)**  
**Premium, Fee, and Agency Income Revenue Recognition**

Direct and assumed premiums from short-duration contracts are recognized as revenue over the period of the contracts in proportion to the amount of insurance protection provided. The Company records fee income as policy premium payments are earned. Risk Solutions is compensated in two ways. It earns fee income based on the volume of business produced, and collects profit-sharing commissions if such business exceeds certain profitability benchmarks. Profit-sharing commissions are accounted for beginning in the period in which the Company believes they are reasonably estimable, which is typically at the point that claims have developed to a level where recent claim development history ("Claim Development Patterns") can be applied to generate reasonably reliable estimates of ultimate claim levels. Profit-sharing commissions are a function of Risk Solutions attaining certain profitability thresholds and could greatly vary from quarter to quarter. Agency income consists of commissions, fees and lead revenue earned by our Agencies.

Fee and Agency income consisted of the following (in thousands):

	Successor		Predecessor
	Year Ended		Year Ended
	December 31,		December 31,
	2014	2013	2012
Agency income	\$ 14,995	\$ 13,986	\$ 8,775
Fee income—administration	11,655	7,881	5,480
Fee income— profit commissions	1,268	554	1,186
	<u>\$ 27,918</u>	<u>\$ 22,421</u>	<u>\$ 15,441</u>

**(J)**  
**Policy Benefits and Claims**

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

All of the Company's contracts are short-duration and are accounted for based on actuarial estimates of the amount of loss inherent in that period's claims, including losses incurred for claims that have not been reported ("IBNR"). Short-duration contract loss estimates rely on actuarial observations of ultimate loss experience for similar historical events.

**Medical Stop-Loss**

Liabilities for policy benefits and claims on medical stop-loss coverages are computed using completion factors and expected Net Loss Ratios derived from actual historical premium and claim

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

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

#### *Projected Net Loss Ratio*

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

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

#### *Claim Development Patterns*

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

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

Predicting ultimate claims and estimating reserves in medical stop-loss is more complex than first dollar medical and disability business due to the “excess of loss” nature of these products with very high deductibles applying to specific claims on any individual claimant and in the

aggregate for a given group. The level of these deductibles makes it more difficult to predict the amount and payment pattern of such claims. Fluctuations in results for specific coverage are primarily due to the severity and frequency of individual claims, whereas fluctuations in aggregate coverage are largely attributable to frequency of underlying claims rather than severity.

Due to the short-term nature of medical stop-loss, redundancies or deficiencies will typically emerge during the course of the following year rather than over a number of years. For employer stop-loss, as noted above, the Company typically maintains its reserves based on underlying assumptions until it determines that an adjustment is appropriate based on emerging experience from its block of business for prior underwriting years. Reserves for HMO reinsurance are adjusted on a policy by policy basis. Because of the small number of HMO reinsurance policies it writes or reinsures, the Company is able to evaluate each policy individually for potential liability by reviewing open claims with each HMO and applying completion factors using historical data.

### **Fully Insured Health**

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

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

Liabilities for policy benefits and claims on short-term medical and disability coverages are computed using claim development patterns and projected loss ratios derived from actual historical premium and claim data.

Management believes that the Company's methods of estimating the liabilities for policy benefits and claims provided appropriate levels of reserves at December 31, 2014 and December 31, 2013. Changes in the Company's reserve estimates are recorded through a charge or credit to its earnings in the period in which they arise.

**(K)**

### **Reinsurance**

Amounts recoverable or paid for under reinsurance contracts are included in total assets or total liabilities as due from reinsurers or due to reinsurers. In 2014 and 2013, Independence American derived a significant amount of its business from pro rata quota share reinsurance treaties with Standard Security Life and Madison National Life, which are wholly owned subsidiaries of IHC.

**(L)**

### **Income Taxes**



The Company accounts for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial carrying amounts of existing assets and liabilities and their respective tax basis, and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets when it is more likely than not that the deferred tax asset will not be realized (see Note 11 of Notes to Consolidated Financial Statements). A liability for uncertain tax positions is recorded when it is more likely than not that a tax position will not be sustained upon examination by taxing authorities.

**(M)**

### ***Income Per Common Share***

Basic income per common share is computed using the weighted average number of common stock shares outstanding during the period. Diluted income per common share is computed using the weighted average number of common stock shares and common stock equivalent shares outstanding during the period. Common stock equivalents consist of stock options and restricted stock (using the "treasury stock" method). Common stock equivalent shares are excluded from the computation if the effect is anti-dilutive. As a result of the anti-dilutive effect, common stock equivalent shares have been excluded from the computation of diluted earnings per share for periods presented with a net loss. Included in the diluted earnings per share calculation for year ended December 31, 2014 are approximately 26,000 shares from the assumed exercise of options using the treasury stock method. Included in the diluted earnings per share calculation for year ended December 31, 2013 are approximately 8,000 shares from the assumed exercise of options using the treasury stock method. Net income does not change as a result of the assumed dilution.

**(N)**

### ***Recent Accounting Pronouncements***

#### ***Recently Adopted Accounting Standards***

In July 2013, the Financial Accounting Standards Board ("FASB"), issued guidance for the presentation of unrecognized tax benefits to better reflect the manner in which an entity would settle, at the reporting date, any additional income taxes that would result from the disallowance of a tax position when net operating loss carryforwards, similar tax losses, or tax credit carryforwards exist. The adoption of this guidance, effective January 1, 2014, did not have an effect on the Company's consolidated financial statements.

In July 2011, the FASB issued guidance specifying that the liability for the fees paid to the Federal Government by health insurers as a result of recent healthcare reform legislation should be estimated and recorded in full once the entity provides qualifying health insurance in the applicable calendar year in which the fee is payable with a corresponding deferred cost that is amortized to expense using a straight-line method of allocation unless another method better allocates the fee over the calendar year that it is payable. The amendments in this Update became effective January

1, 2014. The liability for the mandated fees payable to the Federal Government is immaterial for the Company.

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

In February 2015, the FASB issued guidance that modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities or voting interest entities for the purpose of consolidation. For public entities, this guidance is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. Early adoption is permitted. Management has not yet determined the impact that the adoption of this guidance will have on the Company's consolidated financial statements.

In June 2014, the FASB issued explicit guidance for entities that grant their employees share-based payments in which the terms of the award include a performance target that affects vesting and could be achieved after the requisite service period. This guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Earlier adoption is permitted. The guidance may be applied either prospectively to all awards granted or modified after the effective date or retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. The adoption of this guidance is not expected to have a material effect on the Company's consolidated financial statements.

In May 2014, the FASB issued revenue recognition guidance for entities that either enter into contracts with customers to transfer goods or services or enter into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards such as insurance contracts or lease contracts. The amendment provides specific steps that an entity should apply in order to achieve its main objective which is recognizing revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. For public entities, this guidance is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, and requires one of two specified retrospective methods of application. Early application is prohibited. Management has not yet determined the impact that the adoption of this guidance will have on the Company's consolidated financial statements.

In April 2014, the FASB issued guidance: (i) improving the definition of discontinued operations by limiting the reporting of discontinued operations to disposals of components that represent strategic shifts that have (or will have) a major effect on an entity's operations and financial results; and (ii) requiring expanded disclosures for discontinued operations. Public entities are required to apply this guidance to: (i) all disposals (or classifications as held for sale) of components of the entity that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years; and (ii) to all businesses that, on acquisition, are classified as held for sale that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in previously issued financial statements. The adoption of this guidance is not expected to have a material effect on the Company's consolidated financial statements.



(0)

**Segment Reporting**

The Company manages and reports the business as a single segment in accordance with FASB guidance, which views certain qualitative and quantitative criteria for determining whether different lines of business should be aggregated for financial reporting purposes. FASB guidance requires the use of the “management approach” model for segment reporting. The management approach model is based on the way a company’s management organizes segments within the company for making operating decisions and assessing performance. Reportable segments are based on products and services, geography, legal structure, management structure or any other manner in which management disaggregates a company.

The Company is managed with a focus on its overall insurance and reinsurance capabilities as opposed to any one line of business. Our Chief Executive Officer, who is our chief decision maker, evaluates financial information for our business as a single segment in allocating resources and assessing performance. The integrated nature of our insurance lines of business with our Agencies is sufficiently commingled to permit their aggregation as a single reporting segment.

**2. Intangible Assets**

Intangible assets at December 31, 2014 and 2013 consist of the following (in thousands):

	December 31, 2014			December 31, 2013		
	Definitive Lives (a)	Indefinite Lives	Total	Definitive Lives	Indefinite Lives	Total
<b>Gross Carrying Value</b>						
Balance beginning of period	\$ 7,442	\$ 7,500	\$ 14,942	\$ 7,625	\$ 7,500	\$ 15,125
Adjustment for contingent payment	-	-	-	(183)	-	(183)
Balance end of period	<u>7,442</u>	<u>7,500</u>	<u>14,942</u>	<u>7,442</u>	<u>7,500</u>	<u>14,942</u>
<b>Accumulated Amortization</b>						
Balance beginning of period	(3,534)	-	(3,534)	(1,792)	-	(1,792)
Amortization expense	<u>(1,493)</u>	<u>-</u>	<u>(1,493)</u>	<u>(1,742)</u>	<u>-</u>	<u>(1,742)</u>
Balance end of period	<u>(5,027)</u>	<u>-</u>	<u>(5,027)</u>	<u>(3,534)</u>	<u>-</u>	<u>(3,534)</u>
Net intangible assets	<u>\$ 2,415</u>	<u>\$ 7,500</u>	<u>\$ 9,915</u>	<u>\$ 3,908</u>	<u>\$ 7,500</u>	<u>\$ 11,408</u>
Weighted average remaining life in years			2.76			4.23

Expected amortization expense for the next five years is as follows (in thousands):

	Year Ending December 31,
2015	\$ 843
2016	614
2017	434

2018	289
2019	203
2020 and thereafter	32

In July 2012, AMIC acquired the assets and renewal contract rights of a MGU of medical stop-loss business for an aggregate purchase price of \$1,825,000. The purchase price consisted of \$1,300,000 in cash and \$525,000 in contingent consideration which was expected to be paid in early 2013 based on expected growth in the acquired block of business. AMIC recorded other intangible assets representing broker relationships, which will be amortized over a weighted average period of 7.0 years. In accordance with the terms of the agreement, the fair value of the contingent liability was re-measured in the first quarter of 2013 resulting in a cash payment of \$342,000 and a \$183,000 decrease in the related intangible asset.

In November 2012, AMIC entered into a consulting agreement to continue writing certain medical stop-loss business for an aggregate fee of \$1,100,000. The fee consisted of \$500,000 in cash and \$600,000 in contingent consideration expected to be paid in 2013 and 2014 based on the expected block of business. AMIC recorded other intangible assets representing broker relationships, which will be amortized over a weighted average period of 7.0 years. In accordance with the terms of the agreement, \$300,000 of the contingent consideration was paid in the fourth quarter of 2013, and the remaining \$300,000 was paid in the fourth quarter of 2014.

### 3. Securities Purchased Under Agreements to Resell

Securities purchased under agreements to resell are utilized to invest excess funds on a short-term basis. At December 31, 2014, the Company had \$3,143,000 invested in resale agreements, all of which settled on January 2, 2015 and were subsequently reinvested. The Company maintains control of securities purchased under resale agreements, values the collateral on a daily basis and obtains additional collateral, if necessary, to protect the Company in the event of default by the counterparties.

### 4. Investments

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

	DECEMBER 31, 2014			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
<b>FIXED MATURITIES</b>				
<b>AVAILABLE-FOR-SALE:</b>				
Corporate securities	\$ 29,905	\$ 90	\$ (438)	\$ 29,557
Foreign government	6,616	34	(101)	6,549
Collateralized mortgage obligations (CMO) – residential	851	4	(2)	853
CMO – commercial	390	-	(9)	381
States, municipalities and political subdivisions	27,631	260	(212)	27,679
U.S. government	6,674	49	-	6,723
Government sponsored enterprise (GSE)	1,400	23	(7)	1,416

Agency mortgage backed pass through securities (MBS)	65	4	-	69
Redeemable preferred stocks	<u>273</u>	<u>108</u>	<u>-</u>	<u>381</u>
Total fixed maturities	<u>\$ 73,805</u>	<u>\$ 572</u>	<u>\$ (769)</u>	<u>\$ 73,608</u>

***EQUITY SECURITIES***

***AVAILABLE-FOR-SALE:***

Nonredeemable preferred stocks	970	43	-	1,013
Total available-for-sale equity securities	<u>\$ 970</u>	<u>\$ 43</u>	<u>\$ -</u>	<u>\$ 1,013</u>



	DECEMBER 31, 2013			
	AMORTIZED	GROSS UNREALIZED	GROSS UNREALIZED	FAIR
	COST	GAINS	LOSSES	VALUE
<b>FIXED MATURITIES AVAILABLE-FOR-SALE:</b>				
Corporate securities	\$ 35,788	\$ 140	\$ (1,361)	\$ 34,567
Foreign government	2,665	20	(166)	2,519
CMO - residential	1,147	8	(3)	1,152
CMO – commercial	390	-	(153)	237
States, municipalities and political subdivisions	22,921	163	(1,001)	22,083
U.S. government	6,698	118	(5)	6,811
GSE	430	4	(12)	422
MBS	79	4	-	83
Redeemable preferred stocks	273	74	-	348
Total fixed maturities	<u>\$ 70,392</u>	<u>\$ 531</u>	<u>\$ (2,701)</u>	<u>\$ 68,222</u>

<b>EQUITY SECURITIES AVAILABLE-FOR-SALE</b>				
Nonredeemable preferred stocks	970	24	(6)	988
Total available-for-sale equity securities	<u>\$ 970</u>	<u>\$ 24</u>	<u>\$ (6)</u>	<u>\$ 988</u>

Government-sponsored enterprise mortgage-backed securities consist of Federal Home Loan Mortgage Corporation and Federal National Mortgage Association securities.

The amortized cost and fair value of fixed maturities at December 31, 2014, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. CMOs and MBSs are shown separately, as they are not due at a single maturity.

	AMORTIZED	FAIR
	COST	VALUE
	(in thousands)	
Due in one year or less	\$ -	\$ -
Due after one year through five years	23,829	23,747
Due after five years through ten years	24,776	24,694
Due after ten years	23,500	23,476



CMOs and MBSs	<u>1,700</u>	<u>1,691</u>
	<u>\$ 73,805</u>	<u>\$ 73,608</u>

The following tables summarize, for all securities in an unrealized loss position at December 31, 2014 and December 31, 2013, the aggregate fair value and gross unrealized loss by length of time, those securities that have continuously been in an unrealized loss position (in thousands):



	December 31, 2014					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate securities	\$ 6,101	\$ 83	\$ 14,087	\$ 355	\$ 20,188	\$ 438
Foreign government	4,550	40	1,355	61	5,905	101
CMO – residential	-	-	566	2	566	2
CMO – commercial	-	-	381	9	381	9
GSE	-	-	351	7	351	7
States, municipalities and political subdivisions	3,691	61	6,448	151	10,139	212
Total temporarily impaired securities	<u>\$ 14,342</u>	<u>\$ 184</u>	<u>\$ 23,188</u>	<u>\$ 585</u>	<u>\$ 37,530</u>	<u>\$ 769</u>

Number of securities in an unrealized loss position	<u>11</u>	<u>22</u>	<u>33</u>
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	December 31, 2013					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate securities	\$ 22,800	\$ 879	\$ 5,562	\$ 482	\$ 28,362	\$ 1,361
Foreign government	-	-	1,279	166	1,279	166
CMO – residential	742	3	-	-	742	3
CMO – commercial	-	-	237	153	237	153
U.S. Government	493	5	-	-	493	5
GSE	366	12	-	-	366	12
States, municipalities and political subdivisions	14,962	895	2,265	106	17,227	1,001
Nonredeemable preferred stocks	393	6	-	-	393	6
Total temporarily impaired securities	<u>\$ 39,756</u>	<u>\$ 1,800</u>	<u>\$ 9,343</u>	<u>\$ 907</u>	<u>\$ 49,099</u>	<u>\$ 2,707</u>

Number of securities in an unrealized loss position	<u>31</u>	<u>9</u>	<u>40</u>
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Substantially all of the unrealized losses on fixed maturities at December 31, 2014 and December 31, 2013 were attributable to changes in market interest rates. Because the Company does not intend to sell, nor is it more likely than not that the Company will have to sell, such investments before recovery of their amortized cost bases, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2014.

The following table summarizes the Company's net investment income for the years indicated (in thousands):

	<b>Successor</b>		<b>Predecessor</b>
	<b>Year Ended</b>		<b>Year Ended</b>
	<b>December 31,</b>		<b>December 31,</b>
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Fixed maturities	\$ 2,153	\$ 2,017	\$ 1,848
Equity securities	110	120	256
Short-term investments	3	4	6
Other	(64)	(37)	16
<b>Net investment income</b>	<b>\$ 2,202</b>	<b>\$ 2,104</b>	<b>\$ 2,126</b>

The following table summarizes the Company's net realized investment gains (losses) for the years indicated (in thousands):



	Successor		Predecessor
	Year Ended		Year Ended
	December 31,		December 31,
	2014	2013	2012
Available-for-sale securities:			
Fixed maturities	\$ 874	\$ 834	\$ 579
Preferred stock	-	23	(4)
Total available-for-sale securities	874	857	575
Trading securities	76	214	9
Unrealized gain (loss) on trading securities:			
Available-for-sale securities transferred to trading category	-	-	20
Change in unrealized gain on trading securities	17	11	(1)
Total unrealized gain on trading securities	17	11	19
Net realized investment gains	\$ 967	\$ 1,082	\$ 603

For the years ended December 31, 2014, 2013 and 2012, proceeds from sales of available-for-sale securities were \$43,800,000, \$38,691,000 and \$29,833,000, respectively, and the Company realized gross gains of \$1,245,000, \$1,377,000 and \$937,000, respectively, and gross losses of \$295,000, \$306,000 and \$353,000, respectively, on those sales.

In January 2012, the Company transferred equity securities previously classified as available-for-sale into the trading category and, as a result, recognized \$42,000 of gross gains and \$22,000 of gross losses in net realized investment gains on the accompanying Consolidated Statements of Income. These gains and losses were previously included in accumulated other comprehensive income.

We recognize an other-than-temporary impairment loss in earnings in the period that we determine: 1) we intend to sell the security; 2) it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis; or 3) the security has a credit loss. Any non-credit portion of the other-than-temporary impairment loss is recognized in other comprehensive income. For the years ended December 31, 2014, 2013 and 2012, other-than-temporary impairments recognized in earnings of \$0, \$0 and \$189,000, respectively, represent credit losses on fixed maturities as a result of the expected cash flows of certain securities being less than the securities' amortized cost.

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



	<b>Successor</b>		<b>Predecessor</b>
	<b>Year Ended</b>		<b>Year Ended</b>
	<b>December 31,</b>		<b>December 31,</b>
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Balance at beginning of period	\$ 288	\$ 288	\$ 145
Securities sold	-	-	(46)
Credit portion of other-than-temporary impairment losses recognized during period	-	-	189
Balance at end of period	<u>\$ 288</u>	<u>\$ 288</u>	<u>\$ 288</u>

## 5. Fair Value Measurements

For all financial and non-financial instruments accounted for at fair value on a recurring basis, the Company utilizes valuation techniques based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market expectations. These two types of inputs create the following fair value hierarchy:

Level 1 – Quoted prices for identical instruments in active markets.

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 – Instruments where significant value drivers are unobservable.

The following section describes the valuation methodologies we use to measure different financial instruments at fair value.

### Investments in fixed maturities and equity securities

Available-for-sale securities included in Level 1 are equity securities with quoted market prices. Level 2 is primarily comprised of our portfolio of corporate fixed income securities, government agency mortgage-backed securities, government sponsored enterprises, certain CMO securities, municipals and certain preferred stocks that were priced with observable market inputs. Level 3 securities consist of one CMO security backed by commercial mortgages. For these securities, we use industry-standard pricing methodologies, including discounted cash flow models, whose inputs are based on management's assumptions and available market information. Significant unobservable inputs used in the fair value measurement of CMO's are prepayment rates, probability of default, and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for loss severity and a directionally opposite change in the assumption used for prepayment rates. Further we retain independent pricing vendors to assist in valuing certain instruments.

### Trading securities

Trading securities included in Level 1 are equity securities with quoted market prices.



The following tables present our financial assets measured at fair value on a recurring basis at December 31, 2014 and 2013, respectively (in thousands):



**December 31, 2014**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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**FINANCIAL ASSETS:**

Fixed maturities available-for-sale:

Corporate securities	\$ -	\$ 29,557	\$ -	\$ 29,557
Foreign government	-	6,549	-	6,549
CMO - residential	-	853	-	853
CMO – commercial	-	-	381	381
States, municipalities and political subdivisions	-	27,679	-	27,679
U.S. government	-	6,723	-	6,723
GSE	-	1,416	-	1,416
MBS - residential	-	69	-	69
Redeemable preferred stocks	381	-	-	381
<b>Total fixed maturities</b>	<b>381</b>	<b>72,846</b>	<b>381</b>	<b>73,608</b>

Equity securities available-for-sale:

Nonredeemable preferred stocks	1,013	-	-	1,013
<b>Total equity securities</b>	<b>1,013</b>	<b>-</b>	<b>-</b>	<b>1,013</b>

Trading securities:

Common Stock	1,138	-	-	1,138
<b>Total trading securities</b>	<b>1,138</b>	<b>-</b>	<b>-</b>	<b>1,138</b>

<b>Total financial assets</b>	<b>\$ 2,532</b>	<b>\$ 72,846</b>	<b>\$ 381</b>	<b>\$ 75,759</b>
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**December 31, 2013**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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**FINANCIAL ASSETS:**

Fixed maturities available-for-sale:

Corporate securities	\$ -	\$ 34,567	\$ -	\$ 34,567
Foreign government	-	2,519	-	2,519
CMO - residential	-	1,152	-	1,152
CMO – commercial	-	-	237	237
States, municipalities and political subdivisions	-	22,083	-	22,083
U.S. government	-	6,811	-	6,811

GSE	-	422	-	422
MBS - residential	-	83	-	83
Redeemable preferred stocks	<u>348</u>	<u>-</u>	<u>-</u>	<u>348</u>
Total fixed maturities	<u>348</u>	<u>67,637</u>	<u>237</u>	<u>68,222</u>
Equity securities available-for-sale:				
Nonredeemable preferred stocks	<u>988</u>	<u>-</u>	<u>-</u>	<u>988</u>
Total equity securities	<u>988</u>	<u>-</u>	<u>-</u>	<u>988</u>
Trading securities:				
Common Stock	<u>859</u>	<u>-</u>	<u>-</u>	<u>859</u>
Total trading securities	<u>859</u>	<u>-</u>	<u>-</u>	<u>859</u>
Total financial assets	<u>\$ 2,195</u>	<u>\$ 67,637</u>	<u>\$ 237</u>	<u>\$ 70,069</u>

It is the Company's policy to recognize transfers of assets and liabilities between levels of the fair value hierarchy at the end of a reporting period. For the year ending December 31, 2014, there were no transfers of assets and liabilities between Level 1 and Level 2 of the fair value hierarchy. No securities were transferred out of the Level 2 and into the Level 3 category as a result of limited or inactive markets during 2014. The Company does not transfer out of Level 3 and into Level 2 until such time as observable inputs become available and reliable or the range of

available independent prices narrow. No securities were transferred out of the Level 3 category during 2014 and 2013. The changes in the carrying value of Level 3 assets and liabilities for the years ended December 31, 2014 and 2013 are summarized as follows (in thousands):

	CMOs		
	Residential	Commercial	Total
Balance, December 31, 2012	\$ 408	\$ 228	\$ 636
Repayments of fixed maturities	(9)	-	(9)
Net realized investment gains	225	-	225
Sales of securities	(415)	-	(415)
Net unrealized gain (loss) included in accumulated other comprehensive loss	(209)	9	(200)
Balance, December 31, 2013	\$ -	\$ 237	\$ 237
Net unrealized gain (loss) included in accumulated other comprehensive loss	-	144	144
Balance, December 31, 2014	\$ -	\$ 381	\$ 381

## 6. Fixed Assets

Fixed assets, which are included in other assets, consist of the following (in thousands):

	As of December 31,	
	2014	2013
Furniture and fixtures	\$ 427	\$ 378
Leasehold improvements	122	68
Equipment	1,092	1,172
Total	1,641	1,618
Less: allowance for depreciation	(859)	(1,047)
Fixed assets, net	\$ 782	\$ 571

## 7. Other Investments

At December 31, 2014 and December 31, 2013, the Company had an equity investment in Majestic with a carrying value of \$168,000 and \$89,000, respectively. For years 2014, 2013 and 2012, the Company recorded \$79,000, \$(20,000) and \$57,000, respectively, for its share of income (loss) from its investment in other income in the Consolidated Statements of Income.

In November 2012, the Company invested \$500,000 in exchange for a 3.75% interest in Pets Best Insurance Services, LLC ("Pets Best"), a third party administrator for pet insurance. This investment is carried at cost.

On December 31, 2012, the Company invested \$1,250,000 in exchange for a 40% interest in Global Accident Facilities, LLC ("GAF"). GAF acquired Accident Insurance Services, Morgan Financial, Caprock Claim Management and Medical Pricing Strategies, jointly referred to as AIS. AIS produces and administers occupational accident and related coverages sold to Texas non-subscribers to workers compensation. At December 31, 2014 and December 31, 2013, the Company had an equity investment in GAF with a carrying value of \$1,815,000 and \$1,720,000, respectively. For the years ended 2014 and 2013, the Company recorded \$95,000 and \$470,000, respectively, for its share of income from its investment in other income in the Consolidated Statements of Income.

## 8. Commitments and Contingencies

Fixed maturities with a carrying value of \$6,156,000 are on deposit with various state insurance departments at December 31, 2014.

The Company has operating leases for office space and certain other office equipment. These operating leases provide for minimum rents and generally include options to renew for additional periods.

The approximate minimum annual rental payments under operating leases that have remaining non-cancelable lease terms in excess of one year at December 31, 2014 are as follows (in thousands):

<b>Year Ending December 31,</b>	<b>Net Operating Leases</b>
2015	\$ 552
2016	447
2017	234
2018	195
2019	115
2020 and thereafter	29
<b>Total</b>	<b>\$ 1,572</b>

The Company's net rent expense for years 2014, 2013, and 2012 were \$730,000, \$403,000, and \$276,000, respectively.

## Legal Proceedings

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







## 9. Share-Based Compensation

### 2009 Stock Incentive Plan ("2009 Plan")

Effective July 1, 2009, the Company implemented the 2009 Plan, which the Company's stockholders approved on June 19, 2009. The 2009 Plan was preceded by the 1998 Stock Incentive Plan ("1998 Plan"), which expired by its terms on October 7, 2008. The 2009 Plan provided for the grants of non-statutory and incentive stock options, stock appreciation rights, restricted stock awards, performance shares, and other awards to officers, employee and other individuals. Under the terms of the 2009 Plan, stock options have a maximum term of ten years from the date of grant, and have various vesting criteria depending on the grant with most grants vesting ratably over four years. At December 31, 2014, stock options for 166,616 shares of common stock were outstanding, stock options for 148,837 shares of common stock were vested, and 6,490,553 shares of common stock that had not been issued remained available for future stock options grants and other awards. Awards made under the 1998 Plan prior to its expiration are still in effect.

Total share-based compensation expense was \$52,000, \$42,000 and \$33,000 for the twelve months ended December 31, 2014, 2013 and 2012, respectively. Related tax benefits of \$18,000, \$15,000 and \$11,000 were recognized for the twelve months ended December 31, 2014, 2013 and 2012, respectively.

### Stock Options

The Company's stock option activity for the year ended December 31, 2014 was as follows:

	No. of Shares Under Option	Weighted Average Exercise Price
<b>Balance, December 31, 2013</b>	222,285	\$ 11.46
Expired	(62,336)	14.58
Exercised	(6,667)	4.87
Granted	13,334	10.80
<b>Balance, December 31, 2014</b>	<u>166,616</u>	<u>\$ 10.50</u>

During 2014, AMIC received \$33,000 in cash from the exercise of stock options with an aggregate intrinsic value of \$38,000. No options were exercised during the years ended December 31, 2013 or 2012.

Compensation expense was \$52,000, \$42,000, and \$33,000 for the twelve months ended December 31, 2014, 2013, and 2012, respectively. As of December 31, 2014, there was approximately \$83,000 of total unrecognized compensation expense related to non-vested options which will be recognized over the remaining requisite service periods.



The following table summarizes information regarding outstanding and exercisable options as of December 31, 2014:

	<u>Outstanding</u>	<u>Exercisable</u>
Number of options	166,616	148,837
Weighted average exercise price per share	\$ 10.50	\$ 10.64
Aggregate intrinsic value of options	\$ 217,168	\$ 195,501
Weighted average contractual term remaining	3.18 years	2.48 years

The fair value of an option award is estimated on the date of grant using the Black-Scholes option valuation model. The weighted average grant-date fair-value of options granted during the twelve months ended December 31, 2014, 2013 and 2012 was \$5.70, \$4.04 and \$0 per share, respectively. The assumptions set forth in the table below were used to value the stock options granted during the twelve months ended December 31, 2014 and 2013. No options were granted in 2012.

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Weighted-average risk-free interest rate	2.72%	2.30%
Annual dividend rate per share	\$ -	\$ -
Weighted-average volatility factor of the Company's common stock	38.27	45.00
Weighted-average expected term of options	5 years	5 years

## 10. Related Party Transactions

Independence American derives a significant amount of its business from pro rata quota share reinsurance treaties with Standard Security Life and Madison National Life, which are wholly owned subsidiaries of IHC. These treaties, which were to terminate on December 31, 2014, have been amended to extend the termination date to December 31, 2019. Standard Security Life and Madison National Life must cede at least 15% of their medical stop-loss business to Independence American under these treaties. Additionally, Standard Security Life and Madison National Life have received regulatory approval to cede up to 50% to Independence American under most of IHC's medical stop-loss programs. For the twelve months ended December 31, 2014 and 2013, Standard Security Life and Madison National Life ceded an average of approximately 27% and 26%, respectively, of their medical stop-loss business to Independence American. Commencing in July 2004, Independence American began reinsuring 20% of Standard Security Life's DBL business. Independence American assumed 8% of certain of IHC's international health and LTD business. Standard Security Life and Madison National Life ceded approximately 10% and 12% of the majority of its fully insured health business to Independence American in 2014 and 2013, respectively.

Independence American assumes premiums from IHC subsidiaries, and records related insurance income, expenses, assets and liabilities. Independence American pays administrative fees and commissions to subsidiaries of IHC in connection with fully insured health and medical stop-loss business written and assumed by Independence American. Additionally, Risk Solutions markets, underwrites and provides administrative services, and also provides medical management and claims adjudication, for a substantial portion of the medical stop-loss business written by the insurance subsidiaries of IHC. Risk Solutions records related income, assets and liabilities in connection with that business. Such related-party information is disclosed on the Consolidated Balance Sheets and Consolidated Statements of Income. The Company also contracts for several types of insurance coverage (e.g. directors and officers and professional liability coverage) jointly with IHC. The cost of this coverage is split proportionally between the Company and IHC according to the type of risk and the Company's portion is recorded in Selling, General and Administrative Expenses.



IHC provides the Company with pro rata quota share reinsurance on business written by Independence American. Independence American cedes a certain percentage of its direct stop-loss business sold through Risk Solutions to Madison National Life. Independence American incurs an administration expense on its retained share of major medical for individual and families business that is paid to IHC Health Solutions, a subsidiary of IHC.

The Company and its subsidiaries incurred expense of \$891,000 and \$921,000 for the twelve months ended December 31, 2014 and 2013, respectively, from service agreements with IHC and its subsidiaries. These payments reimburse IHC and its subsidiaries, at agreed upon rates including an overhead factor, for management services provided to the Company and its subsidiaries, including accounting, legal, compliance, underwriting, and claims.

## 11. Income Taxes

Effective January 15, 2013, the Company has been included in the consolidated Federal income tax returns of IHC on a June 30 fiscal year as a result of the increase in IHC's ownership interest in AMIC to over 80%. Accordingly, the Company changed from a September 30 fiscal tax year to a June 30 fiscal tax year in 2013. The provision for income taxes for the periods ended December 31, 2014, 2013 and 2012 are as follows (in thousands):

	<b>Successor</b>		<b>Predecessor</b>
	<b>Year Ended</b>		<b>Year Ended</b>
	<b>December 31,</b>		<b>December 31,</b>
	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>CURRENT:</b>			
U.S. Federal	\$ 38	\$ 70	\$ 61
State and local	(11)	25	14
	<u>27</u>	<u>95</u>	<u>75</u>
<b>DEFERRED:</b>			
U.S. Federal	(853)	1,477	(4,032)
State and local	24	4	67
	<u>(829)</u>	<u>1,481</u>	<u>(3,965)</u>
	<u>\$ (802)</u>	<u>\$ 1,576</u>	<u>\$ (3,890)</u>

Taxes computed at the federal statutory rate of 35% for the years ended December 31, 2014, 2013 and 2012 are reconciled to the Company's actual income tax expense as follows (in thousands):

	<b>Successor</b>		<b>Predecessor</b>
	<b>Year Ended</b>		<b>Year Ended</b>
	<b>December 31,</b>		<b>December 31,</b>
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Tax computed at the statutory rate	\$ 1,557	\$ 1,560	\$ 1,996
Dividends received deduction and tax exempt interest	(22)	(25)	(53)

State and local income taxes, net of federal effect	8	19	53
Valuation allowance	(2,500)	-	(5,900)
Other, net	155	22	14
Income tax	\$ (802)	\$ 1,576	\$ (3,890)

The current federal income tax provision for the periods ending December 31, 2014, 2013 and 2012 represents only federal alternative minimum tax due to the Company's federal net operating loss carryforwards.

The tax effect of temporary differences that give rise to significant portions of the net deferred tax assets at December 31, 2014 and 2013 are as follows (in thousands):

	<u>2014</u>	<u>2013</u>
<b>DEFERRED TAX ASSETS:</b>		
Investments	\$ 123	\$ 123
Compensation accruals	365	1,198
Policy benefits and claims	366	392
Unrealized securities losses	37	742
AMT	515	-
Other	12	-
Net operating loss carryforwards	<u>92,395</u>	<u>93,048</u>
Total gross deferred tax assets	93,813	95,503
Less valuation allowance	<u>(73,849)</u>	<u>(76,911)</u>
Net deferred tax assets	<u>19,964</u>	<u>18,592</u>
<b>DEFERRED TAX LIABILITIES:</b>		
Intangibles	(1,123)	(1,304)
Partnership income	(6,816)	(5,801)
Other	-	(315)
State taxes	<u>(557)</u>	<u>(504)</u>
Total gross deferred tax liabilities	<u>(8,496)</u>	<u>(7,924)</u>
Net deferred tax asset	<u>\$ 11,468</u>	<u>\$ 10,668</u>

For the years ended December 31, 2014 and 2013, net deferred tax assets includes \$12,025,000 and \$11,172,000 of net federal deferred tax assets, respectively, and \$557,000 and \$504,000 of net state deferred tax liabilities, respectively. The valuation allowance at December 31, 2014 and 2013 was primarily related to net operating loss carryforwards that, in the judgment of management, were not considered realizable. During the years ended December 31, 2014 and 2013 the Company decreased its valuation allowance by \$3,062,000 and \$1,661,000, respectively. The valuation allowance decrease in the year ended December 31, 2014 included \$2,500,000 for the projected utilization of federal net operating losses which was allocated to operations, and a decrease of \$699,000 due to deferred tax on unrealized losses allocated to equity, offset by an increase of \$137,000 due to an adjustment to net deferred tax assets. The valuation allowance decrease in the year ended December 31, 2013 included a \$3,054,000 adjustment to deferred tax assets for expired state NOL carryforwards, offset by an increase of \$1,393,000 due to deferred tax on unrealized losses allocated to equity.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the period in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Management believes that it is more likely than not that the Company will realize the benefits of these net deferred tax assets recorded at December 31, 2014.

At December 31, 2014, the Company had federal NOL carryforwards of approximately \$263,985,000 expiring in varying amounts through the year 2028 with a significant portion expiring in 2020.

The Internal Revenue Service has previously audited the Company's 2003, 2004 and 2009 consolidated income tax returns and made no changes to the reported tax for those periods. Management believes that it has made adequate provision for all income tax uncertainties, such that the outcome of any unresolved issues or claims will not result in a material change to our financial position or results of operations.

Interest expense and penalties related to unrecognized tax benefits for the years ended December 31, 2014, 2013 and 2012 are insignificant.

AMIC's ability to utilize its federal NOL carryforwards would be substantially reduced if AMIC were to undergo an "ownership change" within the meaning of Section 382(g)(1) of the Internal Revenue Code. AMIC will be treated as having had an "ownership change" if there is more than a 50% increase in stock ownership during a three year "testing period" by "5% stockholders." In order to reduce the risk of an ownership change, in November 2002, AMIC's stockholders approved an amendment to its certificate of incorporation restricting transfers of shares of its common stock that could result in the imposition of limitations on the use, for federal, state and city income tax purposes, of AMIC's NOL carryforwards and certain federal income tax credits. The certificate of incorporation generally restricts any person from attempting to sell, transfer or dispose, or purchase or acquire any AMIC stock, if such transfer would affect the percentage of AMIC stock owned by a 5% stockholder. Any person attempting such a transfer will be required, prior to the date of any proposed transfer, to request in writing that the board of directors review the proposed transfer and authorize or not authorize such proposed transfer. Any transfer attempted to be made in violation of the stock transfer restrictions will be null and void. In the event of an attempted or purported transfer involving a sale or disposition of capital stock in violation of stock transfer restrictions, the transferor will remain the owner of such shares. Notwithstanding such transfer restrictions, there could be circumstances under which an issuance by AMIC of a significant number of new shares of common stock or other new class of equity security having certain characteristics (for example, the right to vote or convert into Common Stock) might result in an ownership change under the Code.

As of December 31, 2014, AMIC believes there were no material uncertain tax positions that would require disclosure under GAAP.

## **12. Policy Benefits and Claims**

The Company maintains loss reserves to cover its estimated liability for unpaid losses and loss adjustment expenses, including legal and other fees and a portion of the Company's general expenses, for reported and unreported claims incurred as of the end of each accounting period. These loss reserves are based on actuarial assumptions and are maintained at levels that are in accordance with U.S. GAAP. Many factors could affect these reserves, including economic and social conditions, inflation, healthcare costs, changes in doctrines of legal liability and damage awards in litigation. Therefore, the Company's reserves are necessarily based on estimates, assumptions and analysis of historical experience. The Company's results depend upon the variation between actual claims experience and the assumptions used in determining reserves and pricing products. Reserve assumptions and estimates require significant judgment and, therefore are inherently uncertain. The Company cannot determine with precision the ultimate amounts that will be paid for actual claims or the timing of those payments.

Reserves are based on approved actuarial methods, but necessarily include assumptions about expenses, mortality, morbidity, lapse rates and future yield on related investments.

All of the Company's short-duration contracts are generated from its accident and health business, and are accounted for based on actuarial estimates of the amount of loss inherent in that



period's claims, including losses incurred for which claims have not been reported. Short-duration contract loss estimates rely on actuarial observations of ultimate loss experience for similar historical events.

Changes in the liability for policy benefits and claims for the years ended December 31, 2014 and 2013 are summarized below (in thousands).

	Year Ended	
	December 31,	
	2014	2013
Balance at a beginning of period	\$ 35,252	\$ 24,993
Less: reinsurance recoverables	1,306	1,486
Net balance at beginning of period	33,946	23,507
Amount incurred:		
Current year	88,507	86,948
Prior years	380	169
Total	88,887	87,117
Amount paid, related to:		
Current year	58,566	55,623
Prior years	30,995	21,055
Total	89,561	76,678
Net balance at end of period	33,272	33,946
Plus: reinsurance recoverables	344	1,306
Balance at end of period	\$ 33,616	\$ 35,252

The preceding schedule reflects (i) due and unpaid claims, (ii) claims in the course of settlement, (iii) estimated incurred but not reported reserves and (iv) the present value of amounts not yet due on claims. The incurred and paid data above reflects all activity for the year. The amount incurred in 2014 for prior years of \$380,000 is a result of a deficiency of \$1,015,000 of fully insured health reserves, offset by a redundancy of \$271,000 of medical stop-loss reserves and \$364,000 of DBL reserves. The unfavorable development in fully insured health of \$1,015,000 primarily relates to claims development experience associated with the small group stop-loss and occupational accident business written in 2013. The amount incurred

in 2013 for prior years of \$169,000 is a result of a deficiency of \$465,000 of medical stop-loss reserves, offset by a redundancy of \$5,000 of fully insured health reserves and \$291,000 of DBL reserves. Fluctuations are generally the result of on-going analysis of recent loss development trends.

Medical stop-loss business is excess coverage with a short duration. Predicting ultimate claims and estimating reserves in medical stop-loss is especially complicated due to the “excess of loss” nature of these products with very high deductibles applying to specific claims on any individual claimant and in the aggregate for a given group. Fluctuations in results for specific coverage are primarily due to the severity and frequency of individual claims. Due to the short-term nature of medical stop-loss, redundancies and deficiencies will typically emerge during the following year rather than over a number of years.

### **13. Reinsurance**

Independence American reinsures a portion of its direct business in order to limit the assumption of disproportionate risks. Amounts not retained are ceded to other companies on an automatic basis. Independence American is contingently liable with respect to reinsurance in the unlikely event that the assuming reinsurers are unable to meet their obligations. All of Independence American’s insurance contracts are of short-duration. The ceding of reinsurance does not discharge the primary liability of the original insurer to the insured. At December 31, 2014, Independence American ceded to highly rated reinsurers.



The effect of reinsurance on premiums earned and insurance benefits is as follows (in thousands):

	ASSUMED		CEDED		
	DIRECT	FROM	TO	OTHER	NET
	AMOUNT	OTHER	OTHER	COMPANIES	AMOUNT
		COMPANIES	COMPANIES		
<b>Premiums Earned:</b>					
<b>Successor</b>					
Year ended December 31, 2014	\$ 63,007	\$ 74,934	\$ 4,335	\$	\$ 133,606
Year ended December 31, 2013	55,486	75,629	3,912		127,203
<b>Predecessor</b>					
Year ended December 31, 2012	42,318	49,703	8,243		83,778
<b>Insurance Benefits:</b>					
<b>Successor</b>					
Year ended December 31, 2014	\$ 40,572	\$ 50,886	\$ 2,571	\$	\$ 88,887
Year ended December 31, 2013	38,367	52,992	4,241		87,118
<b>Predecessor</b>					
Year ended December 31, 2012	32,057	31,526	6,734		56,849

All premiums included in Assumed From Other Companies for 2014, 2013 and 2012 were assumed from subsidiaries of IHC. Included in Ceded To Other Companies for 2014, 2013 and 2012 are premiums of \$1,300,000, \$108,000, and \$1,835,000, respectively, which were ceded to subsidiaries of IHC.

#### 14. Dividend Payment Restrictions and Statutory Information

Dividends from Independence American to its parent, a subsidiary of AMIC, are subject to the prior notification to the Delaware Insurance Commissioner, if such dividends, together with the fair market value of other dividends or distributions made within the preceding twelve months, exceed the greater of (i) 10% of surplus as regards policyholders as of the preceding December 31 or (ii) net income, not including realized capital gains, for the twelve-month period ending the December 31 next preceding. Such dividends may be paid as long as they have not been disapproved by the Delaware Insurance Commissioner within 30 days of its receipt of notice thereof. Independence American did not pay a dividend in 2014 and 2013. There are no regulatory restrictions on the ability of our holding company, AMIC, to pay dividends. Under Delaware law, AMIC is permitted to pay dividends from surplus or net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year. Dividends to shareholders are paid from funds available at the corporate holding company level. No dividend on the Company's stock was declared during 2014.

Independence American is required to prepare statutory financial statements in accordance with statutory accounting practices prescribed or permitted by the Office of the Insurance Commissioner of the State of Delaware. Statutory accounting practices differ from U.S. GAAP in several respects causing differences in reported net income and stockholder's equity. Independence American has no permitted accounting practices, which encompass all accounting practices not so prescribed that have been specifically allowed by the Office of the Insurance Commissioner of the State of Delaware.

Independence American is required to maintain a certain minimum amount of statutory surplus to satisfy its state insurance department of domicile. Risk-based capital ("RBC") requirements are designed to assess capital adequacy and to raise the level of protection that statutory surplus provides for policyholders. At December 31, 2014 and 2013, the statutory capital of Independence American was significantly in excess of regulatory RBC requirements.



Independence American's statutory capital and surplus was \$60,168,000 as of December 31, 2014 and \$57,875,000 as of December 31, 2013. Independence American's statutory net income was \$3,127,000 for 2014, \$3,176,000 for 2013, and \$3,271,000 for 2012.

## 15. Other Comprehensive Income

The components of other comprehensive income include the after-tax net unrealized gains and losses on investment securities available for sale including the subsequent increases and decreases in fair value of available-for-sale securities previously impaired and the non-credit related component of other-than-temporary impairments of fixed maturities and equity securities.

Included in accumulated other comprehensive income at both December 31, 2014 and 2013 is an adjustment of \$269,000 related to the non-credit related component of other-than-temporary impairment losses recorded.

## 16. Quarterly Data (Unaudited)

The quarterly results of operations for the years ended December 31, 2014 and 2013 are summarized below (in thousands, except per share data):

	<u>FIRST QUARTER</u>	<u>SECOND QUARTER</u>	<u>THIRD QUARTER</u>	<u>FOURTH QUARTER</u>
<b>2014</b>				
<b>Total revenues</b>	\$ <u>43,087</u>	\$ <u>40,020</u>	\$ <u>41,157</u>	\$ <u>40,612</u>
Income from continuing operations	\$ 882	\$ 443	\$ 1,956	\$ 2,066
(Income) loss from non-controlling interests				
in subsidiaries	<u>(240)</u>	<u>14</u>	<u>101</u>	<u>28</u>
Net income attributable to AMIC	\$ <u>642</u>	\$ <u>457</u>	\$ <u>2,057</u>	\$ <u>2,094</u>
<b>Basic income per common share</b>	\$ <u>.08</u>	\$ <u>.06</u>	\$ <u>.25</u>	\$ <u>.26</u>
<b>Diluted income per share</b>	\$ <u>.08</u>	\$ <u>.06</u>	\$ <u>.25</u>	\$ <u>.26</u>

	<u>FIRST QUARTER</u>	<u>SECOND QUARTER</u>	<u>THIRD QUARTER</u>	<u>FOURTH QUARTER</u>
<b>2013</b>				
<b>Total revenues</b>	\$ <u>35,361</u>	\$ <u>37,374</u>	\$ <u>37,591</u>	\$ <u>42,947</u>

Income from continuing operations	\$ 786	\$ 1,565	\$ 766	\$ 749
(Income) from non-controlling interests in subsidiaries	<u>(232)</u>	<u>(201)</u>	<u>(201)</u>	<u>(349)</u>
Net income attributable to AMIC	\$ <u>554</u>	\$ <u>1,364</u>	\$ <u>565</u>	\$ <u>400</u>
<b>Basic income per common share</b>	\$ <u>.07</u>	\$ <u>.17</u>	\$ <u>.07</u>	\$ <u>.05</u>
<b>Diluted income per share</b>	\$ <u>.07</u>	\$ <u>.17</u>	\$ <u>.07</u>	\$ <u>.05</u>

**17.  
Repurchase of Common Stock**

In 2010, AMIC initiated a program of repurchasing shares of its common stock. In 2012, the Board of Directors authorized the repurchase of up to 962,886 shares of AMIC's common

stock, inclusive of prior authorizations, under the 2010 plan. The Company has repurchased 199,784 and 263,102 shares in 2013 and 2011, respectively, which the Company classified as treasury shares. There were no share repurchases in 2014 and 2012. At December 31, 2014, there were 500,000 shares still authorized to be repurchased under the plan authorized by the Board of Directors.

**Item 9.**  
***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None

**Item 9A. Controls and Procedures**

*Evaluation of Disclosure Controls and Procedures*

A review and evaluation was performed by management under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer of the effectiveness of the Company's disclosure controls and procedures, as required by Rule 13a-15(b) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of December 31, 2014. Based upon that most recent evaluation, which was completed as of the end of the period covered by this Form 10-K, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective at December 31, 2014 to ensure that information required to be disclosed in reports that the Company files under the Exchange Act is recorded, processed, summarized and timely reported as provided in the Securities and Exchange Commission ("SEC") rules and forms. As a result of this evaluation, there were no significant deficiencies in the Company's internal control over financial reporting during the twelve months ended December 31, 2014 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

*Management Report on Internal Control Over Financial Reporting*

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

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that the transactions are recorded as necessary to permit preparation of financial statements in accordance with US GAAP and that receipts and expenditures of the Company are being made only in accordance with authorization of management and directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of human error and the circumvention or overriding of controls, material misstatements may not be prevented or detected on a timely basis. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes and conditions or that the degree of compliance with policies or procedures may deteriorate.



Accordingly, even internal controls determined to be effective can provide only reasonable assurance that information required to be disclosed in and reports filed under the Exchange Act is recorded, processed, summarized and represented within the time periods required.

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

#### *Changes in Internal Control Over Financial Reporting*

There has been no change in the Company's internal control over financial reporting during the year ended December 31, 2014 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

#### **Item 9B. Other Information**

None

### **PART III**

#### **Item 10.**

##### ***Directors, Executive Officers and Corporate Governance***

The information required by this Item is hereby incorporated by reference from our definitive proxy statement relating to the annual meeting of AMIC's stockholders to be held in May 2015, which definitive proxy statement will be filed with the SEC.

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

#### **Item 11.**

##### ***Executive Compensation***

The information required by this Item is hereby incorporated by reference from our definitive proxy statement relating to the annual meeting of AMIC's stockholders to be held in May 2015, which definitive proxy statement will be filed with the SEC.

#### **Item 12.**

##### ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

The information required by this Item is hereby incorporated by reference from our definitive proxy statement relating to the annual meeting of AMIC's stockholders to be held in May 2015, which definitive proxy statement will be filed with the SEC.

#### **Item 13.**

##### ***Certain Relationships and Related Transactions, and Director Independence***

The information required by this Item is hereby incorporated by reference from our definitive proxy statement relating to the annual meeting of AMIC's stockholders to be held in May 2015, which definitive proxy statement will be filed with the SEC.

**Item 14.**

**Principal Accounting Fees and Services**

The information required by this Item is hereby incorporated by reference from our definitive proxy statement relating to the annual meeting of AMIC's stockholders to be held in May 2015, which definitive proxy statement will be filed with the SEC.

**PART IV**

**Item 15.**

***Exhibits and Financial Statement Schedules***

***(a) Financial Statements and Exhibits***

\* (1) *Financial Statement Schedules.*

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Schedule III – Supplementary insurance information	87
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Schedule V – Valuation and qualifying accounts	89

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

(2) *Exhibits.* See Index to Exhibits included in this Annual Report on Form 10-K  
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## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on March 16, 2015.

### AMERICAN INDEPENDENCE CORP.

#### Signature

/s/ Roy T.K. Thung Chief Executive Officer  
**(Roy T.K. Thung)** (Principal Executive Officer)

/S/ Teresa A. Herbert Chief Financial Officer and Senior Vice President  
**(Teresa A. Herbert)** (Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities set forth below on March 16, 2015.

#### Signature

/s/ Edward A. Bennett Director  
**(Edward A. Bennett)**

/s/ Ronald I. Simon Director  
**(Ronald I. Simon)**

/s/ Roy T. K. Thung Director  
**(Roy. T.K. Thung)**

/s/ Myron M. Picoult Director  
**(Myron M. Picoult)**

/s/ James G. Tatum Director  
**(James G. Tatum)**

/s/ Teresa A. Herbert Director  
**(Teresa A. Herbert)**

/s/ David T. Kettig Director  
**(David T. Kettig)**

/s/ Steven B. Lapin Director  
**(Steven B. Lapin)**

**AMERICAN INDEPENDENCE CORP. AND SUBSIDIARIES**  
**INDEX TO EXHIBITS**  
**Item 15(A) (3)**

<u>Exhibit No.</u>	<u>Description of Document</u>
2.1	Stock Purchase Agreement, dated as of July 30, 2002, between Registrant, SSH Corporation and Independence Holding Company. Incorporated by reference to exhibit 10.1 of the Registrant's Current Report on Form 8-K dated July 31, 2002
3.1	Second Amended and restated Certificate of Incorporation of the Registrant. Incorporated by reference to Exhibit 3.1 of the Registrant's Annual Report on form 10K for the fiscal year ended September 30, 2002.
3.2	Amended By-Laws of the Registrant. Incorporated by reference to Exhibit 3.1 of the Registrant's Annual Report on form 10K for the fiscal year ended September 30, 2002, as amended by Amendment to By-laws of American Independence Corp. Incorporated by reference to Exhibit 3.2 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013.
10.1	Services Agreement, dated as of November 15, 2002, by and between American Independence Corp. and Independence Holding Company. Incorporated by reference to exhibit 10.2 of the Registrant's Current Report on Form 8-K dated November 14, 2002.
10.2	Agency Agreement, dated February 22, 2006, between the Registrant and First Integrated Health, Inc. Incorporated by reference to exhibit 10.2 of the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2005.
10.3	Registrant's 1998 Stock Incentive Plan Incorporated by reference to exhibit 99.1 of the Registrant's Registration Statement on Form S-8 dated May 10, 1999.
10.4	Registrant's 1999 Supplemental Stock Incentive Plan. Incorporated by reference to exhibit 99.1 of the Registrant's Registration Statement on Form S-8 dated June 8, 1999.
10.5	Contribution Agreement dated April 15, 2008 by and among IPA Family, LLC, a wholly owned subsidiary of the Registrant, Insurance Producers Group of America, Inc., Insurance Producers of America Agency, Inc. and Independent Producers of America Agency, Inc. Incorporated by reference to exhibit 10.1 of the Registrant's Current Report on Form 8-K dated April 22, 2008.
10.6	Registrant's 2009 Stock Incentive Plan (the "2009 Plan"), form of Restricted Share Award Agreement under the 2009 Plan and form of Stock Option Award Agreement under the 2009 Plan. (The 2009 Plan was filed as Appendix A to the Proxy Statement for the Registrant's Annual Meeting of Stockholders held on June 19, 2009 and is incorporated herein by reference; the form of restricted share award agreement was filed as Exhibit 4.4 to the Registrant's Form S-8 filed with the SEC on July 31, 2009 and is incorporated herein by reference; and the form of stock option award agreement was filed as Exhibit 4.5 to the Registrant's Form S-8 filed with the SEC on July 31, 2009 and is incorporated herein by reference.)
10.7	Quota Share Reinsurance Agreement between Madison National Life Insurance, Inc. and Independence American Insurance Company, as amended. Incorporated by reference to

Exhibit 10.7 of the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2009 (as amended).

10.8 Quota Share Reinsurance Agreement between Standard Security Life Insurance Company of New York and Independence American Insurance Company, as amended. Incorporated by reference to Exhibit 10.8 of the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2009 (as amended).

18 Preferability Letter of KPMG LLP dated August 8, 2014

21.1 Subsidiaries of the Registrant

23.1 Consent of Independent Registered Public Accounting Firm

31.1 Certification of President and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS XBRL Instance Document.

101.SCH XBRL Taxonomy Extension Schema Document.

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.

101.LAB XBRL Taxonomy Extension Label Linkbase Document.

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

101.DEF XBRL Taxonomy Extension Definition Linkbase Document.

**The Board of Directors and Stockholders  
American Independence Corp.:**

Under date of March 16, 2015, we reported on the consolidated balance sheets of American Independence Corp. and subsidiaries (the Company) as of December 31, 2014 and 2013 (Successor Company), and the related consolidated statements of income, comprehensive income (loss), changes in stockholders' equity, and cash flows for the years ended December 31, 2014 and 2013 (Successor Company), and the year ended December 31, 2012 (Predecessor Company), which are included in the Annual Report on Form 10-K for the year ended December 31, 2014. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related consolidated financial statement schedules I to V. These financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statement schedules based on our audits.

In our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

The audit report on the consolidated financial statements of American Independence Corp. and subsidiaries referred to above contains an explanatory paragraph that states, the Company has elected, beginning with January 1, 2013, the earliest period permitted, to reflect Independence Holding Company's basis in the assets acquired and liabilities assumed in connection with Independence Holding Company's acquisition of the Company. As a result of the new basis of accounting, the consolidated financial information for the periods after January 1, 2013 is presented on a different basis than that for the period before the acquisition and, therefore, is not comparable.

/s/ KPMG LLP

New York, New York

March 16, 2015





**SCHEDULE I**

**AMERICAN INDEPENDENCE CORP. AND SUBSIDIARIES**

**SUMMARY OF INVESTMENTS – OTHER THAN INVESTMENTS IN RELATED PARTIES**

**DECEMBER 31, 2014**

**(In thousands)**

	<b>AMOUNT</b>		
	<b>SHOWN ON</b>		
	<b>AMORTIZED</b>	<b>FAIR</b>	<b>BALANCE</b>
<b>TYPE OF INVESTMENT</b>	<b>COST</b>	<b>VALUE</b>	<b>SHEET</b>
<b>FIXED MATURITIES:</b>			
Corporate securities	\$ 29,905	\$ 29,557	\$ 29,557
Foreign government	6,616	6,549	6,549
Collateralized mortgage obligations (CMO) -			
residential	851	853	853
CMO - commercial	390	381	381
States, municipalities and political subdivisions	27,631	27,679	27,679
U.S. Government	6,674	6,723	6,723
Government sponsored enterprise (GSE)	1,400	1,416	1,416
Agency mortgage backed pass through			
securities (MBS)	65	69	69
Redeemable preferred stocks	273	381	381
<b>TOTAL FIXED MATURITIES</b>	<b>73,805</b>	<b>73,608</b>	<b>73,608</b>

<b>EQUITY SECURITIES</b>			
Common stock	1,090	1,138	1,138
Nonredeemable preferred stocks	970	1,013	1,013
<b>TOTAL EQUITY SECURITIES</b>	<u>2,060</u>	<u>2,151</u>	<u>2,151</u>
Securities purchased under agreements to resell	3,143	3,143	3,143
<b>TOTAL INVESTMENTS</b>	<u>\$ 79,008</u>	<u>\$ 78,902</u>	<u>\$ 78,902</u>

See accompanying Report of Independent Registered Public Accounting Firm.



**SCHEDULE II**

**AMERICAN INDEPENDENCE CORP.**  
**CONDENSED BALANCE SHEETS (In thousands, except share data)**  
**(PARENT COMPANY ONLY)**

	<b>DECEMBER 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 708	\$ 1,446
Investments in continuing consolidated subsidiaries	79,439	73,236
Other receivables	1,828	1,300
Other assets	535	521
Net deferred tax asset	12,025	11,172
<b>TOTAL ASSETS</b>	<b>\$ 94,535</b>	<b>\$ 87,675</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES:</b>		
Accounts payable and other liabilities	\$ 195	\$ 292
<b>TOTAL LIABILITIES</b>	<b>195</b>	<b>292</b>
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock (none issued)	-	-
Common stock <sup>(A)</sup>	92	92
Paid-in capital	79,746	79,694
Accumulated other comprehensive loss	(154)	(2,152)
Treasury stock <sup>(B)</sup>	(10,243)	(10,305)
Retained earnings	22,139	16,970
<b>TOTAL AMIC STOCKHOLDERS' EQUITY</b>	<b>91,580</b>	<b>84,299</b>
<b>NON-CONTROLLING INTEREST IN SUBSIDIARIES</b>	<b>2,760</b>	<b>3,084</b>
<b>TOTAL EQUITY</b>	<b>94,340</b>	<b>87,383</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 94,535</b>	<b>\$ 87,675</b>

(A)

Common stock \$0.01 par value, 15,000,000 shares authorized; 9,181,793 shares issued; 8,079,215 and 8,072,548 shares outstanding, respectively.

(B)

Treasury stock, at cost; 1,102,578 and 1,109,245 shares, respectively.

The financial information of American Independence Corp. (Parent Company Only) should be read in conjunction with the Consolidated Financial Statements and Notes thereto.

See accompanying Report of Independent Registered Public Accounting Firm.



**SCHEDULE II**  
**(Continued)**

**AMERICAN INDEPENDENCE CORP.**  
**CONDENSED STATEMENTS OF INCOME (In thousands)**  
**(PARENT COMPANY ONLY)**

	<u>SUCCESSOR</u>		<u>PREDECESSOR</u>
	<u>YEAR ENDED</u>		<u>YEAR ENDED</u>
	<u>DECEMBER 31,</u>		<u>DECEMBER 31,</u>
	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>REVENUES:</b>			
Net investment income	\$ 65	\$ 47	\$ 50
Net realized investment gains (losses)	-	(31)	15
	<u>65</u>	<u>16</u>	<u>65</u>
<b>EXPENSES:</b>			
General and administrative expenses and other	1,656	1,903	1,752
	<u>1,656</u>	<u>1,903</u>	<u>1,752</u>
Loss before income tax expense	(1,591)	(1,887)	(1,687)
Income tax benefit	<u>(3,055)</u>	<u>(659)</u>	<u>(6,488)</u>
Income (loss) before equity in net income of subsidiaries	1,464	(1,228)	4,801
Equity in net income of subsidiaries, net of tax	<u>3,883</u>	<u>5,093</u>	<u>5,741</u>
Net income	5,347	3,865	10,542
Income from non-controlling interests in subsidiaries	<u>(97)</u>	<u>(983)</u>	<u>(950)</u>
Net income attributable to American Independence Corp.	<u>\$ 5,250</u>	<u>\$ 2,882</u>	<u>\$ 9,592</u>

The financial information of American Independence Corp. (Parent Company Only) should be read in conjunction with the Consolidated Financial Statements and Notes thereto.

See accompanying Report of Independent Registered Public Accounting Firm.







**SCHEDULE II**  
**(Continued)**

**AMERICAN INDEPENDENCE CORP.**  
**CONDENSED STATEMENTS OF CASH FLOWS (In thousands)**  
**(PARENT COMPANY ONLY)**

	<b>SUCCESSOR</b>		<b>PREDECESSOR</b>
	<b>YEAR ENDED</b>		<b>YEAR ENDED</b>
	<b>DECEMBER 31,</b>		<b>DECEMBER 31,</b>
	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$ 5,347	\$ 3,865	\$ 10,542
Adjustments to reconcile net income to net cash provided from operating activities:			
Deferred tax expense (benefit)	(3,057)	(661)	(3,965)
Equity in net income of subsidiaries	(3,883)	(5,093)	(5,741)
Net realized investment (gains) losses	-	31	(15)
Non-cash compensation expense	52	42	33
Change in operating assets and liabilities:			
Change in deferred tax asset	-	-	(67)
Change in other assets and liabilities	(123)	(6)	(310)
Net cash provided by (used by) operating activities	<u>(1,664)</u>	<u>(1,822)</u>	<u>477</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Decrease (increase) in investments in and advances to consolidated subsidiaries	1,421	2,627	(1,107)
Change in loan receivable	(528)	(1,300)	(175)
Purchases of fixed maturities	-	(1,746)	(2,154)
Sales of fixed maturities	-	1,715	5,669
Net cash provided by investing activities	<u>893</u>	<u>1,296</u>	<u>2,233</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from exercise of stock options	33	-	-
Repurchase of common stock	-	(1,198)	-
Net cash provided by (used by) financing activities	<u>33</u>	<u>(1,198)</u>	<u>-</u>
Increase (decrease) in cash and cash equivalents	(738)	(1,724)	2,710

Cash and cash equivalents, beginning of period		<u>1,446</u>		<u>3,170</u>		<u>460</u>
Cash and cash equivalents, end of period	\$	<u>708</u>	\$	<u>1,446</u>	\$	<u>3,170</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>						
Cash paid during the period for:						
Income taxes	\$	8	\$	32	\$	5

The financial information of American Independence Corp. (Parent Company Only) should be read in conjunction with the Consolidated Financial Statements and Notes thereto.

See accompanying Report of Independent Registered Public Accounting Firm.







**AMERICAN INDEPENDENCE CORP. AND SUBSIDIARIES**  
**SUPPLEMENTARY INSURANCE INFORMATION**  
(In thousands)

	<u>INSURANCE RESERVES</u>	<u>UNEARNED PREMIUMS</u>	<u>PREMIUMS EARNED</u>	<u>NET INVESTMENT INCOME (1)</u>	<u>INSURANCE BENEFITS, CLAIMS AND RESERVES</u>	<u>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (2)</u>	<u>NET PREMIUMS WRITTEN</u>
<b>SUCCESSOR</b>							
<b>DECEMBER 31, 2014:</b>							
Independence American:							
Medical stop-loss	\$ 15,929	\$ -	\$ 53,279	\$ 1,103	\$ 36,330	\$ 14,524	\$ 53,279
Fully Insured Health	15,742	3,686	74,309	782	48,710	23,290	74,236
Group Disability	1,945	362	6,018	102	3,847	1,767	6,078
Total Independence American	33,616	4,048	133,606	1,987	88,887	39,581	133,593
Agencies	-	-	-	150	-	28,515	-
Corporate	-	-	-	65	-	1,656	-
<b>Total</b>	<b>\$ 33,616</b>	<b>\$ 4,048</b>	<b>\$ 133,606</b>	<b>\$ 2,202</b>	<b>\$ 88,887</b>	<b>\$ 69,752</b>	<b>\$ 133,593</b>
<b>DECEMBER 31, 2013:</b>							
Independence American:							
Medical stop-loss	\$ 20,618	\$ -	\$ 55,508	\$ 1,242	\$ 37,762	\$ 16,566	\$ 55,508
Fully Insured Health	13,276	3,759	66,167	631	45,884	16,931	67,702
Group Disability	1,358	302	5,528	73	3,472	1,594	5,617
Total Independence American	35,252	4,061	127,203	1,946	87,118	35,091	128,827
Agencies	-	-	-	111	-	22,384	-
Corporate	-	-	-	47	-	1,403	-
<b>Total</b>	<b>\$ 35,252</b>	<b>\$ 4,061</b>	<b>\$ 127,203</b>	<b>\$ 2,104</b>	<b>\$ 87,118</b>	<b>\$ 58,878</b>	<b>\$ 128,827</b>
<b>PREDECESSOR</b>							
<b>DECEMBER 31, 2012:</b>							
Independence American:							
Medical stop-loss	\$ 16,363	\$ -	\$ 47,531	\$ 1,327	\$ 32,574	\$ 12,924	\$ 47,531
Fully Insured Health	7,822	2,224	32,762	513	22,220	7,784	34,699
Group Disability	808	213	3,485	65	2,055	1,043	3,557
Total Independence American	24,993	2,437	83,778	1,905	56,849	21,751	85,787

Agencies	-	-	-	171	-	14,705	-
Corporate	-	-	-	50	-	1,419	-
<b>Total</b>	<u>\$ 24,993</u>	<u>\$ 2,437</u>	<u>\$ 83,778</u>	<u>\$ 2,126</u>	<u>\$ 56,849</u>	<u>\$ 37,875</u>	<u>\$ 85,787</u>

(1)

Net investment income is allocated between product lines based on the mean reserve method.

(2)

Where possible, direct operating expenses are specifically identified and charged to product lines. Indirect expenses are allocated based on time studies; however, other acceptable methods of allocation might produce different results.

See accompanying Report of Independent Registered Public Accounting Firm.





SCHEDULE IV

AMERICAN INDEPENDENCE CORP. AND SUBSIDIARIES

REINSURANCE

(In thousands)

	<u>GROSS AMOUNT</u>	<u>ASSUMED FROM OTHER COMPANIES</u>	<u>CEDED TO OTHER COMPANIES</u>	<u>NET AMOUNT</u>	<u>PERCENTAGE OF AMOUNT ASSUMED TO NET</u>
<b>Successor</b>					
<b>Premiums Earned:</b>					
December 31, 2014					
Accident and Health	\$ 32,530	\$ 74,934	\$ 4,174	\$ 103,290	73%
Property and Liability (1)	30,477	-	161	30,316	-%
	<u>\$ 63,007</u>	<u>\$ 74,934</u>	<u>\$ 4,335</u>	<u>\$ 133,606</u>	56%
December 31, 2013					
Accident and Health	\$ 36,641	\$ 75,629	\$ 3,897	\$ 108,373	70%
Property and Liability (1)	18,845	-	15	18,830	-%
	<u>\$ 55,486</u>	<u>\$ 75,629</u>	<u>\$ 3,912</u>	<u>\$ 127,203</u>	59%
<b>Predecessor</b>					
<b>Premiums Earned:</b>					
December 31, 2012					
Accident and Health	\$ 39,047	\$ 49,703	\$ 8,243	\$ 80,507	62%
Property and Liability (1)	3,271	-	-	3,271	-%
	<u>\$ 42,318</u>	<u>\$ 49,703</u>	<u>\$ 8,243</u>	<u>\$ 83,778</u>	59%

(1)

Property and liability primarily consists of pet insurance.

See accompanying Report of Independent Registered Public Accounting Firm.





**SCHEDULE V**

**AMERICAN INDEPENDENCE CORP.  
VALUATION AND QUALIFYING ACCOUNTS  
(In thousands)**

	<b>Balance at Beginning Of Period</b>	<b>Charged to Costs and Expenses</b>	<b>Charged to Other Accounts</b>	<b>Deductions</b>	<b>Balance at End of Period</b>
<b>Valuation Allowance on Deferred Tax Asset:</b>					
<b>Successor</b>					
Year ended December 31, 2014	\$ 76,911	\$ (562)	\$ -	\$ (2,500) (b)	\$ 73,849
Year ended December 31, 2013	\$ 78,572	\$ 1,393	\$ -	\$ (3,054) (a)	\$ 76,911
<b>Predecessor</b>					
Year ended December 31, 2012	\$ 84,665	\$ (193)	\$ -	\$ (5,900) (b)	\$ 78,572

(a)  
Decrease due to deferred tax assets for expired state NOL carryforwards.

(b)  
Reduction is based on management's periodic evaluation of the valuation allowance.

See accompanying Report of Independent Registered Public Accounting Firm.